



Grow
and enhance our Hong Kong core businesses

Strengthen
our Hong Kong corporate citizen reputation

Accelerate
our success in the Mainland and internationally

Creating **Value**
Driving **Growth**

Contents

02	Hong Kong Operating Network with Future Extensions	35	Consolidated Statement of Comprehensive Income
04	Chairman's Letter	36	Consolidated Balance Sheet
08	CEO's Review of Operations and Outlook	37	Consolidated Statement of Changes in Equity
24	Key Figures	38	Consolidated Cash Flow Statement
25	Corporate Governance and Other Information	39	Notes to the Unaudited Interim Financial Report
34	Consolidated Profit and Loss Account	57	Review Report

Operational







- Total patronage from Hong Kong transport operations increased 3.0% to 909.4 million
- On-time performance of Hong Kong heavy rail maintained at 99.9%
- Delays announced in a number of new rail lines under construction in Hong Kong with revised estimated project costs
- Pre-sold over 99% of units of Grand Austin at Austin Station Site D and over 90% of City Point at Tsuen Wan West Station, where the Company acts as agent
- Tender for LOHAS Park Package 4 was awarded in April 2014
- Awarded the UK Crossrail Train Operating Concession franchise
- MTR Consortium was selected as the preferred operator for the Australia North West Rail Link Public-Private-Partnership project in July 2014

Outlook











- Hong Kong rail business should see stable patronage growth
- Pre-sale of LOHAS Park Package 3 is expected later this year, subject to market conditions and construction progress
- Tenders for Tai Wai Station, LOHAS Park Package 5 and Tin Wing Stop (Light Rail) may be invited before end of this year, subject to market conditions

Hong Kong Operating Network with Future Extensions

Legend

-  Station
-  Interchange Station
-  Proposed Station
-  Proposed Interchange Station
-  Shenzhen Metro Network
-  * Racing days only





Existing Network

-  Airport Express
-  Disneyland Resort Line
-  East Rail Line
-  Island Line
-  Kwun Tong Line
-  Light Rail
-  Ma On Shan Line
-  Tseung Kwan O Line
-  Tsuen Wan Line
-  Tung Chung Line
-  West Rail Line

Projects in Progress

-  Guangzhou-Shenzhen-Hong Kong Express Rail Link
-  Kwun Tong Line Extension
-  South Island Line (East)
-  West Island Line
-  Shatin to Central Link

Potential Future Extensions

-  North Island Line
-  Northern Link
-  South Island Line (West)
-  Extension to Central South

Properties Owned / Developed / Managed by the Corporation

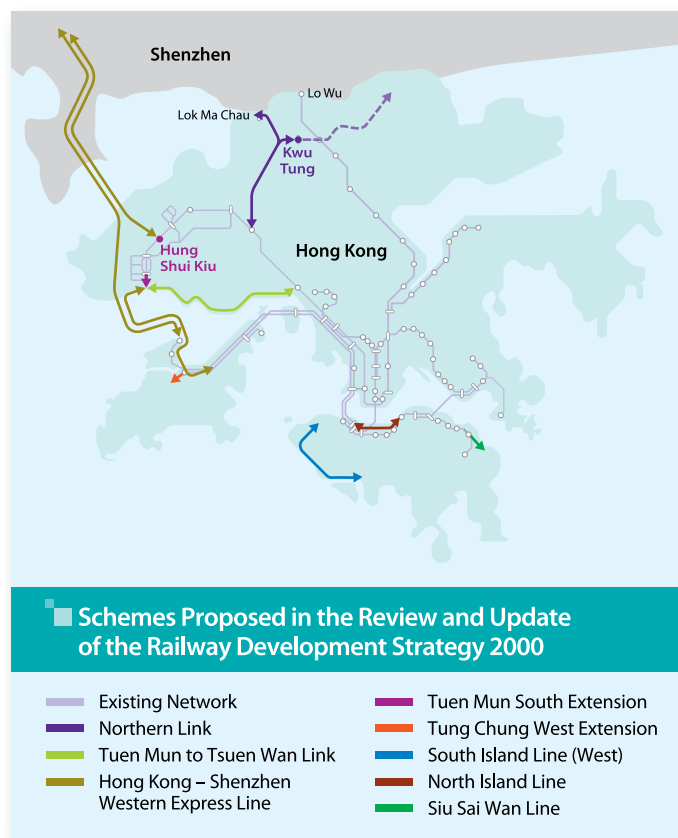
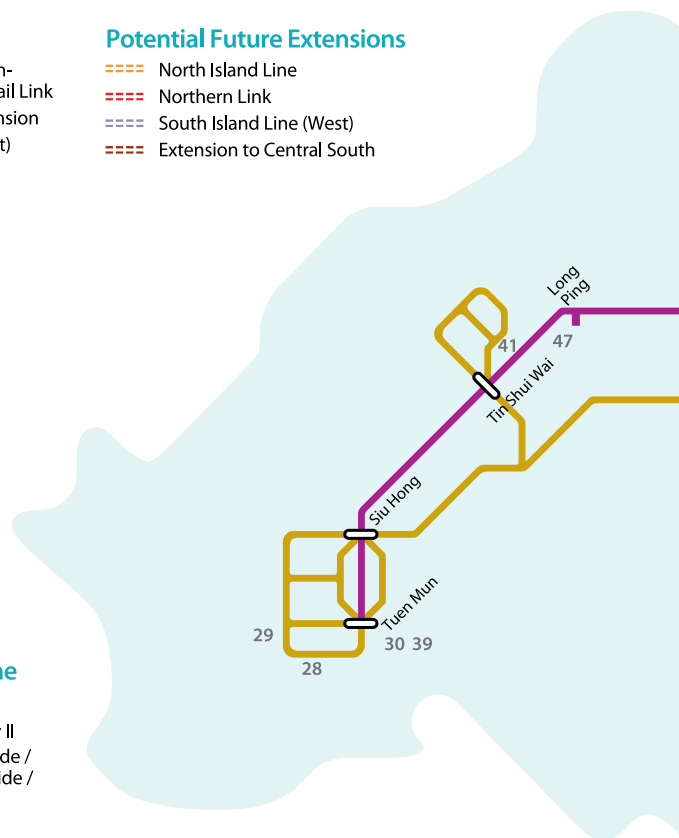
- 01 Telford Gardens / Telford Plaza I and II
- 02 World-wide House
- 03 Admiralty Centre
- 04 Argyle Centre
- 05 Luk Yeung Sun Chuen / Luk Yeung Galleria
- 06 New Kwai Fong Gardens
- 07 Sun Kwai Hing Gardens
- 08 Fairmont House
- 09 Kornhill / Kornhill Gardens
- 10 Fortress Metro Towers
- 11 Hongway Garden / Infinitus Plaza
- 12 Perfect Mount Gardens
- 13 New Jade Garden
- 14 Southern Garden
- 15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall
- 16 Park Towers
- 17 Felicity Garden
- 18 Tierra Verde / Maritime Square
- 19 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Coastal Skyline / Caribbean Coast
- 20 Central Park / Island Harbourview / Park Avenue / Harbour Green / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two
- 21 The Waterfront / Sorrento / The Harbourside / The Arch / Elements / The Cullinan / The Harbourview Place / W Hong Kong / International Commerce Centre / The Ritz-Carlton, Hong Kong
- 22 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place
- 23 Central Heights / The Grandiose / The Wings / PopCorn 1 / PopCorn 2 / Crowne Plaza Hong Kong Kowloon East / Holiday Inn Express Hong Kong Kowloon East / Vega Suites
- 24 Residence Oasis / The Lane
- 25 No.8 Clear Water Bay Road / Choi Hung Park & Ride
- 26 Metro Town
- 27 Royal Ascot / Plaza Ascot
- 28 Ocean Walk
- 29 Sun Tuen Mun Centre / Sun Tuen Mun Shopping Centre
- 30 Hanford Garden / Hanford Plaza
- 31 Citylink Plaza
- 32 MTR Hung Hom Building / Hung Hom Station Carpark
- 33 Trackside Villas
- 34 The Capitol / Le Prestige / Le Prime / La Splendeur
- 35 The Palazzo
- 36 Lake Silver
- 37 Festival City
- 38 The Riverpark
- 39 Century Gateway

Property Developments Under Construction / Planning

- 34 LOHAS Park Packages 3-10
- 40 Tai Wai Station
- 41 Tin Wing Stop (Light Rail)
- 42 The Austin / Grand Austin
- 43 Wong Chuk Hang Station
- 44 Ho Man Tin Station

West Rail Line Property Developments (As Agent for the Relevant Subsidiaries of KCRC)

- 39 Century Gateway / Century Gateway II
- 45 Tsuen Wan West Station (TW5) Bayside / Tsuen Wan West Station (TW5) Cityside / Tsuen Wan West Station (TW6) / City Point
- 46 Nam Cheong Station
- 47 Long Ping Station (North) / Long Ping Station (South)
- 48 Yuen Long Station
- 49 Kam Sheung Road Station
- 50 Pat Heung Maintenance Centre



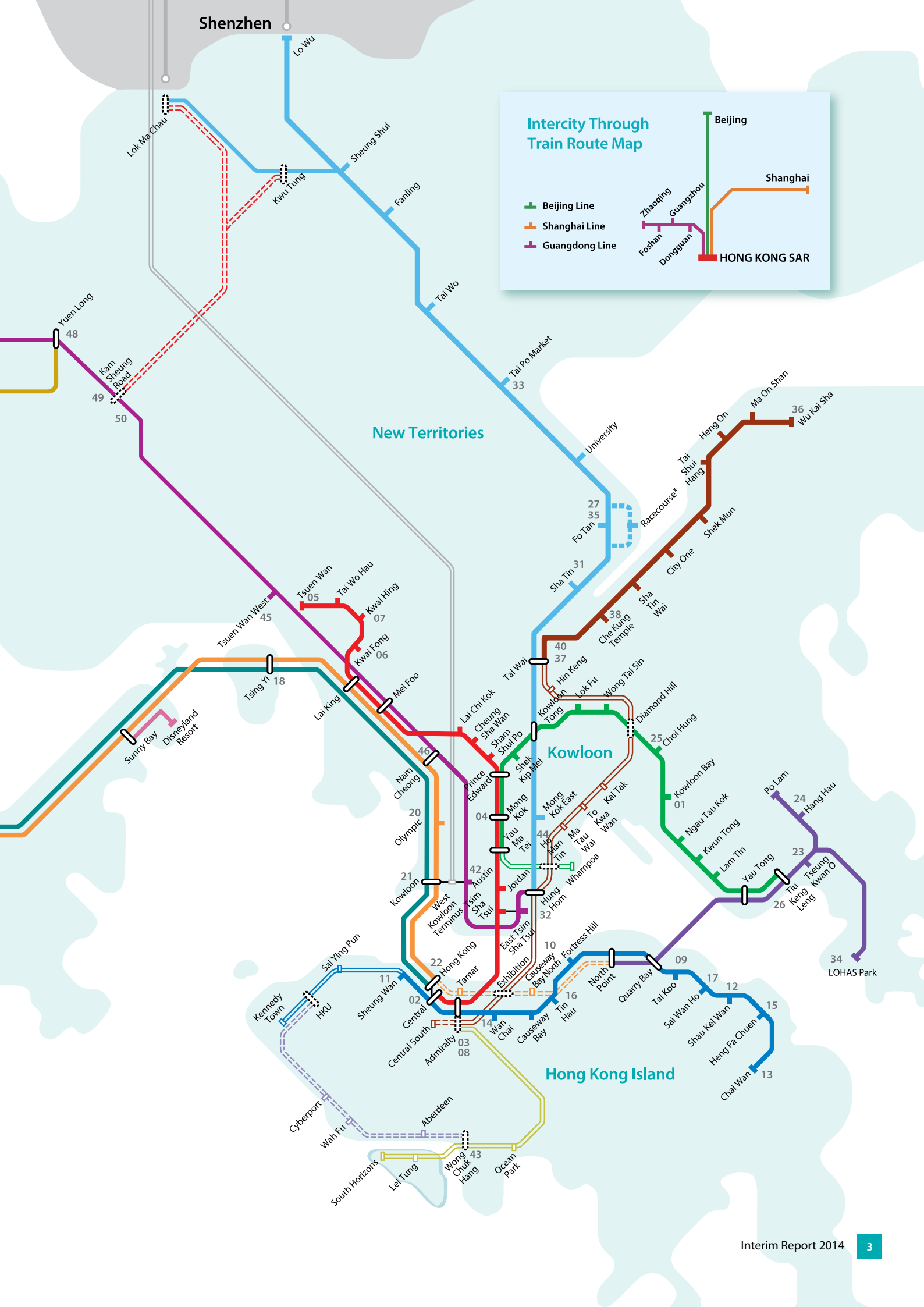
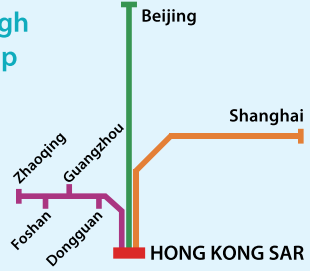
Lantau Island



Shenzhen

Intercity Through Train Route Map

- Beijing Line
- Shanghai Line
- Guangdong Line



Chairman's Letter



Dear Shareholders and other Stakeholders,

The first half of 2014 saw both achievements and challenges for MTR. In Hong Kong, our core transport operations continued to perform well, with world-class levels of service and safety. However, a small number of incidents leading to delays of 31 minutes or more, particularly on the East Rail Line, marred an otherwise satisfactory set of Hong Kong transport operations results. Our station commercial and property businesses in Hong Kong continued to achieve both operational and financial success, whilst our businesses outside of Hong Kong continued to build momentum. A key challenge remains the delays experienced in our Hong Kong rail projects due to various reasons. In particular, we announced that the opening of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") will have to be revised to end of 2017 from the original target date of 2015. With the benefit of hindsight, we could have better communicated the progress of the project including the delays experienced to our stakeholders. Lessons have been learnt from this and, while investigations and reviews are on-going to understand better the issues resulting in these delays, we are taking steps to enhance our reporting, processes and communications with the public.

In our financial results, the Group's underlying profit increased by 3.2% as compared with the first half of 2013, to HK\$4,389 million. Underlying earnings per share rose by 4.1% to HK\$0.76.

Including investment property revaluation, net profit attributable to shareholders rose by 28.5% to HK\$7,912 million. Your Board has declared an interim dividend of HK\$0.25 per share.

MTR is celebrating 35 years of train service in 2014 having started our first passenger service on just an 8-km long line between Shek Kip Mei and Kwun Tong in October 1979. Since then, MTR has contributed to the success of Hong Kong, helping to transform the way Hong Kong people live and move around, and becoming a part of the development of new, seamlessly integrated communities atop and around rail stations. Indeed, by international benchmarking, our railway system has become one of the world's best metro systems, playing a big role in Hong Kong transportation. It is pleasing to see Hong Kong being ranked No.1 in the world for mobility among 84 global cities as surveyed by international consultants Arthur D Little. This success reflects not only the contributions of the many MTR colleagues who have strived so hard over the years, but also the strong support received from the people of Hong Kong.

Looking ahead, the experience we have gained and what we have achieved together with the people of Hong Kong over the past 35 years has enabled us to develop a clear long-term vision: to be a caring company that connects and grows communities with excellent service both in and outside Hong Kong. To achieve this vision, we need to play our part as a leading Hong Kong corporate citizen, grow and enhance our Hong Kong core businesses and

continue to build MTR as a Hong Kong brand in the Mainland of China and overseas. The success of MTR in the future hinges very much on the continued support of all our stakeholders.

Building Value for the Long Term

To further establish ourselves as a benchmark for good practice in urban mass transit, we continue to commit to research and development, engage with major international organisations and work with bodies such as UITP (International Association of Public Transport) and CoMET (Community of Metros) in defining the future of global railway operations.

In Hong Kong, construction work on our five new railway lines has progressed steadily, although each has experienced different degrees of delay. The first of these lines to open, the West Island Line, will be a "Community Railway" with over 90% of residents in Western District living within walking distance of the line. We are targeting to open this line in December 2014, but due to construction difficulties, in the event the station at Sai Ying Pun cannot be opened in time, we have a back-up plan to commission the line by year end but not opening Sai Ying Pun Station until the first quarter of 2015. If Sai Ying Pun Station is not ready for opening in December 2014 and the back-up plan proves not to be feasible, then full opening of the West Island Line will take place in the first quarter of 2015.

The South Island Line (East) and the Kwun Tong Line Extension projects also face considerable construction and engineering challenges, and both lines are now behind schedule and the original target opening in 2015 cannot be achieved.

In April, we announced the postponement to end of 2017 of the opening of the Express Rail Link, one of two entrustment projects being implemented for the Government. We do recognise that our communication concerning this delay should have been made earlier and more clearly, and for this we apologise to our stakeholders.

As a result of this delay, the Board of MTR appointed an Independent Board Committee ("IBC") to review the background of and reasons for the delay of the Express Rail Link project, and advise on the manner in which the Company can deliver the project in a more transparent and timely manner. The first IBC report was issued in July and noted that, while there were numerous reasons for the delays leading to a revised schedule for commencement of operation in end of 2017, it concluded that the MTR Projects team has handled the engineering aspects in a professional manner. The Board has adopted the findings of this first report and the recommendations made for enhancements to the Company's systems and processes. We look forward to

receiving the IBC's second report relating to project management as well as any recommendations relating to MTR coming out of Government's own independent expert panel review on the delay of the Express Rail Link.

The other entrustment project, the Shatin to Central Link, has seen continued progress, but the archaeological works at the To Kwa Wan Station site, with the subsequent work stoppage, have already put the programme 11 months behind schedule.

We are doing our utmost to mitigate and contain delays, but unforeseen circumstances in the future may further impact the timing of delivery of these lines.

Our railway operations in the Mainland of China, including Beijing Metro Line 4, the Daxing Line, Phase 1 of Beijing Metro Line 14, the Shenzhen Metro Longhua Line and Hangzhou Metro Line 1, all performed well operationally. Further afield, London Overground Rail Operations Limited continued to forge a place for itself as one of the United Kingdom's most respected rail enterprises, while our franchises in Melbourne and Stockholm have further enhanced their operational performance. As we build up an international reputation for the quality of our rail services in many different urban environments, the opportunities for us to explore further overseas rail ventures are expanding. In Australia, a consortium of which we are a member has been selected as the preferred operator for the North West Rail Link project in Sydney, whilst we were awarded London's Crossrail Train Operating Concession franchise in July 2014.

To maintain the highest standard of corporate governance, the Board, on 21 August 2014, announced the setting up of two new committees, the Capital Works Committee and the Risk Committee. The principal duties of the Capital Works Committee are to oversee any project involving design and/or construction with a capital value in excess of a value as assessed by the Board and to report to the Board on the progress of the relevant projects, from both a programme and cost perspective. For the Risk Committee, its principal duties are to monitor the Company's risk profile and to review the Company's top risks (including, without limitation, operational, service performance, regulatory, financial and organisational risks), enterprise risk management framework and effectiveness.

Corporate Sustainability

Sustainability is an important pillar for MTR, and one we are continually striving to enhance. We do this in order that the generations to follow will inherit not simply our past successes, but a living legacy that can be carried forward with pride.

Chairman's Letter

For MTR, sustainability incorporates areas such as creating safe environments for all users including passengers, staff and contractors, achieving optimum energy efficiencies, developing staff, and engaging with the communities that we serve. Our annual Sustainability Report for 2013 contains full details of our sustainability policy and programmes such as our new Energy Saving Competition launched during the period. To date, the competition has led to over 30 energy-saving initiatives for trial. Our MTR Malls are now part of the Steering Committee of the Food Wise Hong Kong Campaign, initiated by the Environment Bureau in 2013 to reduce food waste in Hong Kong. Apart from initiating our own "MTR Malls Food Waste Reduction Pledge" incentive scheme, MTR Malls have also been leading the shopping mall sector in developing a good practice guide to encourage more malls to participate in reducing food waste.

Apart from our environmental commitments, we have continued to contribute to the development of a vibrant Hong Kong by supporting initiatives in the areas of Youth Development, Arts & Culture, Green & Healthy Living and Community Outreach.

In May 2014, we celebrated the completion of the fifth round of our mentorship programme "Friend' for life's journeys", which strives to strengthen the life skills of secondary school students whilst further developing our staff's communication and coaching skills. In July 2014, we kicked off the sixth year of "Train' for life's journeys", a comprehensive youth leadership development scheme that provides 100 secondary school students from 58 schools with classroom and experiential training as well as work experience at MTR during the summer.

The result of the second year survey of the MTR-CUHK Youth Quality of Life Index compiled by the Centre for Quality of Life of the Chinese University of Hong Kong was published in July. The survey tracks the well-being of Hong Kong youths. We sponsor this Index to assist the community in planning and providing programmes that will benefit our youths.

In March, we unveiled a stainless steel sculpture 'River Flow' at Sheung Shui Station as part of the Art in Station Architecture programme. In our "roving art" programme, smiling Miniature Big Head Buddha Masks delighted many passengers during the Chinese New Year period while a display of Teddy Bears marked Easter earlier this year. Our "arttube" programme, which serves as a platform for aspiring artists and designers to showcase

their work, hosted the 'Hong Kong Aviation Capital – Young Emerging Artist Award' exhibition at Central Station. Visitors were impressed by the remarkable works of art by young and up-and-coming local talents.

MTR has a strong tradition of community outreach, as reflected by the number of activities and charity events which our teams participated in. In the first half of 2014, we organised 112 community projects under the "More Time Reaching Community" Scheme, with over 2,000 volunteers taking part. Initiatives included outreach activities with Suicide Prevention Services to support elderly residents with emotional distress and a behind-the-scenes MTR journey for child cancer survivors.

In other initiatives, MTR runners took part in the Green Power Hike in January to raise funds for Green Power's environmental, education and conservation programmes. In February, volunteer teams participated in the Healthy Family @ Sai Kung – Race Walking Competition and Carnival organised by Sai Kung Healthy and Safe City. These activities are just a small sample of the many ways in which MTR staff support and reach out to our neighbours in the community.

Apart from their time, staff donated to the Community Chest through activities such as the Corporate Challenge, Skip Lunch Day, and the CARE Scheme. MTR also continued with its active support for the Hong Kong Athletes Career & Education Programme, a programme organised by the Sports Federation & Olympic Committee of Hong Kong, China that gives retired athletes valuable job opportunities and life skills training. In support of the Talent-wise Employment Charter initiated by the Labour & Welfare Bureau, MTR has collaborated with the Hong Kong Council of Social Service and local universities to launch a pilot Summer Internship Programme for students with disabilities or special educational needs.

Recognition

It is always pleasing to see our work towards sustainability recognised by local and international organisations, as was the case in the first six months of 2014. Germany-based Oekom Research AG, a sustainable research and rating agency, rated us as "Prime", while MSCI ESG Research granted us an "AA" rating in their Intangible Value Assessment, the second highest rating under MSCI, which puts MTR in the top three Roads and Rail Transport Industry companies globally. Meanwhile, we have also

maintained our listing in the Dow Jones Sustainability Index – Asia Pacific, the FTSE4Good Index Series, and the Hang Seng Corporate Sustainability Index. In recognition of our ongoing commitment to caring for the community, our employees, and the environment, MTR received the “5-Years Plus Caring Company Logo” awarded by the Hong Kong Council of Social Service. In March we also received the “Corporate Responsibility Award” for the seventh year in a row in the “Hong Kong Service Awards 2014” organised by *East Week*.

Management Transition

I would like to extend my sincerest thanks to our Chief Executive Officer (“CEO”), Mr Jay Walder, who left the Company earlier in August 2014. He has been a leading figure in setting new service directions of MTR over the last few years, and has achieved a number of notable successes. I take this opportunity to welcome Mr Lincoln Leong as Acting CEO. Lincoln has been with MTR for over 12 years and most recently has been our Deputy CEO. A global search is on-going to identify a new CEO and when appointed, an announcement will be made.

Our Projects Director, Mr TC Chew, will retire on 28 October 2014, and Dr Philco Wong will be appointed Projects Director with effect from 28 October 2014 when Mr Chew retires. To facilitate a smooth transition, Dr Wong became Projects Director – Designate on 18 August 2014.

I would also once again thank my fellow directors for the hard work and valuable input they have provided during this period, and our many other partners and stakeholders for the support they have shown. This, together with the dedication and hard work of MTR staff across all our businesses globally, means we are well set to face future challenges and grasp new opportunities as they arise.



Dr Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 25 August 2014

CEO's Review of Operations and Outlook



Dear Shareholders and other Stakeholders,

MTR's achievements in the first half of 2014 were overshadowed by the announcements of delays in our new rail projects in Hong Kong as well as a small number of longer delays in our Hong Kong rail service. We have apologised to our customers and stakeholders for these delays and events, and strive to continuously improve from lessons learnt. Despite this, the successes in the first half of 2014 link up with a very significant milestone: the 35th anniversary of MTR, a history stretching back to October 1979. It is our honour to have served the people of Hong Kong over these years, creating a proud inheritance, one that we are continuing to add to in 2014. Notwithstanding the challenges we have faced, I am pleased to report that in the first six months of 2014, our core operations returned good results. Our railway operations continued to perform well overall, with operational performance and safety standards remaining excellent by global standards. At the same time, we continued to invest in Hong Kong to increase our train frequency and improve our stations.

Our operations and maintenance activities in Hong Kong helped us maintain an efficient and reliable train service for the territory, with safety, as always, being the top priority. Our Listening • Responding programme, launched in 2012, continued to build momentum as new initiatives were rolled out or put into planning. Although train service continues to increase and improve, with the maintenance of 99.9% "on-time" performance in the first half of 2014, we are well aware of the inconvenience caused to our passengers by long service delays, and we continue to take steps to improve the resilience of our network and enhance recovery measures after incidents.

Against this backdrop we announced delays in the delivery of a number of our new rail projects in Hong Kong, in particular the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link"). This led to increased

scrutiny of the communications relating to, and management of these projects. A number of internal and external reviews have been or are being undertaken in relation to the delay in delivery of the Express Rail Link. The first of these was a report from an Independent Committee of the MTR Board ("IBC"), delivered on 16 July 2014. We will work diligently to implement recommendations from this report and look forward to receiving recommendations from the second IBC report as well as the Government's independent expert panel report. The first of the five new Hong Kong railway lines to come into operation, the West Island Line, is targeted to open at the end of the year, although construction difficulties may result in one of the three new stations, Sai Ying Pun Station, opening for service later in the first quarter of 2015. Currently the progress of the South Island Line (East) and Kwun Tong Line Extension are behind schedule and the original target opening in 2015 cannot be achieved. For the two service concession projects, where we are entrusted with project management by the Government, the Express Rail Link has a current programme for opening in end of 2017 whilst the Shatin to Central Link is facing an 11-month delay due mainly to the archaeological works at the To Kwa Wan Station area. Despite the difficulties and complications involved in these major railway projects, we are doing our utmost to reduce and mitigate delays although in projects of this nature, future unforeseen events may further hinder progress. Going forward, we will be updating the community on a regular basis about the progress of these five new lines.

Outside of Hong Kong, on a prudent basis, we are continuing to seek selected opportunities in the Mainland of China, Europe and Australia, leveraging the expertise we have gained in Hong Kong and our proven success in our existing overseas operations. We are honoured to be a key member of the consortium which was selected as the preferred operator for the North West Rail Link Public-Private-Partnership ("PPP") project in Sydney, Australia whilst in the UK, we were awarded the Crossrail Train Operating Concession franchise in July 2014.

Total revenue for the first six months of 2014 rose 1.3% to HK\$19,471 million. Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payments increased by 6.8% to HK\$7,831 million. Excluding our Mainland of China and international subsidiaries, revenue rose by 7.6% and operating profit by 7.7%, while operating margin remained at 56.4%. Profit from Hong Kong property development was HK\$245 million compared to HK\$531 million in the first half of 2013. Excluding investment properties

revaluation, net profit from underlying businesses attributable to equity shareholders increased by 3.2% to HK\$4,389 million, representing earnings per share of HK\$0.76. Gain in revaluation of investment properties was HK\$3,523 million, as compared with HK\$1,907 million in the first half of 2013. As a result, net profit attributable to equity shareholders increased by 28.5% to HK\$7,912 million, equivalent to earnings per share of HK\$1.36 after such revaluation. Your Board has declared an interim dividend of HK\$0.25 per share, unchanged from last year.



Total revenue in the first half of 2014 from our Hong Kong transport operations reached HK\$7,729 million, an increase of 6.5% over the first half of 2013. Operating costs of our Hong Kong transport operations increased by 4.7% to HK\$4,002 million, resulting in operating profit for this business increasing by 8.5% to HK\$3,727 million, with an operating margin of 48.2%.

Patronage

Total patronage from all of our rail and bus passenger services in Hong Kong rose by 3.0% to 909.4 million. If the Intercity service is excluded, total patronage increased by 3.0% to 907.3 million.

Total patronage for our Domestic Service, which comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail and Ma On Shan lines, reached 736.5 million, a 3.3% increase over the first half of 2013.

The Cross-boundary Service to Lo Wu and Lok Ma Chau recorded a marginal 0.1% rise in patronage to 54.5 million in the six-month period. Passenger traffic on the Airport Express increased by 11.4% as compared with the first half of 2013, to 7.1 million.

Passenger volume on Light Rail and Bus during the first six months of 2014 was 109.2 million, a 2.1% increase, while patronage on the Intercity service was 2.1 million, up 3.2%.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong increased by 2.4% to 5.28 million during the first six months of 2014 (5.27 million if the Intercity service is excluded). The Domestic Service accounted for the majority of this patronage, achieving a 2.6% increase to 4.33 million passengers per weekday.

Market Share

The Company increased its overall share of the franchised public transport market in Hong Kong from 46.5% in the first six months of 2013 to 47.0% in the comparable period of 2014. Within this total, our share of cross-harbour traffic was 66.6%. The Company's market share of Cross-boundary business for the first six months declined from 53.4% to 52.0%, while market share to and from the airport rose to 22.1% from 21.8%.

Fare Revenue

Total Hong Kong fare revenue in the first half of 2014 was HK\$7,653 million, a 6.5% increase over the same period in 2013. Within this total, the Domestic Service accounted for HK\$5,375 million or 70%. Average fare per passenger on our Domestic Service increased by 3.6% to HK\$7.30, reflecting the effect of adjustments in fares in accordance with the Fare Adjustment Mechanism ("FAM") as well as the fare concessions offered.

CEO's Review of Operations and Outlook

Fare revenue from the Cross-boundary Service for the first six months of 2014 was HK\$1,459 million, an increase of 3.8% over the first half of 2013. Fare revenue from the Airport Express was up 9.7% at HK\$440 million. Light Rail and Bus fare revenue during the first half of 2014 was HK\$308 million, a 6.6% increase over the same period in 2013, while fare revenue from the Intercity service was HK\$71 million, increasing by 2.9%.

Following the review of FAM last year, the overall fare adjustment rate of MTR fares which was implemented in June 2014 was 3.6%; this is 0.5 percentage point lower than what it would have been before the review that took place in 2013. In conjunction with this adjustment, we are offering new fare promotions in addition to the ongoing fare concessions and promotions which MTR offers every year.

Promotions and Concessions

Promotions and concessions continued to be important ways in which we add value for passengers. This year, in recognition of our 35th Anniversary and to thank passengers for their support over the years, we announced in May a package of fare promotions (including those associated with FAM) which has an estimated annual value of about HK\$500 million, adding to the existing HK\$2 billion worth of ongoing fare concessions and promotions that we offer every year.

Included in the fare promotions package was an extension to 30 April 2015 of the "10% Same-Day Second-Trip Discount" which would have expired on 15 October 2014 under the current FAM arrangement, the launch of a 40 rides within 30 days for HK\$400 MTR City Saver ticket scheme which will save money for those making regular medium- to long-distance journeys between designated urban stations, and the trial of an Early Bird Discount promotion at 29 core MTR stations in the urban area – a move that aims to spread the morning rush hour demand for our network will be launched in September 2014 till end May 2015. In the first 60 days since its launch, over 160,000 MTR City Saver tickets have been sold, reflecting the attractiveness of this promotion. Other initiatives undertaken during the period included the installation of a new Fare Saver at Discovery Park Shopping Mall in April, bringing to 33 fare savers in different districts offering fare discounts of HK\$1 or HK\$2. Special promotions for MTR Tourist Tickets encouraged more tourists to use the MTR network to explore Hong Kong.

Our MTR Club, with over 1.4 million members as at June 2014, continued to reward passengers for their patronage and offer them exclusive experiences. In the period we held a visit to the Operations Training Centre for some Club members, and launched two programmes encouraging greater use of our Cross-boundary and Airport Express services. From December 2013 to March 2014, we also launched a new wave of our popular Bonus Point programme to reward loyal members.

In the period, we launched fare promotions for our Lok Ma Chau service in both Hong Kong and Shenzhen, which included discounted rides for students from selected universities and for residents living in areas where MTR has high growth potential. In addition, we introduced a special Park and Ride Promotion at MTR Hung Hom Station Car Park for passengers using our Cross-boundary services to Lo Wu or Lok Ma Chau. In celebration of the 35th anniversary of the Guangzhou-Kowloon Through Train, a series of promotional activities were launched in March, including prize draws for purchasers of tickets, discounts on souvenir items, and a photo exhibition about the history of the service held at Hung Hom Station.

Service and Performance

During the first six months of 2014, our overall train service performance remained stable, with 99.9% on-time performance, exceeding the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. From January to July, we operated over one million train trips in our heavy rail network, with only eight delays that lasted 31 minutes or more. However, we recognise that any long disruption causes much inconvenience to passengers and have focused on lessons learnt from each incident to develop improvement measures. We received "The Best Public Transportation Service Award" at the Sing Tao Services Awards 2013 for the eighth consecutive year presented by *Sing Tao Daily*, and the "Category Award of Infrastructure & Economic – Public Transportation" for the tenth consecutive year at the Hong Kong Service Awards 2014 presented by *East Week*.

A number of initiatives were undertaken in the first six months of 2014 under our Listening - Responding programme. A total of 313 weekly train trips were added to our Island, Kwun Tong, Tsuen Wan and East Rail lines in April this year to enhance travel convenience and comfort. Since the launch of programme in 2012 we have added more than 1,600 train trips per week across the network to increase capacity. An additional 600 weekly train trips will also be added to six of our MTR lines starting end August. For Light Rail, 148 additional weekly services were introduced in April on three busy routes to enhance frequency.

We continued to improve station access and facilities, including carrying out work to add more external lifts and replace several existing ones. The retrofitting of all Ticket Issuing Machines to issue Single Journey Smart Tickets was completed in March. In response to the very high usage of some of our busiest stations at peak periods, we boosted the help available at the stations by recruiting additional assistants, and implemented a new platform queuing arrangement at Kowloon Tong Station to improve the flow of passengers in and out of trains. Earlier, in March, we made free Wi-Fi access available inside the Through Train Departure Hall at Hung Hom Station for passengers prior to boarding. This is on top of the free Wi-Fi hotspots provided at all 84 stations.

Operations Performance in First Half 2014

Service performance item	Performance Requirement	Customer Service Pledge Target	Actual Performance
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	99.9%
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	99.8%
– West Rail Line	98.5%	99.5%	99.9%
– Light Rail	98.5%	99.5%	99.9%
Passenger journeys on-time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	99.9%
– Airport Express	98.5%	99.0%	99.9%
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	99.8%
– West Rail Line	98.5%	99.0%	99.9%
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	99.8%
– Airport Express	98.0%	99.0%	99.9%
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	99.8%
– West Rail Line	98.0%	99.0%	99.9%
– Light Rail	98.0%	99.0%	99.9%
Train reliability: train car-km per train failure causing delays ≥5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	600,000	4,748,174
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	600,000	5,337,561
Ticket reliability: magnetic and smart ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	8,000	23,084
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	99.7%
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	99.8%
– West Rail Line	98.0%	99.0%	99.8%
– Light Rail	N/A	99.0%	99.7%
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	99.6%
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	99.7%
– West Rail Line	97.0%	99.0%	99.8%
– Light Rail	N/A	99.0%	99.9%
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	99.9%
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	99.9%
– West Rail Line	97.0%	99.0%	99.9%
Light Rail platform Octopus processor reliability			
	N/A	99.0%	99.9%
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	99.9%
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	99.9%
– West Rail Line	98.0%	99.0%	99.9%
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	99.7%
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	99.8%
– West Rail Line	98.5%	99.5%	99.9%
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.5%	99.9%
– Light Rail: on-train air-conditioning failures per month	N/A	<3	0
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	91.0%	99.9%
Cleanliness			
– Train compartment: cleaned daily	N/A	99.0%	99.9%
– Train exterior: washed every 2 days (on average)	N/A	99.0%	100.0%
Northwest Transit Service Area Bus Service			
– Service Delivery	N/A	99.0%	99.7%
– Cleanliness: washed daily	N/A	99.0%	100.0%
Passenger enquiry response time within 6 working days			
	N/A	99.0%	100.0%

CEO's Review of Operations and Outlook

Elsewhere, across the network, we have been constructing eight more External Passenger Lifts, as well as public toilets at Mong Kok and Prince Edward stations, whilst demolishing the Tsim Sha Tsui Station Entrance D1 to facilitate the construction of the Carnarvon Road Subway. Piling work for the Tsim Sha Tsui Station new Entrance A1 has been partially completed. When finished in 2015, the entrance will be transformed into a giant "Crystal Cube" of glass that will become a distinctive landmark on Nathan Road.

In March, the MTR Mobile app was upgraded and given enhanced audio information and control functions for visually-impaired passengers; the app went on to win two Gold Awards in the mobile application stream of the Web Accessibility Recognition Scheme 2014, organised by the Office of the Government Chief Information Officer and the Equal Opportunities Commission.

We continue to invest in our existing railway assets to improve performance and capacity; every year we spend

in the region of HK\$5 billion in maintenance, renewals and service improvement. Two major investment programmes of which tender process started this year are the replacement of signalling systems in the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines and Airport Express, as well as the asset life assurance of some of our existing trains. Other capital investments, such as the upgrading of our passenger information systems, also continued as planned.

Work continued in the period on maintaining and enhancing our internationally recognised reputation for safety. New safety barriers were added to seats in Light Rail trains for better passenger protection. Safety education campaigns and activities to help raise passenger awareness of safety and reduce accidents continued to be held, including the publication of a railway safety booklet for passengers jointly published with the Electrical and Mechanical Services Department.



Revenue from our Hong Kong station commercial businesses increased by 8.3% in the first half of 2014, to HK\$2,377 million. The rise was largely a result of increases in rental rates and higher turnover rents. The operating costs of our Hong Kong station commercial businesses increased by 9.7% to HK\$226 million, resulting in operating profit for this business increasing 8.2% to HK\$2,151 million, with an operating margin of 90.5%.

Station retail revenue increased 8.2% to HK\$1,568 million. As at 30 June 2014, the number of station shops was 1,335, covering a total area of 56,209 square metres of retail space. As at the end of June, seven stations were undergoing renovation work with a view to adding new shops, whilst new shops have already been added at Tuen Mun, Diamond Hill and Tsing Yi stations. Ten new brands were attracted to our stations during the first half of 2014. To further enhance the brand positioning of MTR

Shops, a thematic branding campaign re-run "Style TO-GO" was organised featuring popular Korean pop stars, which effectively promoted the unique "transit shopping" features of MTR Shops. Posters displayed across the MTR network also featured new brands opening up in MTR Shops.

Advertising revenue during the first six months of 2014 increased by 7.0% to HK\$486 million, even though the number of advertising units fell slightly by 510 to 44,548 due to enhancement work being carried out on advertising panels on some MTR lines. New and well-targeted advertising packages, including feature advertising in certain dedicated areas of stations, helped boost results. We are in the process of upgrading our poster panels along the trackside of the Island Line and in the concourses of stations in the business areas of Hong Kong Island to improve their lighting and display quality.

We are also revamping our digital panels in ten key stations to enhance the display network and upgrade their visual quality.

Telecommunications revenue in the first half of 2014 rose by 10.6% to HK\$240 million, largely due to incremental revenue from mobile data capacity increases by telecom operators.

MTR continued working with telecom operators on the joint 2G/3G Capacity Enhancement Project; by the end of June 2014, 38 stations had been upgraded. LTE2600 services, which can provide a faster 4G connection, were launched by one of the telecom operators serving Hong Kong Station and Kowloon Station and the tunnels in between.



The Hong Kong property market remained stable in the first half of 2014. Government measures from the previous two years contributed to low volumes of residential property sales, especially in the first quarter. In the second quarter, however, increased activity in the residential sector was evident as a number of new residential projects came onto the market and received positive response. Rental rates for both office and retail premises have remained stable.

Property Development in Hong Kong

Profit from Hong Kong property development in the first half of 2014 was HK\$245 million, with contributions from both agency fees from West Rail property development and the sale of inventory units.

In the first half of 2014, we launched the pre-sale of Grand Austin (691 units) at Austin Station Site D with over 99% of units now sold, and City Point (1,717 units) at Tsuen Wan West Station, where we act as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation ("KCRC"), with over 90% of units sold by July 2014.

In our property tendering activities, LOHAS Park Package 4 was tendered at the end of March and awarded in April to Globaluck Limited, a subsidiary of Sun Hung Kai Properties Limited.

Property Rental and Management Businesses in Hong Kong

Revenue from our Hong Kong property rental and property management businesses in the first half of 2014 rose by 10.0%

to HK\$2,026 million. Operating costs increased by 8.9% to HK\$331 million, resulting in operating profit increasing 10.2% to HK\$1,695 million, with an operating margin of 83.7%.

Total property rental income in Hong Kong was HK\$1,910 million, 10.1% higher than in the first six months of 2013. Our shopping mall portfolio continued to perform well and rental reversions during the period achieved an average 14% increase. At the end of June 2014, our shopping malls in Hong Kong and the Company's 18 floors at Two International Finance Centre ("Two ifc") remained close to 100% let. The renewed lease with the major tenant at Two ifc commenced in July 2014.

As at 30 June 2014, the Company's attributable share of investment properties in Hong Kong was 213,128 square metres of lettable floor area of retail properties, 40,969 square metres of lettable floor area of offices, and 14,282 square metres of property for other use.

For better branding and experiential consistency for the entire PopCorn shopping centre, renovation works for the common area of PopCorn2 have now been completed. Another major project for the year is to revamp Luk Yeung Galleria in Tsuen Wan to create a more vibrant trade mix, which is targeted for completion later this year. Advance works for the Maritime Square Extension project at Tsing Yi have also commenced on site in the second quarter of 2014.

MTR Malls' successes were widely recognized with the winning of various awards during the period, including the "Customer Caring Service Award" and "Luxurious Experience

CEO's Review of Operations and Outlook

Shopping Centre Award" by the Hong Kong Service Awards 2014 presented by *East Week*, as well as "Top 10 My Favourite Shopping Mall in Hong Kong" by *Hong Kong Economic Times*.

Hong Kong property management revenue in the first six months of 2014 rose by 8.4% to HK\$116 million. As at 30 June 2014, the number of residential units under our management in Hong Kong stood at 90,523. The area of managed commercial space was 763,018 square metres.

During the first six months of 2014, our MTR managed properties also gained a number of recognitions. At the annual awards jointly organised by the Occupational Safety and Health Council, the Labour Department and the Hong Kong Association of Property Management Companies, Two ifc achieved the Gold Award in the category of "Safety Culture Award". The Cullinan and The Arch gained Silver Awards in the "Best Property Management Award in Occupational Safety and Health" category, and Merit Awards in the "Best Safety Enhancement Programme for Working at Height" category.

Other Businesses

The Ngong Ping cable car ("Ngong Ping 360"), which was named one of the 10 amazing cable car rides around the world by the UK Daily Telegraph, and its associated theme village achieved a 17.6% increase in revenue in the first six months of 2014 to HK\$180 million compared to the same period last year. Visitor numbers for the period reached approximately 886,000 and

reliability exceeded the target of 99.65%. Promotional activities in the period included a new 360 Holidays Sunset Tour, launched in April, while new hotel partners were added to the existing 360 Holidays 2Days/1Night overnight package. During the period, major construction work at the Monkey's Tale Theatre was substantially completed, and the Motion 360 Souvenir shop and Holidays 360 Service Centre opened in December 2013 and April 2014 respectively.

We leverage our experience as one of the world's leading railway operators to offer consultancy services to clients in Hong Kong and overseas. Revenue from our consultancy business in the first half of 2014 was HK\$83 million, an increase of 38.3% over the same period in 2013.

The Company's share of Octopus' net profit for the first half of 2014 was HK\$104 million, a 2.0% increase over 2013. By 30 June 2014, over 6,000 service providers in Hong Kong were using the Octopus. Total Octopus cards and other stored-value Octopus products in circulation during the period were 26.1 million. Average daily transaction volume and value were 13.1 million and HK\$147.0 million respectively.

Income from project management services to Government, predominantly for entrustment works on the Express Rail Link and the Shatin to Central Link, was HK\$714 million in the first six months of 2014, an increase of 6.6% over the same period in 2013. Income from such entrustment works is accounted for on a cost recovery basis.



Revenue in the first six months of 2014 from our railway subsidiaries outside of Hong Kong, namely Metro Trains Melbourne Pty. Ltd. ("MTM"), MTR Stockholm AB ("MTRS") and MTR Corporation (Shenzhen) Limited, was HK\$6,275 million. This represents a decrease of 9.8% over the same period in 2013. Operating costs were HK\$5,854 million, resulting in a 6.0% drop

in operating profit to HK\$421 million and an operating profit margin of 6.7%. This reduction was due to two factors: currency movements and a one-off profit recognised by MTRS of HK\$46 million in the first half of 2013 which was not repeated in 2014. Excluding this one-off profit and on a constant exchange rate basis, operating profit would have increased by 13.3%.

Property Development Packages Completed during the period and Awarded

Location	Developers	Type	Gross floor area (sq. m.)	Period of package tenders	Expected completion date
LOHAS Park Station					
Package Three	Cheung Kong (Holdings) Ltd.	Residential Kindergarten	128,544 1,000	Awarded in November 2007	2014
Package Four	Sun Hung Kai Properties Ltd.	Residential	122,302	Awarded in April 2014	2020
Austin Station					
The Austin and Grand Austin	New World Development Co. Ltd. and Wheelock Properties Limited	Residential	119,116	Awarded in March 2010	2014
Tuen Mun Station[#]					
Century Gateway and Century Gateway II	Sun Hung Kai Properties Ltd.	Residential Retail	119,512 25,000	Awarded in August 2006	By phases from 2012 - 2014
Tsuen Wan West Station[#]					
City Point	Cheung Kong (Holdings) Ltd.	Residential	113,064	Awarded in September 2008	2014
TW5 Cityside	Chinachem Group	Residential Retail	66,114 11,210	Awarded in January 2012	2018
TW5 Bayside	Cheung Kong (Holdings) Ltd.	Residential Retail Kindergarten	167,100 40,000 550	Awarded in August 2012	By phases from 2017 - 2018
TW6	New World Development Co. Ltd. and Vanke Property (Overseas) Limited	Residential	62,711	Awarded in January 2013	2018
Nam Cheong Station[#]					
Nam Cheong	Sun Hung Kai Properties Ltd.	Residential Retail Kindergarten	214,700 26,660 1,000	Awarded in October 2011	By phases from 2017 - 2019
Long Ping Station[#]					
Long Ping (North)	K. Wah International Holdings Limited and Sino Land Company Limited	Residential	48,675	Awarded in October 2012	2018
Long Ping (South)	Chinachem Group	Residential	41,990	Awarded in June 2013	2019

[#] as a development agent for the relevant subsidiaries of KCRC

Property Development Packages to be Awarded Notes 1 and 2

Location	Type	Gross floor area (sq. m.)	Period of package tenders	Expected completion date
LOHAS Park Station	Residential Retail	902,918 - 912,918 39,500 - 49,500		
Tai Wai Station	Residential Retail	190,480 62,000		
Tin Wing Stop (Light Rail)	Residential Retail	91,051 205	2014 - 2020	2020 - 2024
Wong Chuk Hang Station	Residential Retail	357,500 47,000		
Ho Man Tin Station	Residential	128,400		

Notes:

- Property development packages for which we are acting as development agent for the relevant subsidiaries of KCRC are not included.
- These property development packages are subject to review in accordance with planning approval, land grant conditions and completion of statutory processes.

CEO's Review of Operations and Outlook

Our associates outside of Hong Kong, Beijing MTR Corporation Limited ("BJMTR"), London Overground Rail Operations Limited ("LOROL"), Tunnelbanan Teknik Stockholm AB, and Hangzhou MTR Corporation Limited ("HZMTR"), continued to provide high quality rail services to their respective communities. Although HZMTR continued to suffer start-up losses, our overall share of profits from these four associates for the first six months of 2014 was HK\$24 million, as compared to a loss of HK\$51 million in the same period last year.

Total passengers carried by our rail subsidiaries and associates outside of Hong Kong was approximately 713 million in the first half of 2014, against approximately 652 million in the first half of 2013.

Railway Businesses in the Mainland of China

In the Mainland of China, Beijing Metro Line 4 and the Daxing Line continued to exceed operational targets. Combined ridership in the first half of 2014 was 220.9 million passenger trips, with average weekday patronage of more than 1.2 million. The two lines have 35 stations and a combined length of 50 km. Phase 1 of the Beijing Metro Line 14 ("BJL14") was opened in May 2013, with the new interchange station, Qilizhuang Station, opened for service in February 2014. Average weekday patronage has risen to over 47,000. The Phase 2 East Section is targeted for opening later in 2014. Full line operation is expected after 2017. BJL14 is currently operated by BJMTR on an Operation and Maintenance basis with the PPP starting once the full line is opened.

The operational performance of the Shenzhen Metro Longhua Line exceeded targets during the period. Ridership for the six months was 78 million, with average weekday patronage reaching 430,000. To increase capacity, as at 30 June 2014, 10 of the 28 trains have been converted from 4-car to 6-car with all remaining trains to be converted by the first quarter of 2015. In January, a Strategic Cooperation Framework Agreement was signed with the Longhua New District Administration Commission for the North Extension of this line. MTR will leverage its experience to offer advice and technical support for the construction of the North Extension, together with a light rail system in the Longhua District of Shenzhen.

Hangzhou Metro Line 1, which has been in operation since November 2012, achieved a good operational performance. Initiatives to drive growth in ridership have helped raise the

total patronage for the six months to over 67 million and the average weekday patronage to over 350,000.

International Railway Businesses

In the UK, LOROL ridership in the period was about 55.7 million, with a weekday average of 407,000. At the 11th annual London Transport Awards, a LOROL employee received the Frontline Employee of the Year award. LOROL's franchise to operate and maintain the London Overground rail services was extended in February 2013 from November 2014 to November 2016.

In Stockholm, MTR's ridership for the six months was about 166.7 million, with average weekday patronage of about 1.19 million.

In Melbourne, MTM's ridership for the six months was approximately 116.5 million, with average weekday patronage reaching 822,000. In March, MTM received the prestigious Operator & Service Provider Excellence Award at the National Infrastructure Awards, organised by Infrastructure Partnerships Australia.

Property Development, Rental and Management Businesses in the Mainland of China

MTR Property Development (Shenzhen) Company Limited continued to make progress on the development of Shenzhen Metro Longhua Line Depot Site Lot 1, which has a total developable gross floor area of approximately 206,167 square metres. Construction is in full swing and preparation for sales and marketing is underway. First phase pre-sale is expected to be launched in early 2015.

In Tianjin, our 49% Joint Venture with Tianjin Metro (Group) Company Limited continues to make progress on the development of the Beiyunhe Station site. This site, sitting atop the Beiyunhe Station on Tianjin Metro Line 6 will be developed into a 278,650 square metres mixed used development with residential, commercial and retail uses.

Revenue from our property rental and property management businesses in the Mainland of China increased by 5.6% to HK\$75 million for the first six months of 2014. Our shopping mall in Beijing, Ginza Mall, recorded an occupancy rate of 98% at the end of June 2014. The Company's managed gross floor area in the Mainland of China stands at 256,000 square metres.



The first six months of the year saw MTR fully engaged in the challenging task of expanding the Hong Kong railway network through five different projects, as well as continuing our progressive growth strategies in the Mainland of China and overseas. However the announcements of delays in the new Hong Kong rail projects blighted the considerable achievements made.

Growth in Hong Kong

New Rail Lines owned by MTR

The West Island Line is a 3-km underground extension of the existing MTR Island Line from Sheung Wan Station to Kennedy Town with three new stations. It was 93% complete by the end of June 2014. Connection and testing of the overhead line system has been completed, and testing of the signalling system is well advanced. The final installation of passenger facilities is ongoing at the three stations of the new line. Our target is to open the line in December 2014, should works continue to proceed at the current rate. However, delicate ground conditions in the area around Sai Ying Pun Station have affected the pace at which passenger entrances are being constructed. Since the programme is very tight, as a prudent measure we are putting in place a back-up plan, under which trains will not stop at Sai Ying Pun Station on initial line opening. Under this back-up plan Sai Ying Pun Station will be opened in the first quarter of 2015. If Sai Ying Pun Station is not ready for opening in December 2014 and the back-up plan proves not to

be feasible, then full opening of the West Island Line will take place in the first quarter of 2015. An announcement will be made later this year relating to the line opening. We are doing our utmost to ensure the West Island Line can start serving the Western District community as early as possible, providing safe, smooth and reliable operations. With the complexity of the works on the West Island Line as well as delayed progress, we have updated our project cost estimate (excluding capitalised interest) from an original estimate of HK\$17.2 billion to approximately HK\$18.5 billion.

The South Island Line (East) project, a 7-km railway running from Admiralty to South Horizons with three intermediate stations, had reached 73% completion by June 2014. Due to the complexity of the works at Admiralty Station, the original target opening of South Island Line (East) in 2015 will be delayed. In conducting the underpinning structural works below the platforms of the existing operational lines at Admiralty Station, the safety of passengers using the existing railway and of occupants of the surrounding buildings has continued to be of the utmost priority. This has limited our ability to make up lost time when more challenging than expected conditions have been encountered. For the Nam Fung Tunnel, excavation works are targeted to be completed in the third quarter of 2014. Tunnel lining work and the construction of the transition structure that connects to the viaduct section is expected to be completed in the first quarter of 2015. However, difficult and unstable ground conditions including two major fault zones

CEO's Review of Operations and Outlook

along the tunnel alignment have dictated slow progress. With the delay of the South Island Line (East), currently, there is an increase in estimated project cost (before capitalised interest) of HK\$1.7 billion, resulting in estimated total project cost (before capitalised interest) at HK\$15.2 billion.

The Kwun Tong Line Extension, a 2.6-km underground extension of the existing Kwun Tong Line from Yau Ma Tei Station to Whampoa Station with an intermediate station at Ho Man Tin, was 63% complete at the end of June 2014. The most challenging part of the project works is at the Whampoa Station site where extensive excavation works are being carried out within a densely populated community with busy traffic and complex underground utilities. The implementation of protection works for underground utilities and limited working space have prolonged the process during the early stage of construction. As a result of the difficulties at Whampoa Station, currently construction progress is behind the original schedule and the targeted opening of the Kwun Tong Line Extension in 2015 cannot be achieved. Despite the delay, the project cost is currently estimated to be still within the original project cost estimate (before capitalised interest) of HK\$5.9 billion.

For both the Kwun Tong Line Extension and South Island Line (East), we will further update progress and provide the time frame for opening arrangements at the end of the year.

New Rail Lines Entrusted to MTR by the Government

The 26-km Express Rail Link, one of two entrustment projects funded by Government and project managed by MTR, will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. A number of factors combined to set back the scheduled opening of this project from 2015 to end of 2017. Specifically, three locations pose challenges: the West Kowloon Terminus, the Yuen Long tunnel section between Tsat Sing Kong and Tai Kong Po, and the cross-boundary tunnel section. Despite exceptional efforts from the project teams, the cumulative effect of delayed site access, shortage of labour, difficult ground conditions, deformed piles and bad weather have made the originally planned opening date for the line unfeasible. The overall progress was 60% at the end of June 2014. A highlight in the period was the breakthrough of the 7.6-km drill-and-blast tunnel that runs through Tai Mo Shan between Tse Uk Tsuen and Shek Yam in late March. Work continues at the difficult West Kowloon Terminus site, where

excavation is 83% complete. Elsewhere, other tunnelling is in progress as well as the trackwork and overhead line installation. With the complexity of the project and various challenges encountered, we have updated and provided to the Government our project cost estimate in July 2014 for the Express Rail Link project (of HK\$71.52 billion, inclusive of future insurance and project management costs). The Government is reviewing the revised programme and the updated project cost estimate and we are cooperating to provide additional information to assist the Government in its review.

In April 2014, our Board of Directors established the IBC to conduct a thorough review of the background of and reasons for the delay in the Express Rail Link project and to advise on the manner in which the Company can deliver the project in a more transparent and timely manner going forward. In July, our Board of Directors received the first report from the IBC. The Board has adopted in full the recommendations in the first report. The committee will prepare a second report on the delivery of the project going forward, which is currently expected to be issued in October 2014. Independently, the Government has established an independent expert panel to review the project delay.

The other entrustment project, the Shatin to Central Link, is being built in two phases, with the first originally due for completion in 2018 and the second in 2020. The project was 17% complete at the end of June 2014. In the process of excavation for this line, archaeological artefacts were unearthed at the site of the future To Kwa Wan Station. As the archaeological survey is still ongoing, the programme of the Shatin to Central Link will inevitably be affected with current progress being already 11 months behind schedule. As more time is needed for Government to discuss with the public on how to handle the relics, we will closely monitor the situation and maintain close communication with relevant Government departments. We will put forward a clearer plan on the forthcoming works arrangement for the Shatin to Central Link after the Government comes up with a clear direction on the handling of the relics upon the completion of the archaeological survey within our construction area.

Government's Review and Update of the Railway Development Strategy 2000 ("RDS-2U") outlines future rail developments for consideration. Government is finalising the RDS-2U, and we look forward to working closely with the Government on future railway developments.

Mainland of China and International Growth

In the Mainland of China, a bid was submitted by BJMTR for Beijing Metro Line 16 in February 2014. This is also a PPP project with Line 16 running 50 km from Beianhe to Wanping, encompassing 29 stations. We are finalising our discussions with the Beijing Municipal Government on this line. Currently, we are also in the process of discussing and negotiating the Principal and Joint Venture Agreements associated with constructing and operating Shenzhen Metro Line 6.

In Sweden, MTR Express, providing a 455-km intercity rail service connecting Stockholm with Gothenburg, is expected to commence operations in the first half of next year. Train production is progressing as scheduled and depot facilities have been arranged.

In Australia, a consortium of which the Company is a member was selected as the preferred operator for the PPP element of the North West Rail Link project in Sydney by the New South Wales Government in June 2014. The consortium will be responsible for the design and build of eight new stations and a depot, procurement of fully automated rapid transit trains and a signalling system, and the conversion and upgrade of the railway along five existing stations together with operation and maintenance of the system for 15 years after service opening. We are working with Transport for New South Wales to conclude all documentations for a contract signing before the end of September 2014. MTR will be investing an estimated AUD65 million into this project. In Melbourne, we are leading a consortium which has entered into discussions with the Victorian Government in relation to a PPP project to transform one of the busiest sections of the Melbourne train network. Preliminary work for the proposed Dandenong Transformation project is progressing as are negotiations with the Victorian Government.

In the UK, we were awarded the Crossrail Train Operating Concession franchise in July 2014. The Concession is an eight-year agreement, with an option for a further two years, to operate train services on Crossrail, which will run for 118 km from Reading and Heathrow in the west of London, through new 21-km twin-bore tunnels below central London to Shenfield and Abbey Wood in the east. Services will commence in phases from 2015 to 2019. We are still awaiting the result of our bid for the ScotRail Franchise submitted in April 2014. We were not awarded the franchises for two other UK bids submitted at the end of last year, the Essex Thameside franchise and the Thameslink, Southern and Great Northern concessions.

Financial Review

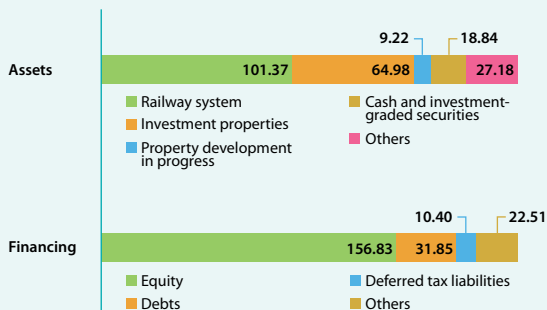
The Group achieved good financial results in its recurrent businesses in the first half of 2014. Total turnover increased to HK\$19,471 million, up 1.3% against the same period last year, and total operating costs decreased by 2.0% to HK\$11,640 million. By individual business segment, revenue from Hong Kong transport operations reached HK\$7,729 million in the first half of 2014, an increase of 6.5%, due to higher patronage in all of our transport services and adjustments in fare, which was partly offset by fare concessions. Expenses increased by 4.7% to HK\$4,002 million. Revenue from Hong Kong station commercial businesses increased by 8.3% to HK\$2,377 million mainly due to higher station shop rental rates and turnover rents. Expenses increased by 9.7% to HK\$226 million impacted by higher government rent and rates and agency fees relating to advertising revenue growth. With the Group's shopping mall portfolio continuing to perform well, achieving an average 14% increase on rental reversion during the period, revenue from Hong Kong property rental and property management businesses increased by 10.0% to HK\$2,026 million, and expenses increased by 8.9% to HK\$331 million. Affected by currency movements, as well as a one-off compensation received by MTRS in 2013 revenue from, and expenses of, Mainland of China and International subsidiaries decreased 9.6% and 9.8% to HK\$6,350 million and HK\$5,922 million, respectively. Income and expenses relating to other businesses amounted to HK\$989 million and HK\$896 million, up 10.5% and 8.0%, respectively. Including project study and business development expenses of HK\$263 million, the resulting operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment ("EBITDA") increased by 6.8% to HK\$7,831 million. Overall, the EBITDA margin improved from 38.2% in 2013 to 40.2%. The EBITDA margin excluding Mainland of China and international subsidiaries remained at 56.4%.

Profit from Hong Kong property development was HK\$245 million, HK\$286 million lower than the same period last year, and was derived from the sale of our inventory units and the agency fee income from West Rail property developments. Depreciation and amortisation increased slightly by 2.9% to HK\$1,688 million. The variable annual payment ("VAP") for relevant revenue generated from the use of KCRC assets increased 19.0% to HK\$701 million as the effective VAP charge rate increased slightly from 13.3% to 14.6%. Operating profit before interest and finance charges therefore increased by 1.0% to HK\$5,687 million.

CEO's Review of Operations and Outlook

Simplified Consolidated Balance Sheet

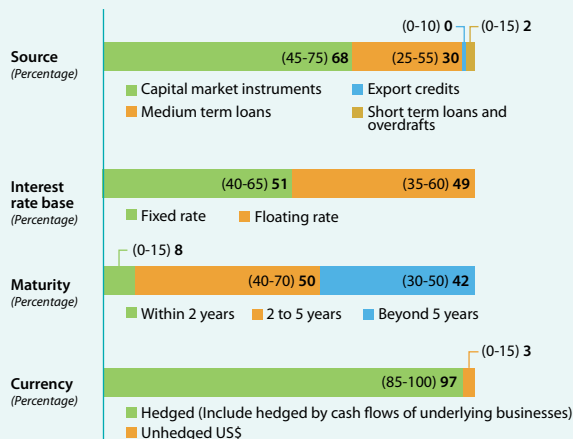
As at 30 June 2014
(HK\$ billion)



Preferred Financing Model and Debt Profile

The Preferred Financing Model exemplifies the Company's prudent approach to debt management and helps ensure a well balanced debt portfolio.

(Preferred Financing Model) vs. **Actual debt profile** as at 30 June 2014



Interest and finance charges decreased by HK\$161 million to HK\$274 million in the first half of 2014, which was mainly due to a lower average debt balance and higher interest expenses capitalised. Investment property revaluation gain amounted to HK\$3,523 million, up from HK\$1,907 million in 2013. Profit sharing from Octopus Holdings Limited increased by 2.0% to HK\$104 million. Our share of results from other associates generated a profit of HK\$25 million in 2014 as compared to a loss of HK\$51 million in 2013, mainly due to HZMTR where patronage has continued to improve, with our share of losses reducing from HK\$161 million in 2013 to HK\$80 million in 2014.

After deducting income tax of HK\$1,063 million and profits shared by non-controlling interests of HK\$90 million, net profit attributable to shareholders increased by 28.5% to HK\$7,912 million, equivalent to earnings per share of HK\$1.36 up from HK\$1.06 in the first half of 2013. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders increased by 3.2% to HK\$4,389 million, of which recurrent businesses profit increased 10.0% to HK\$4,186 million and property development profit decreased 54.6% to HK\$203 million. Earnings per share based on the underlying businesses profit increased from HK\$0.73 to HK\$0.76. The Board has declared an interim dividend of HK\$0.25 per share, with a scrip dividend option offered.

The Group's balance sheet remained strong, as net assets increased 2.7% to HK\$156,829 million as at 30 June 2014. Total assets increased by HK\$5,763 million during the period to HK\$221,586 million as a result of investment property revaluation gain, further construction works for the West Island Line, the South Island Line (East) and the Kwun Tong Line Extension, and increases in cash, bank balances and deposits. These additions were partly offset by decreases in property development in progress and debtors, deposits and payments in advance due

to cash received from the reimbursement of land premium at Austin Station sites and from the sale of residential units. Total liabilities increased by HK\$1,636 million during the period to HK\$64,757 million as a result of increases in dividend payable to shareholders. The increases were partly offset by a reduction in total loans outstanding, from HK\$24,511 million as at 31 December 2013 to HK\$21,080 million as at 30 June 2014. With an increase in cash balance and decrease in total loans outstanding, the net debt-to-equity ratio improved from 11.8% as at 31 December 2013 to 8.6% as at 30 June 2014.

Cash generated from operations, before taxes paid and working capital movement, increased by HK\$474 million to HK\$7,843 million, mainly due to the increase in EBITDA. Including working capital movement, receipt of government subsidy for the Shenzhen Metro Longhua Line operations and tax payment, net cash inflow from operating activities amounted to HK\$9,084 million. Cash received from property development was HK\$3,643 million, mainly from reimbursement of land premium for Austin Station sites and sale of residential units. Together with dividends received from associates and other miscellaneous cash receipts, total cash inflow amounted to HK\$12,784 million. Total capital expenditure paid was HK\$6,280 million, which included HK\$2,967 million for the construction of new railway extensions, HK\$1,559 million for asset additions or replacements in our existing operations, and HK\$1,703 million for property renovation and development, including land premium paid in relation to the Maritime Square Extension project. After deducting variable annual payment of HK\$1,247 million, capital injection of HK\$294 million into an associate, Tianjin TJ-Metro MTR Construction Company Limited, net interest paid of HK\$437 million and dividend paid to holders of non-controlling interests of HK\$26 million, total cash outflow was HK\$8,284 million. After loan repayments of HK\$3,438 million, the Group's cash balance increased by HK\$1,031 million to HK\$18,328 million.

Financing Activities

Following a brief uptick towards the end of 2013, long-term US Treasury yields declined through the first half of 2014 on the back of an extreme weather-induced first quarter slowdown in the US economy, safe haven flows due to political upheaval in Ukraine and the Middle East, and repeated assurance from the Fed that its accommodative monetary policy was likely to continue even after the end of its bond buying programme. As a result, the 10-year US Treasury yield declined from a high of 3.03% p.a. at the end of 2013 to 2.53% p.a. on 30 June, while the 3-month USD-LIBOR rate declined from 0.25% to 0.23% p.a. Similarly during the same period, 10-year HK dollar swap rate declined from 2.87% to 2.55% p.a., while the 3-month HKD-Hibor rate remained at 0.38% p.a.

Taking advantage of the lower long-term rates and favourable arbitrage funding opportunities in the Australian dollar market, the Group issued, at the beginning of the year, 12-year and 15-year notes in Australian dollars which were swapped into HK dollars. Totalling about HK\$550 million, these notes further lengthened and diversified the Group's debt maturity profile whilst helping to lock in attractive fixed rate long-term funding.

The Group also took advantage of improvement in the banking market in Hong Kong to arrange additional bilateral banking facilities totalling over HK\$4,000 million at more competitive fees and credit margins than the previous year.

At the end of June 2014, the Company had total cash and bank deposits balance of HK\$15,637 million, as well as total undrawn committed banking facilities of HK\$7,946 million, which would provide very comfortable forward coverage of our funding needs well beyond 2014. At the Group level including its subsidiaries, total cash and bank deposits balance was HK\$18,328 million and total undrawn committed banking facilities was HK\$10,292 million.

The Group's debt portfolio was prudently managed and remains well diversified in accordance with the Preferred Financing Model. At the end of June 2014, 7.9% of the Group's total debt outstanding had maturity of less than 2 years, 49.7% between 2 and 5 years, and 42.4% beyond 5 years, reflecting a modest refinancing risk. Foreign exchange rate risk was well managed, with 96.6% of debt outstanding in HK dollars, hedged into HK dollars, or hedged by foreign currency cash flows from underlying businesses. The balance was in US dollars. Approximately 50.8% of debt outstanding was at fixed rate.

During the first half of 2014, at the Company level, weighted average borrowing cost decreased slightly to 3.0% p.a. from 3.1% p.a. during the same period last year mainly due to an increased proportion of floating rate borrowing. At the Group level, the weighted average borrowing cost was slightly higher at 3.7% p.a., from 3.5% p.a., mainly due to a higher proportion of overseas project loans outstanding with higher interest rates.



The Company, together with its controlled subsidiaries, employed 16,317 people in Hong Kong and 7,256 outside of Hong Kong as at 30 June 2014. During the first six months of 2014, a total of 841 people were hired, and 763 were promoted in Hong Kong. Through proactive manpower resourcing initiatives and new recruitment channels, we reached out to more job seekers and recruited young talents of high calibre including graduate trainees, graduate engineers and functional associates for

succession of future managerial positions. Various recruitment campaigns to increase our intake of apprentices and technician associates were also launched to meet our manpower needs for frontline maintenance staff. Staff turnover remained low at 4.4%.

The Company has a well-established staff consultation mechanism, comprising Joint Consultative Committees and a Staff Consultative Council, providing effective communication

CEO's Review of Operations and Outlook

channels between Management and staff for discussion of matters of mutual concern. There are over 800 staff representatives who are elected by staff. To encourage and reinforce two-way communication between line managers and staff, more than 4,000 sessions of the "Enhanced Staff Communication Programme" were organised in the first half of 2014, attracting over 50,000 participants.

In the first six months of 2014 we launched several new short motivational videos titled "MTR People Making a Difference" featuring stories about the work of frontline staff, and a new video titled "WE@MTR" featuring various initiatives that foster staff's well-being. A number of motivational schemes and awards were rolled out to recognise staff who live out the MTR values. In January, MTRS also launched a similar award scheme.

Many initiatives are ongoing to reinforce the sense of an MTR community. In January, the new multinational internal communications platform "MTRconnects" was launched in Hong Kong and all offices across the world. It is designed to keep all MTR employees abreast of the latest developments at the Company and facilitates employees to share their stories, interesting cultural information, videos and insights on how they conduct business locally.

Talent identification and development initiatives have continued to groom high potential staff at different levels along the integrated leadership pipeline. New batches of talent were identified under the People Development Initiative for Corporate and Divisional Development. Succession planning is also facilitated as bench strengths across the Company are enhanced. We continued to provide many opportunities for development of our staff at different levels, including the Executive Continuous Learning Programme for Executive Managers and Senior Managers, and the Integrated Staff Development Programme in the Operations Division to prepare staff for future promotions.

"Work Improvement Team" ("WIT") continued to encourage staff in collective innovation and continuous improvement. WIT learning culture was exported to the Mainland of China with the formation of the Hangzhou MTR WIT Steering Committee in January, reinforced by a 2.5-day WIT training workshop in Hangzhou in April.

During the first six months of 2014, 3,297 courses were delivered providing 3.4 training days per Hong Kong employee. The Integrated Staff Development Programme won the 2013 American Society for Training and Development Excellence in Practice Award, with MTR being the only winner from Hong Kong.

Community Engagement

Recognising that the construction and development of MTR projects affects many members of the community, we use multiple channels to engage in a two-way dialogue with members of the community so that they can better understand the complex nature of our work, give us their feedback and express any concerns. We strive to find an optimal balance in various stakeholders' interests so that we can create value for all members of the community. For instance, we have set up Community Liaison Groups to ensure that the voices of all stakeholders are heard when we are constructing new lines. Quarterly meetings with local residents, local District Council members, members of non-governmental organisation and institutions, and representatives from the Government are held to facilitate dialogue and exchange of information.

In property development, we aim to create value for our business and the community. The Maritime Square Extension development at Tsing Yi has embraced a planning gain design approach which includes the enhancement of the existing Public Transport Interchange as well as around 5,000 square meters of podium landscape garden. These enhancements not only address the aspirations of residents for a more compatibly built environment but also provide a better integrated and more pleasing townscape for the community. PopCorn at Tseung Kwan O Station has also been designed to meet the changing aspirations of the community for greater connectivity and open space. Measures introduced include the public space "Civic Square", an elevated park, barrier-free access and connected walkways to other neighbouring developments.

Through ongoing dialogues, our goal is to enhance the quality of life for all as we build and connect communities, and deepen our relationships to achieve common objectives.

Outlook

The global economy remains uncertain, and in the Mainland of China the rapid expansion of recent years is being replaced by a more measured pace of growth. In Hong Kong, Government's commitment to building infrastructure and to making railway the backbone of the public transportation system remain strong and is being supported by large-scale investment, bringing opportunities for MTR.

In this environment, our Hong Kong rail business should see stable patronage growth whilst we also look forward to the

opening of the West Island Line, currently expected at the end of the year. Results of our station commercial and property rental businesses are affected by rental renewals and reversions, which will be dependent on market conditions.

In our property development business, we will book profits for The Austin (Austin Station Site C) when the Occupation Permit is issued, which is expected to be in the second half of 2014. With strong pre-sale at Grand Austin (Austin Station Site D), booking of profits will now depend only on the issuance of the Occupation Permit, which is currently expected at the end of this year or early next year. Timing of pre-sale at LOHAS Park Package 3 will be dependent on market conditions and the progress of construction. Pre-sale is currently expected to start later this year, and the Occupation Permit is expected in the fourth quarter of this year. Booking of profits for this development will therefore depend both on the success of pre-sale and the issuance of the Occupation Permit.

In our property tendering activities up until the end of this year, depending on market conditions, we may tender out development sites at Tai Wai Station, LOHAS Park Package 5 as well as Tin Wing Stop (Light Rail).

Finally, I am most honoured to have been entrusted by the Board with the role of Acting Chief Executive Officer of MTR from 16 August. I would like to take this opportunity to thank Mr Jay Walder for his contributions. I would also like to welcome Dr Philco Wong to be the Projects Director upon Mr TC Chew's retirement in October 2014. My thanks also go to the Board Members for their valuable help and immense support as well to all my colleagues at MTR who have played such a critical part in helping us push ahead, despite many challenges, towards achieving our vision. They are truly the heroes of MTR.



Lincoln Leong Kwok-kuen, *Acting Chief Executive Officer*
Hong Kong, 25 August 2014

Key Figures

	Half year ended 30 June 2014	Half year ended 30 June 2013	% Increase/ (Decrease)
Financial highlights (HK\$ million)			
Revenue			
– Hong Kong transport operations	7,729	7,258	6.5
– Hong Kong station commercial businesses	2,377	2,194	8.3
– Hong Kong property rental and management businesses	2,026	1,842	10.0
– Mainland of China and international subsidiaries	6,350	7,025	(9.6)
– Other businesses	989	895	10.5
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	7,831	7,332	6.8
Profit on Hong Kong property development	245	531	(53.9)
Operating profit before depreciation, amortisation and variable annual payment	8,076	7,863	2.7
Profit attributable to equity shareholders arising from underlying businesses	4,389	4,251	3.2
Total assets	221,586	215,823 [^]	2.7
Loans, other obligations and bank overdrafts	21,080	24,511 [^]	(14.0)
Obligations under service concession	10,631	10,658 [^]	(0.3)
Total equity attributable to equity shareholders	156,609	152,557 [^]	2.7
Financial ratios			
Operating margin (%)	40.2	38.2	2.0% pts.
Operating margin (excluding Mainland of China and international subsidiaries) (%)	56.4	56.4	–
Net debt-to-equity ratio* (%)	8.6	11.8 [^]	(3.2%) pts.
Interest cover (times)	12.4	11.6	0.8 time
Share information			
Basic earnings per share (HK\$)	1.36	1.06	28.3
Basic earnings per share arising from underlying businesses (HK\$)	0.76	0.73	4.1
Dividend per share (HK\$)	0.25	0.25	–
Share price at 30 June (HK\$)	29.85	28.60	4.4
Market capitalisation at 30 June (HK\$ million)	173,166	165,808	4.4
Operations highlights			
Total passenger boardings in Hong Kong (million)			
– Domestic Service	736.5	713.3	3.3
– Cross-boundary Service	54.5	54.4	0.1
– Airport Express	7.1	6.4	11.4
– Light Rail and Bus	109.2	106.9	2.1
Average number of passengers (thousand)			
– Domestic Service (weekday)	4,329	4,219	2.6
– Cross-boundary Service (daily)	301.1	300.7	0.1
– Airport Express (daily)	39.4	35.4	11.4
– Light Rail and Bus (weekday)	621.1	610.0	1.8
Fare revenue per passenger (HK\$)			
– Domestic Service	7.30	7.04	3.6
– Cross-boundary Service	26.77	25.83	3.6
– Airport Express	61.67	62.55	(1.4)
– Light Rail and Bus	2.82	2.70	4.4
Proportion of franchised public transport boardings (%)	47.0	46.5	0.5% pt.

* Including obligations under service concession and loan from holders of non-controlling interests as components of debts.

[^] Figures as at 31 December 2013

Corporate Governance and Other Information

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interests of all of its stakeholders and continuous efforts are therefore taken to identify and formalise best practices for the Company to adopt.

Corporate Governance Code Compliance

During the six months' period ended 30 June 2014, the Company has complied with the Code Provisions set out in the Corporate Governance Code, contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Independent Board Committee

In April 2014, the Company announced a revised schedule (the "Revised Timeline") for the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") project. In light of the public's concern about the Revised Timeline, the Board resolved, on 29 April 2014, to establish an Independent Board Committee (the "IBC") to review the background of and reasons for the Revised Timeline for the XRL project. The IBC was also asked to advise on the manner in which the Company can deliver the XRL project in a transparent and timely manner and in accordance with the Company's responsibilities under the Entrustment Agreements made between the Company and the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") dated 24 November 2008 and 26 January 2010 respectively (the "XRL Entrustment Agreements").

The IBC is chaired by Professor Frederick Ma Si-hang with five other Members comprising the following Independent Non-executive Directors of the Company – Dr. Dorothy Chan Yuen Tak-fai, Mr. Edward Ho Sing-tin, Mr. Alasdair George Morrison, Mr. Abraham Shek Lai-him, and Mr. T. Brian Stevenson.

On 16 July 2014, the IBC issued its first report (the "First Independent Committee Report") regarding XRL and, as a result of its findings, the IBC recommended certain enhancements to the Company's systems and processes, including enhanced project reporting, establishment of a Capital Works Committee (the "CWC") (which should be chaired by an Independent Non-executive Director of the Company) and a more strategic approach to corporate communications.

The IBC will prepare a second report on the manner in which the Company can deliver the XRL project in a transparent

and timely manner and in accordance with the Company's obligations under the XRL Entrustment Agreements. The IBC has appointed two independent experts who have specific expertise in relation to management of projects of this type to assist it with its review. It is currently expected that this second report will be issued in October 2014.

Establishment of Two New Board Committees

To maintain the highest standard of corporate governance, the Board, on 21 August 2014, approved the setting up of two new committees, the CWC and the Risk Committee (the "RisC").

The principal duties of the CWC are to oversee any project involving design and/or construction with a capital value in excess of a value as assessed by the Board and to report to the Board on the progress of the relevant projects, from both a programme and cost perspective.

As regards the RisC, its principal duties are to monitor the Company's risk profile and to review the Company's top risks (including, without limitation, operational, service performance, regulatory, financial and organisational risks), enterprise risk management framework and effectiveness.

The terms of reference of the CWC and the RisC are available on the websites of the Company (www.mtr.com.hk) and The Stock Exchange of Hong Kong Limited ("HKSE").

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code"). After having made specific enquiry, the Company confirms that Members of the Board and the Executive Directorate complied throughout the six months' period ended 30 June 2014 with the Model Code.

Senior managers, other nominated managers and staff who, because of their office in the Company, are likely to be in possession of Inside Information (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) of the Company, have also been requested to comply with the provisions of the Model Code.

In addition, every employee is bound by the Code of Conduct issued by the Company to keep unpublished price sensitive and Inside Information of the Company in strict confidence.

Corporate Governance and Other Information

Members of the Board and the Executive Directorate

Changes in Composition

As at 25 August 2014, the respective compositions of the Board and the Executive Directorate of the Company are as follows:

Members of the Board

Non-executive Directors	Independent Non-executive Directors
Dr. Raymond Ch'ien Kuo-fung (<i>Chairman</i>) Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury) Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung) Commissioner for Transport (Ingrid Yeung Ho Poi-yan)	Pamela Chan Wong Shui Dr. Dorothy Chan Yuen Tak-fai Vincent Cheng Hoi-chuen Christine Fang Meng-sang Edward Ho Sing-tin Professor Frederick Ma Si-hang Alasdair George Morrison Ng Leung-sing Abraham Shek Lai-him T. Brian Stevenson

Members of the Executive Directorate

Lincoln Leong Kwok-kuen (<i>Acting Chief Executive Officer</i>) Morris Cheung Siu-wa (<i>Human Resources Director</i>) Chew Tai Chong (<i>Projects Director</i>) Jacob Kam Chak-pui (<i>Operations Director</i>)	Stephen Law Cheuk-kin (<i>Finance Director</i>) Gillian Elizabeth Meller (<i>Legal Director and Secretary</i>) David Tang Chi-fai (<i>Property Director</i>) Jeny Yeung Mei-chun (<i>Commercial Director</i>)
---	--

Mr. Jay Herbert Walder stepped down as the Company's Chief Executive Officer (the "CEO") with effect from 15 August 2014. His position as a Member of the Board and a Member of the Executive Directorate also ended on that date.

The Company is undertaking a worldwide search to identify the right candidate for the post of the CEO.

Mr. Lincoln Leong Kwok-kuen, formerly the Deputy CEO, assumed the role of Acting CEO to manage the duties and responsibilities of the CEO starting from 16 August 2014 until a new CEO is appointed by the Company.

Mr. Chew Tai Chong, currently the Company's Projects Director, will retire from that position and as a Member of the Executive Directorate with effect from 28 October 2014.

On 15 August 2014, the Company announced that Dr. Philco Wong Nai-keung, formerly General Manager – Shatin to Central Link, was appointed as the new Projects Director and a Member of the Executive Directorate with effect from 28 October 2014. To facilitate a smooth transition, Dr. Wong was appointed Projects Director – Designate, of the Company with effect from 18 August 2014.

Changes in Information

Changes in information of Directors which are required to be disclosed pursuant to the requirement of Rule 13.51B (1) of the Listing Rules are set out below.

Biography

Dr. Raymond Ch'ien Kuo-fung

Cessation of appointment

- Convenience Retail Asia Limited (Independent Non-executive Director) (until 31 March 2014)

Mrs. Pamela Chan Wong Shui

Cessation of appointment

- The HKSAR Government Scholarship Fund Steering Committee (Member) (until 14 May 2014)

Mr. Vincent Cheng Hoi-chuen

New appointment

- Hutchison Whampoa Limited (Independent Non-executive Director) (since 10 July 2014)

Ms. Christine Fang Meng-sang

New appointments

- The Faculty of Social Sciences of The University of Hong Kong (Professor of Practice) (since 1 April 2014)
- The Law Reform Commission of Hong Kong (Member) (since 1 March 2014)

Cessation of appointments

- Hong Kong Housing Authority (Member) (until 31 March 2014)
- Charities Sub-committee of The Law Reform Commission of Hong Kong (Member) (until 28 February 2014)

Mr. Ng Leung-sing

New appointments

- The Hong Kong Mortgage Corporation Limited (Director) (since 7 April 2014)
- Hanhua Financial Holding Co., Ltd.* (Independent Non-executive Director) (since 17 June 2013)

* the company became listed on HKSE on 19 June 2014.

Mr. Abraham Shek Lai-him

Cessation of appointment

- Hsin Chong Construction Group Ltd. (Independent Non-executive Director) (until 11 May 2014)

Mr. T. Brian Stevenson

New appointment

- The Hong Kong Mortgage Corporation Limited (Director) (since 7 April 2014)

Professor Chan Ka-keung, Ceajer

Other major appointment

- Hongkong International Theme Parks Limited (Director) (by virtue of his official capacity as the Secretary for Financial Services and the Treasury)

Mr. Lincoln Leong Kwok-kuen

New appointment

- Quality Assurance Council of the University Grants Committee (Chairman) (since 1 April 2014)

Dr. Jacob Kam Chak-pui

New appointment

- Vocational Training Council (Member) (since 1 July 2014)

Training and Continuous Professional Development

For continuous professional development, Members of the Board and the Executive Directorate are encouraged to attend relevant seminars and courses at the cost of the Company.

Materials on the subject of corporate governance are also provided to Members of the Board, their Alternate Directors and Members of the Executive Directorate from time to time to keep them abreast of latest developments on this front. In January 2014, a copy of the research on "Board Diversity in Hong Kong: Directors' Perspective 2013" issued by Community Business, a Hong Kong non-profit organisation, was circulated to them. In July 2014, a set of materials prepared by the Company's external legal advisor on the new connected transactions regime and dealing in the Company's securities by Members of the Board was also circulated.

In addition, briefings on new and existing legal/regulatory requirements are arranged wherever appropriate. At a Special Board Meeting in May 2014, a briefing on "Legal and Regulatory issues - Appointment of Directors" was given to Members of the Board and the Executive Directorate by the Company's external legal advisor.

Board Meetings

The Board held three regular Meetings during the six months' period ended 30 June 2014. At these regular Meetings, the Board reviewed and discussed matters relating to the business and financial performance of the Company. In addition, other key matters discussed at these Board Meetings included:

- (i) Directors' Manual Update;
- (ii) Dividend Policy;
- (iii) MTR Corporate Strategy;
- (iv) Review of improvement actions taken following several train service incidents;
- (v) Principles for revising MTR fares under the Fare Adjustment Mechanism in 2014;
- (vi) Proceedings of Audit Committee Meetings;
- (vii) Report on Internal Control System for the year ended 31 December 2013;
- (viii) 2013 Annual Report and Accounts;
- (ix) Annual Review of Size, Structure and Composition of the Board;
- (x) Election / Re-election of Directors at the 2014 Annual General Meeting (the "AGM");
- (xi) Amendments to the Company's Memorandum & Articles of Association;
- (xii) 2014 AGM;

Corporate Governance and Other Information

- (xiii) Annual Review of Corporate Governance Functions;
- (xiv) Sustainability Report 2013;
- (xv) Express Rail Link Update;
- (xvi) New Project Opportunities outside Hong Kong;
- (xvii) Property Development Tenders; and
- (xviii) Contract Awards relating to Railway Projects.

Special and Private Board Meetings

The Chairman also held 11 Special and three Private Board Meetings during the six months' period ended 30 June 2014.

Special Board Meetings

At these 11 Special Board Meetings, different subjects were covered including updates on the progress of the Hong Kong railway projects, new project opportunities outside Hong Kong and the Company's property development tenders.

Private Board Meetings

At these three Private Board Meetings, amongst the other things, the Board conducted an annual review of the contributions of each Non-executive Director, the size, structure and composition of the Board, and the performance of Members of the Executive Directorate, and held discussions relating to the delay in the XRL project.

Board Committee Meeting

A meeting of the board committee was held on 11 March 2014 to consider and approve:

- (i) the final dividend for the year ended 31 December 2013;
- (ii) the 2013 Annual Report and Accounts with recommendation of the same for shareholders' approval at the 2014 AGM; and
- (iii) the Preliminary Announcement of Results.

Communication with Shareholders

Annual General Meeting

The Company's 2014 AGM was held on 8 May 2014. The Chairman continued his practice of proposing separate resolutions for each substantially separate matter.

In addition to the receipt and consideration of annual Audited Accounts, re-appointment of auditors, and granting of general mandates for the issue and repurchase of the Company's shares, shareholders of the Company also approved, with more than 97% votes in favour in each case, the following resolutions:

- Re-election of Mr. Alasdair George Morrison, Mr. Ng Leung-sing and Mr. Abraham Shek Lai-him and election of Mrs. Pamela Chan Wong Shui, Dr. Dorothy Chan Yuen Tak-fai and Professor Frederick Ma Si-hang as Members of the Board;
- Declaration of a final dividend of HK\$0.67 per share for the year ended 31 December 2013, giving a full year dividend of HK\$0.92 per share, which was an increase of 16.5% compared to dividend declared for 2012;
- Authorization for Members of the Board to offer a scrip dividend alternative in respect of some or all of the dividends declared or paid in the period up to and including the company's annual general meeting which is held in the fifth year after the date on which the resolution is passed (i.e. in 2019); and
- Adoption of the new amended and restated Articles of Association of the Company (the "AoA").

All resolutions at the 2014 AGM were passed by way of a poll, and the poll results were posted on the respective websites of the Company (www.mtr.com.hk) and the HKSE.

For the benefit of the Company's shareholders who did not attend the 2014 AGM, the whole proceedings were recorded and posted on the Company's website (www.mtr.com.hk) the same evening.

Procedures for Shareholders Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting according to the new Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "CO") (which came into operation on 3 March 2014) and the AoA.

In light of the CO provision, the Company has updated the "Appointment Procedure for Members of the Board of the Company" which is available on the Company's website (www.mtr.com.hk).

Constitutional Documents

As mentioned above, shareholders approved and adopted at the 2014 AGM the AoA which is now available on the Company's website (www.mtr.com.hk) and the HKSE's website.

Communication with the Public

In addition to communicating with our shareholders and institutional investors, the Company has formulated a strategic communications plan to enhance the Company's engagement with the public in a more open and transparent manner. One of the initiatives is to hold monthly briefings with the media on the Company's train service performance and progress of its rail projects, as well as other significant issues.

Board Members' and Executive Directorate's Interests in Shares

As at 30 June 2014, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code were as follows:

Interests in Shares and Underlying Shares of the Company

Member of the Board and/ or the Executive Directorate	Number of Ordinary Shares held				Derivatives Share Options		Total interests	Percentage of aggregate interests to total number of shares in issue
	Personal [*] interests	Family [†] interests	Other interests	Corporate interests	Personal [*] interests	Other		
Raymond Ch'ien Kuo-fung	52,330	–	–	–	–	–	52,330	0.00090
Jay Herbert Walder (Note 2)	–	–	–	–	888,500 (Note 1)	230,000 (Note 2)	1,118,500	0.01928
Pamela Chan Wong Shui	9,002	1,675	–	–	–	–	10,677	0.00018
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	–	3,350	0.00006
Christine Fang Meng-sang	1,712	–	–	–	–	–	1,712	0.00003
Frederick Ma Si-hang	–	70,000 (Note 3)	70,000 (Note 3)	–	–	–	70,000	0.00121
T. Brian Stevenson	5,153	–	–	–	–	–	5,153	0.00009
Ingrid Yeung Ho Poi-yan	1,116	–	–	–	–	–	1,116	0.00002
Lincoln Leong Kwok-kuen	193,000	–	–	23,000 (Note 4)	967,000 (Note 1)	–	1,183,000	0.02039
Morris Cheung Siu-wa	13,290	–	–	–	467,500 (Note 1)	–	480,790	0.00829
Chew Tai Chong	–	–	–	–	835,000 (Note 1)	–	835,000	0.01439
Jacob Kam Chak-pui	2,283	–	–	–	734,500 (Note 1)	–	736,783	0.01270
Stephen Law Cheuk-kin	–	–	–	–	196,000 (Note 1)	–	196,000	0.00338
Gillian Elizabeth Meller	–	–	–	–	515,500 (Note 1)	–	515,500	0.00889
David Tang Chi-fai	600	–	–	–	(i) 584,000 (Note 1) (ii) 22,000 (Note 5)	–	606,600	0.01046
Jeny Yeung Mei-chun	13,400	–	–	–	618,000 (Note 1)	–	631,400	0.01088

Notes

- Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the 2007 Share Option Scheme.
- On appointment as the CEO of the Company, Mr. Jay Herbert Walder was granted a derivative interest in respect of 300,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represented Mr. Walder's entitlement to be paid an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office expired. An amount of HK\$8,805,000 was paid to him on 2 July 2014 (at a price of HK\$29.35 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 30 June 2014).
On 30 August 2013, Mr. Walder was re-appointed as the CEO until 31 August 2015. He was granted a derivative interest in respect of 230,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represented his entitlement to be paid an equivalent value in cash of 230,000 shares in the Company upon completion of his extended term of office on 31 August 2015.
On 16 July 2014, the Company announced that Mr. Walder would step down as the CEO of the Company from 15 August 2014. On 15 August 2014, an amount of HK\$725,428 was paid to Mr. Walder, being the equivalent value in cash of 24,378 shares (at a price of HK\$29.7575 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 25 July 2014). Mr. Walder's remaining derivative interest in 205,622 shares in the Company lapsed on 15 August 2014.
- The 70,000 shares are indirectly held by The Ma Family Trust established by Professor Frederick Ma Si-hang for himself and his family of which his spouse is also a beneficiary.
- The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr. Lincoln Leong Kwok-kuen.
- Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the New Joiners Share Option Scheme.

* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

Options to subscribe for Ordinary Shares granted under the New Joiners Share Option Scheme

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2014	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK\$)	Options outstanding as at 30 June 2014	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
David Tang Chi-fai	15/5/2006	213,000	25/4/2007 – 25/4/2016	22,000	–	–	–	–	20.66	22,000	–
Other eligible employees	5/10/2006	94,000	29/9/2007 – 29/9/2016	62,500	–	–	–	–	19.732	62,500	–

Notes

- The exercise price of the share options is determined upon the offer of grant of the options and should not be less than the greatest of (a) the average closing price per share of the Company for the five business days immediately preceding the date of offer of such options; (b) the closing price per share of the Company on the date of offer of such options, which must be a business day; and (c) the nominal value per share of the Company immediately before 3 March 2014.
- The proportion of underlying shares in respect of which the above share options will vest is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2014	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK\$)	Options outstanding as at 30 June 2014	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Jay Herbert Walder	30/3/2012	391,500	23/3/2013 – 23/3/2019	391,500	–	130,500	–	–	27.48	391,500	–
	6/5/2013	497,000	26/4/2014 – 26/4/2020	497,000	–	166,000	–	–	31.40	497,000	–
Lincoln Leong Kwok-kuen	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–
	30/3/2012	201,000	23/3/2013 – 23/3/2019	201,000	–	67,000	–	–	27.48	201,000	–
	6/5/2013	256,000	26/4/2014 – 26/4/2020	256,000	–	85,500	–	–	31.40	256,000	–
Morris Cheung Siu-wa	11/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	21/7/2010	35,000	28/6/2011 – 28/6/2017	35,000	–	–	–	–	27.73	35,000	–
	20/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	–	28.84	65,000	–
	30/3/2012	122,000	23/3/2013 – 23/3/2019	122,000	–	41,000	–	–	27.48	122,000	–
	6/5/2013	180,500	26/4/2014 – 26/4/2020	180,500	–	60,500	–	–	31.40	180,500	–
Chew Tai Chong	18/6/2009	85,000	12/6/2010 – 12/6/2016	85,000	–	–	–	–	24.50	85,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–
	30/3/2012	184,500	23/3/2013 – 23/3/2019	184,500	–	61,500	–	–	27.48	184,500	–
	6/5/2013	225,500	26/4/2014 – 26/4/2020	225,500	–	75,500	–	–	31.40	225,500	–
Jacob Kam Chak-pui	13/12/2007	75,000	10/12/2008 – 10/12/2014	75,000	–	–	–	–	27.60	75,000	–
	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	21/7/2010	50,000	28/6/2011 – 28/6/2017	50,000	–	–	–	–	27.73	50,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–
	30/3/2012	172,000	23/3/2013 – 23/3/2019	172,000	–	57,500	–	–	27.48	172,000	–
6/5/2013	202,500	26/4/2014 – 26/4/2020	202,500	–	67,500	–	–	31.40	202,500	–	
Stephen Law Cheuk-kin	1/11/2013	196,000	25/10/2014 – 25/10/2020	196,000	–	–	–	–	29.87	196,000	–
Gillian Elizabeth Meller	12/12/2007	55,000	10/12/2008 – 10/12/2014	18,000	–	–	–	–	27.60	18,000	–
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	17/12/2010	90,000	16/12/2011 – 16/12/2017	90,000	–	–	–	–	28.84	90,000	–
	30/3/2012	158,500	23/3/2013 – 23/3/2019	158,500	–	53,000	–	–	27.48	158,500	–
	6/5/2013	184,000	26/4/2014 – 26/4/2020	184,000	–	61,500	–	–	31.40	184,000	–
David Tang Chi-fai	13/12/2007	65,000	10/12/2008 – 10/12/2014	65,000	–	–	–	–	27.60	65,000	–
	12/12/2008	65,000	8/12/2009 – 8/12/2015	43,000	–	–	–	–	18.30	43,000	–
	15/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	–	28.84	65,000	–
	30/3/2012	163,500	23/3/2013 – 23/3/2019	163,500	–	54,500	–	–	27.48	163,500	–
6/5/2013	182,500	26/4/2014 – 26/4/2020	182,500	–	61,000	–	–	31.40	182,500	–	

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme (continued)

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2014	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK\$)	Options outstanding as at 30 June 2014	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Jeny Yeung Mei-chun	12/12/2007	75,000	10/12/2008 – 10/12/2014	75,000	–	–	–	–	27.60	75,000	–
	10/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	–	–	–	18.30	65,000	–
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	–	28.84	65,000	–
	30/3/2012	161,000	23/3/2013 – 23/3/2019	161,000	–	54,000	–	–	27.48	161,000	–
	6/5/2013	187,000	26/4/2014 – 26/4/2020	187,000	–	62,500	–	–	31.40	187,000	–
Other eligible employees	12/12/2007	2,365,000	10/12/2008 – 10/12/2014	650,000	–	–	–	135,000	27.60	515,000	29.47
	13/12/2007	1,665,000	10/12/2008 – 10/12/2014	1,176,000	–	–	–	120,000	27.60	1,056,000	29.37
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	550,000	–	–	–	135,000	27.60	415,000	29.40
	15/12/2007	435,000	10/12/2008 – 10/12/2014	88,000	–	–	–	–	27.60	88,000	–
	17/12/2007	835,000	10/12/2008 – 10/12/2014	623,000	–	–	–	35,000	27.60	588,000	29.25
	18/12/2007	445,000	10/12/2008 – 10/12/2014	190,000	–	–	–	–	27.60	190,000	–
	19/12/2007	115,000	10/12/2008 – 10/12/2014	80,000	–	–	–	40,000	27.60	40,000	29.10
	20/12/2007	190,000	10/12/2008 – 10/12/2014	190,000	–	–	–	–	27.60	190,000	–
	24/12/2007	118,000	10/12/2008 – 10/12/2014	118,000	–	–	–	25,000	27.60	93,000	29.35
	28/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	31/12/2007	130,000	10/12/2008 – 10/12/2014	130,000	–	–	–	–	27.60	130,000	–
	2/1/2008	75,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	3/1/2008	40,000	10/12/2008 – 10/12/2014	40,000	–	–	–	–	27.60	40,000	–
	28/3/2008	255,000	26/3/2009 – 26/3/2015	139,000	–	–	–	–	26.52	139,000	–
	31/3/2008	379,000	26/3/2009 – 26/3/2015	192,000	–	–	–	–	26.52	192,000	–
	1/4/2008	261,000	26/3/2009 – 26/3/2015	164,000	–	–	–	20,000	26.52	144,000	29.40
	2/4/2008	296,000	26/3/2009 – 26/3/2015	219,000	–	–	–	23,000	26.52	196,000	27.75
	3/4/2008	171,000	26/3/2009 – 26/3/2015	75,000	–	–	–	–	26.52	75,000	–
	4/4/2008	23,000	26/3/2009 – 26/3/2015	23,000	–	–	–	–	26.52	23,000	–
	5/4/2008	17,000	26/3/2009 – 26/3/2015	17,000	–	–	–	–	26.52	17,000	–
	7/4/2008	390,000	26/3/2009 – 26/3/2015	236,000	–	–	–	–	26.52	236,000	–
	8/4/2008	174,000	26/3/2009 – 26/3/2015	69,000	–	–	–	23,000	26.52	46,000	29.50
	9/4/2008	85,000	26/3/2009 – 26/3/2015	43,000	–	–	–	–	26.52	43,000	–
	10/4/2008	58,000	26/3/2009 – 26/3/2015	58,000	–	–	–	–	26.52	58,000	–
	11/4/2008	134,000	26/3/2009 – 26/3/2015	89,000	–	–	–	–	26.52	89,000	–
	12/4/2008	48,000	26/3/2009 – 26/3/2015	31,000	–	–	–	–	26.52	31,000	–
	14/4/2008	40,000	26/3/2009 – 26/3/2015	40,000	–	–	–	–	26.52	40,000	–
	15/4/2008	34,000	26/3/2009 – 26/3/2015	34,000	–	–	–	–	26.52	34,000	–
	16/4/2008	57,000	26/3/2009 – 26/3/2015	40,000	–	–	–	–	26.52	40,000	–
	17/4/2008	147,000	26/3/2009 – 26/3/2015	107,000	–	–	–	–	26.52	107,000	–
	18/4/2008	32,000	26/3/2009 – 26/3/2015	15,000	–	–	–	–	26.52	15,000	–
	19/4/2008	25,000	26/3/2009 – 26/3/2015	25,000	–	–	–	–	26.52	25,000	–
	21/4/2008	66,000	26/3/2009 – 26/3/2015	66,000	–	–	–	–	26.52	66,000	–
	23/4/2008	34,000	26/3/2009 – 26/3/2015	19,000	–	–	–	–	26.52	19,000	–
	8/12/2008	90,000	8/12/2009 – 8/12/2015	20,000	–	–	–	–	18.30	20,000	–
	9/12/2008	1,293,000	8/12/2009 – 8/12/2015	257,000	–	–	–	–	18.30	257,000	–
	10/12/2008	2,046,400	8/12/2009 – 8/12/2015	826,400	–	–	–	106,200	18.30	720,200	29.43
	11/12/2008	2,394,200	8/12/2009 – 8/12/2015	1,047,500	–	–	–	125,000	18.30	922,500	29.24
	12/12/2008	1,416,500	8/12/2009 – 8/12/2015	658,000	–	–	–	56,500	18.30	601,500	28.24
	13/12/2008	84,500	8/12/2009 – 8/12/2015	40,500	–	–	–	–	18.30	40,500	–
14/12/2008	88,200	8/12/2009 – 8/12/2015	45,000	–	–	–	–	18.30	45,000	–	
15/12/2008	1,084,700	8/12/2009 – 8/12/2015	468,200	–	–	–	115,000	18.30	353,200	29.02	
16/12/2008	581,500	8/12/2009 – 8/12/2015	289,000	–	–	–	45,000	18.30	244,000	28.64	
17/12/2008	513,500	8/12/2009 – 8/12/2015	260,500	–	–	–	45,000	18.30	215,500	29.25	
18/12/2008	611,500	8/12/2009 – 8/12/2015	126,500	–	–	–	25,000	18.30	101,500	27.90	
19/12/2008	198,000	8/12/2009 – 8/12/2015	63,000	–	–	–	–	18.30	63,000	–	
20/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	–	–	–	18.30	19,000	–	
22/12/2008	772,500	8/12/2009 – 8/12/2015	233,500	–	–	–	8,000	18.30	225,500	27.90	
23/12/2008	306,000	8/12/2009 – 8/12/2015	118,000	–	–	–	30,000	18.30	88,000	29.45	
24/12/2008	500,500	8/12/2009 – 8/12/2015	182,000	–	–	–	73,000	18.30	109,000	27.89	
25/12/2008	45,000	8/12/2009 – 8/12/2015	45,000	–	–	–	–	18.30	45,000	–	
29/12/2008	148,000	8/12/2009 – 8/12/2015	59,000	–	–	–	–	18.30	59,000	–	
18/6/2009	170,000	12/6/2010 – 12/6/2016	45,000	–	–	–	–	24.50	45,000	–	
6/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	–	–	–	24.50	45,000	–	
9/12/2009	670,000	8/12/2010 – 8/12/2016	520,000	–	–	–	–	26.85	520,000	–	
10/12/2009	2,381,000	8/12/2010 – 8/12/2016	1,369,000	–	–	–	90,000	26.85	1,279,000	28.41	
11/12/2009	2,297,000	8/12/2010 – 8/12/2016	1,718,000	–	–	–	90,000	26.85	1,628,000	29.18	
12/12/2009	610,000	8/12/2010 – 8/12/2016	385,000	–	–	–	–	26.85	385,000	–	
13/12/2009	19,000	8/12/2010 – 8/12/2016	12,500	–	–	–	12,500	26.85	–	29.55	

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme (continued)

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2014	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK\$)	Options outstanding as at 30 June 2014	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Other eligible employees	14/12/2009	2,443,000	8/12/2010 – 8/12/2016	1,826,500	–	–	–	90,000	26.85	1,736,500	29.04
	15/12/2009	2,773,000	8/12/2010 – 8/12/2016	1,892,500	–	–	–	134,000	26.85	1,758,500	29.43
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	941,500	–	–	–	91,000	26.85	850,500	28.79
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	615,000	–	–	–	25,000	26.85	590,000	27.75
	18/12/2009	389,000	8/12/2010 – 8/12/2016	280,000	–	–	–	45,000	26.85	235,000	29.45
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	–	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	329,000	–	–	–	25,000	26.85	304,000	29.55
	22/12/2009	256,000	8/12/2010 – 8/12/2016	172,000	–	–	–	–	26.85	172,000	–
	21/7/2010	270,000	28/6/2011 – 28/6/2017	90,000	–	–	–	45,000	27.73	45,000	29.28
	16/12/2010	194,000	16/12/2011 – 16/12/2017	194,000	–	–	–	–	28.84	194,000	–
	17/12/2010	4,737,000	16/12/2011 – 16/12/2017	4,068,000	–	–	–	116,000	28.84	3,952,000	29.19
	18/12/2010	673,000	16/12/2011 – 16/12/2017	673,000	–	–	–	–	28.84	673,000	–
	19/12/2010	174,000	16/12/2011 – 16/12/2017	98,000	–	–	–	–	28.84	98,000	–
	20/12/2010	4,789,500	16/12/2011 – 16/12/2017	3,798,000	–	–	65,000	82,000	28.84	3,651,000	29.30
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	2,477,000	–	–	25,000	81,000	28.84	2,371,000	29.41
	22/12/2010	975,000	16/12/2011 – 16/12/2017	913,000	–	–	17,000	77,000	28.84	819,000	29.37
	23/12/2010	189,000	16/12/2011 – 16/12/2017	119,000	–	–	–	–	28.84	119,000	–
	7/7/2011	215,000	27/6/2012 – 27/6/2018	163,000	–	70,000	–	–	26.96	163,000	–
	30/3/2012	15,363,000	23/3/2013 – 23/3/2019	14,396,500	–	4,938,000	163,000	467,000	27.48	13,766,500	28.80
	6/5/2013	19,690,000	26/4/2014 – 26/4/2020	19,357,000	–	6,464,000	384,500	–	31.40	18,972,500	–
	1/11/2013	188,500	25/10/2014 – 25/10/2020	188,500	–	–	–	–	29.87	188,500	–
	30/5/2014	19,895,500	23/5/2015 – 23/5/2021	–	19,895,500	–	–	–	28.65	19,895,500	–

Notes

- The exercise price of the share options is determined upon the offer of grant of the options and should not be less than the greatest of (a) the average closing price per share of the Company for the five business days immediately preceding the date of offer of such options; (b) the closing price per share of the Company on the date of offer of such options, which must be a business day; and (c) the nominal value per share of the Company immediately before 3 March 2014.
- The proportion of underlying shares in respect of which the above share options will vest is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all

During the six months' period ended 30 June 2014, 19,895,500 options to subscribe for shares of the Company were granted to 536 employees under the 2007 Share Option Scheme. Details of the grant are set out in the tables above. The closing price per share immediately before the date of grant of the options is set out below. Pursuant to the terms of the 2007 Share Option

Scheme, each grantee undertakes to pay HK\$1.00, on demand, to the Company, in consideration for the grant of the options. The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average fair value per option granted, estimated at the date of grant using the Black-Scholes option pricing model is as follows:

Date granted	Closing price per share immediately before the date of grant (HK\$)	Exercise price (HK\$)	Estimated risk-free interest rate (%)	Expected life (Years)	Estimated Volatility	Expected dividend per share (HK\$)	Weighted average fair value per option granted (HK\$)
30/5/2014	29.40	28.65	0.76	3.5	0.14	0.92	2.11

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and requires input of highly subjective assumptions, including the expected life and stock price volatility. Since the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Save as disclosed above:

A none of the Members of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the six months' period ended 30 June 2014, no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code.

Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5% or more of all the voting shares of the Company and the number of shares in which it was interested as at 30 June 2014 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to all the voting shares
The Financial Secretary Incorporated ("FSI") (in trust on behalf of the Government)	4,434,552,207	76.44

The Company has been informed by the Government that, as at 30 June 2014, approximately 0.40% of the shares of the Company (not included in the FSI shareholding set out in the above table) were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

Other Persons' Interests

Save as disclosed in the sections headed "Board Members' and Executive Directorate's Interests in Shares" and "Substantial Shareholders' Interests", as at 30 June 2014, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO or otherwise notified to the Company and the HKSE.

Loan Agreements with Covenant Relating to Specific Performance of the Controlling Shareholder

As at 30 June 2014, the Group had borrowings of HK\$15,026 million with maturities ranging from 2014 to 2043 and undrawn committed banking facilities of HK\$7,946 million, which were subject to the condition that the Government, being the Company's controlling shareholder, owns more than half of all the voting shares of the Company. Failure to satisfy such condition may result in immediate repayment of the borrowings being demanded and cancellation of the undrawn committed banking facilities.

Purchase, Sale or Redemption of Listed Securities

The Group redeemed its US\$600 million bonds on 21 January 2014. The bonds were listed on the London Stock Exchange prior to the redemption.

Saved as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Group's listed securities during the six months ended 30 June 2014.

Closure of Register of Members

The Register of Members of the Company was closed from 10 September 2014 to 15 September 2014 (both dates inclusive), during which no transfer of shares could be registered. To qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must have been lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 8 September 2014. The 2014 interim dividend, with a scrip dividend option, is expected to be distributed on or about 30 October 2014 to shareholders whose names appeared on the Register of Members of the Company as at the close of business on 15 September 2014.

Consolidated Profit and Loss Account

in HK\$ million	Note	Half year ended 30 June 2014 (Unaudited)	Half year ended 30 June 2013 (Unaudited)
Revenue from Hong Kong transport operations		7,729	7,258
Revenue from Hong Kong station commercial businesses		2,377	2,194
Revenue from Hong Kong property rental and management businesses		2,026	1,842
Revenue from Mainland of China and international subsidiaries	2	6,350	7,025
Revenue from other businesses		989	895
		19,471	19,214
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses		(1,988)	(1,916)
– Energy and utilities		(648)	(604)
– Operational rent and rates		(134)	(127)
– Stores and spares consumed		(247)	(232)
– Maintenance and related works		(555)	(518)
– Railway support services		(123)	(119)
– General and administration expenses		(196)	(187)
– Other expenses		(111)	(119)
		(4,002)	(3,822)
Expenses relating to Hong Kong station commercial businesses		(226)	(206)
Expenses relating to Hong Kong property rental and management businesses		(331)	(304)
Expenses relating to Mainland of China and international subsidiaries	2	(5,922)	(6,565)
Expenses relating to other businesses		(896)	(830)
Project study and business development expenses		(263)	(155)
Operating expenses before depreciation, amortisation and variable annual payment		(11,640)	(11,882)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment		7,831	7,332
Profit on Hong Kong property development	3	245	531
Operating profit before depreciation, amortisation and variable annual payment		8,076	7,863
Depreciation and amortisation		(1,688)	(1,641)
Variable annual payment		(701)	(589)
Operating profit before interest and finance charges		5,687	5,633
Interest and finance charges	4	(274)	(435)
Investment property revaluation		3,523	1,907
Share of profit or loss of associates	5	129	51
Profit before taxation		9,065	7,156
Income tax	6	(1,063)	(900)
Profit for the period		8,002	6,256
Attributable to:			
– Equity shareholders of the Company		7,912	6,158
– Non-controlling interests		90	98
Profit for the period		8,002	6,256
Profit for the period attributable to equity shareholders of the Company:			
– Arising from underlying businesses before property development		4,186	3,804
– Arising from property development		203	447
– Arising from underlying businesses		4,389	4,251
– Arising from investment property revaluation		3,523	1,907
		7,912	6,158
Earnings per share:	8		
– Basic		HK\$1.36	HK\$1.06
– Diluted		HK\$1.36	HK\$1.06

The notes on pages 39 to 56 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 7.

Consolidated Statement of Comprehensive Income

in HK\$ million	Note	Half year ended 30 June 2014 (Unaudited)	Half year ended 30 June 2013 (Unaudited)
Profit for the period		8,002	6,256
Other comprehensive income for the period (after taxation and reclassification adjustments):			
Item that will not be reclassified to profit or loss:			
– Surplus on revaluation of self-occupied land and buildings		43	255
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of overseas subsidiaries and associates		(138)	29
– non-controlling interests		11	(26)
– Cash flow hedges: net movement in hedging reserve		34	38
		(93)	41
	10	(50)	296
Total comprehensive income for the period		7,952	6,552
Attributable to:			
– Equity shareholders of the Company		7,851	6,480
– Non-controlling interests		101	72
Total comprehensive income for the period		7,952	6,552

The notes on pages 39 to 56 form part of this interim financial report.

Consolidated Balance Sheet

in HK\$ million	Note	At 30 June 2014 (Unaudited)	At 31 December 2013 (Audited)
Assets			
Fixed assets			
– Investment properties	11	64,982	61,285
– Other property, plant and equipment	12	75,528	76,277
– Service concession assets	13	25,842	25,594
		166,352	163,156
Property management rights		31	31
Railway construction in progress	14	14,888	11,548
Property development in progress	15	9,217	11,233
Deferred expenditure		15	4
Interests in associates		5,673	5,277
Deferred tax assets	22	31	29
Investments in securities		515	472
Properties held for sale	16	1,100	1,105
Derivative financial assets	17	198	115
Stores and spares		1,346	1,281
Debtors, deposits and payments in advance	18	2,656	3,621
Amounts due from related parties	19	1,236	654
Cash, bank balances and deposits		18,328	17,297
		221,586	215,823
Liabilities			
Bank overdrafts		16	47
Short-term loans		375	–
Creditors and accrued charges	20	14,956	13,793
Current taxation		905	349
Contract retentions		1,039	986
Amounts due to related parties	19	4,346	1,388
Loans and other obligations	21	20,689	24,464
Obligations under service concession		10,631	10,658
Derivative financial liabilities	17	270	389
Loan from holders of non-controlling interests		142	135
Deferred income		991	623
Deferred tax liabilities	22	10,397	10,289
		64,757	63,121
Net assets			
		156,829	152,702
Capital and reserves			
Share capital and other statutory capital reserves	23	44,521	44,442
Other reserves		112,088	108,115
Total equity attributable to equity shareholders of the Company		156,609	152,557
Non-controlling interests		220	145
Total equity		156,829	152,702

The notes on pages 39 to 56 form part of this interim financial report.

Consolidated Statement of Changes in Equity

in HK\$ million	Note	Other statutory capital reserves (note 23B)			Other reserves					Total equity attributable to equity shareholders of the Company	Non-controlling interests	Total equity
		Share capital	Share premium	Capital reserve	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits			
30 June 2014 (Unaudited)												
Balance as at 1 January 2014		5,798	11,456	27,188	2,525	(128)	240	513	104,965	152,557	145	152,702
Changes in equity for the half year ended 30 June 2014:												
– Profit for the period		–	–	–	–	–	–	–	7,912	7,912	90	8,002
– Other comprehensive income for the period		–	–	–	43	34	–	(138)	–	(61)	11	(50)
– Total comprehensive income for the period		–	–	–	43	34	–	(138)	7,912	7,851	101	7,952
– Employee share options exercised before 3 March 2014	23	1	3	–	–	–	–	–	–	4	–	4
– Transition to no-par value regime on 3 March 2014	23	38,647	(11,459)	(27,188)	–	–	–	–	–	–	–	–
– 2013 final dividend	7	–	–	–	–	–	–	–	(3,886)	(3,886)	–	(3,886)
– Dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	–	(26)	(26)
– Employee share-based payments		–	–	–	–	–	19	–	–	19	–	19
– Employee share options exercised on or after 3 March 2014	23	75	–	–	–	–	(11)	–	–	64	–	64
– Employee share options forfeited		–	–	–	–	–	(1)	–	1	–	–	–
Balance as at 30 June 2014		44,521	–	–	2,568	(94)	247	375	108,992	156,609	220	156,829
31 December 2013 (Audited)												
Balance as at 1 January 2013		5,793	11,300	27,188	2,227	(67)	219	412	95,832	142,904	207	143,111
Changes in equity for the half year ended 30 June 2013:												
– Profit for the period		–	–	–	–	–	–	–	6,158	6,158	98	6,256
– Other comprehensive income for the period		–	–	–	255	38	–	29	–	322	(26)	296
– Total comprehensive income for the period		–	–	–	255	38	–	29	6,158	6,480	72	6,552
– 2012 final dividend	7	–	–	–	–	–	–	–	(3,130)	(3,130)	–	(3,130)
– Dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	–	(79)	(79)
– Employee share-based payments		–	–	–	–	–	21	–	–	21	–	21
– Employee share options exercised	23	4	124	–	–	–	(20)	–	–	108	–	108
– Employee share options forfeited		–	–	–	–	–	(1)	–	1	–	–	–
Balance as at 30 June 2013		5,797	11,424	27,188	2,482	(29)	219	441	98,861	146,383	200	146,583
Changes in equity for the half year ended 31 December 2013:												
– Profit for the period		–	–	–	–	–	–	–	6,867	6,867	85	6,952
– Other comprehensive income for the period		–	–	–	43	(99)	–	80	686	710	(9)	701
– Total comprehensive income for the period		–	–	–	43	(99)	–	80	7,553	7,577	76	7,653
– 2013 interim dividend	7	–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
– Dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	–	(113)	(113)
– Disposal of a subsidiary		–	–	–	–	–	–	(8)	–	(8)	(18)	(26)
– Employee share-based payments		–	–	–	–	–	27	–	–	27	–	27
– Employee share options exercised		1	32	–	–	–	(5)	–	–	28	–	28
– Employee share options forfeited		–	–	–	–	–	(1)	–	1	–	–	–
Balance as at 31 December 2013		5,798	11,456	27,188	2,525	(128)	240	513	104,965	152,557	145	152,702

The notes on pages 39 to 56 form part of this interim financial report.

Consolidated Cash Flow Statement

in HK\$ million	Note	Half year ended 30 June 2014 (Unaudited)	Half year ended 30 June 2013 (Unaudited)
Cash flows from operating activities			
Cash generated from operations	25	8,852	7,855
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		652	661
Current tax paid			
– Hong Kong Profits Tax paid		(347)	(405)
– Mainland of China and overseas tax paid		(73)	(55)
Net cash generated from operating activities		9,084	8,056
Cash flows from investing activities			
Capital expenditure			
– Purchase of assets for Hong Kong transport and related operations		(1,329)	(1,387)
– Shenzhen Metro Longhua Line Project and related operations		(192)	(254)
– West Island Line Project		(1,197)	(1,387)
– South Island Line (East) Project		(1,322)	(1,641)
– Kwun Tong Line Extension Project		(448)	(575)
– Property development projects		(475)	(2,320)
– Investment property projects and fitting out work		(1,228)	(75)
– Other capital projects		(38)	(13)
Net cash (payment)/receipt in respect of entrustment works of Shatin to Central Link		(51)	36
Variable annual payment		(1,247)	(883)
Receipts in respect of property development		3,643	2,422
Increase in bank deposits with more than three months to maturity when placed or pledged		(1,868)	(257)
Purchase of investments in securities		(114)	(131)
Proceeds from sale or redemption of investments in securities		73	48
Proceeds from disposal of fixed assets		6	3
Investment in an associate		(294)	–
Receipt of loan repayment from an associate		–	12
Dividends received from associates		24	34
Net cash used in investing activities		(6,057)	(6,368)
Cash flows from financing activities			
Proceeds from shares issued under share option schemes		68	108
Drawdown of loans		3,347	1,700
Proceeds from issuance of capital market instruments		544	1,361
Repayment of loans		(2,171)	(861)
Repayment of capital market instruments		(5,158)	(2,306)
Interest paid		(504)	(423)
Interest received		84	157
Finance charges paid		(17)	(22)
Dividends paid to equity shareholders of the Company		–	(3,130)
Dividends paid to holders of non-controlling interests		(26)	(79)
Net cash used in financing activities		(3,833)	(3,495)
Net decrease in cash and cash equivalents		(806)	(1,807)
Cash and cash equivalents at 1 January		7,209	5,105
Cash and cash equivalents at 30 June		6,403	3,298
Analysis of the balances of cash and cash equivalents			
Cash, bank balances and deposits on the consolidated balance sheet		18,328	17,060
Bank deposits with more than three months to maturity when placed or pledged		(11,909)	(13,761)
Bank overdrafts		(16)	(1)
Cash and cash equivalents in the consolidated cash flow statement		6,403	3,298

The notes on pages 39 to 56 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

1 Basis of Preparation

This interim financial report is unaudited but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is set out on page 57. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim Financial Reporting*, issued by the HKICPA.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains the condensed consolidated accounts and selected explanatory notes, which include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates since the issuance of the 2013 annual accounts. The condensed consolidated interim accounts and notes thereon do not include all of the information required for a complete set of accounts prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2013 included in this interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2013, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 11 March 2014, are available from the Company's registered office.

The accounting policies adopted for the preparation of this interim financial report are the same as those adopted in the preparation of the 2013 annual accounts except for the changes required for the first time adoption of revised HKFRSs as set out in the subsequent paragraphs.

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's accounts:

- Amendments to HKAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to HKAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*
- Amendments to HKAS 39, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. These amendments do not have an impact on the Group's interim financial report.

The amendments to HKAS 36 modify the disclosures requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for impaired assets or cash-generating units whose recoverable amount is based on fair value less costs of disposal. The adoption of these amendments does not have an impact on the Group's interim financial report.

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments do not have an impact on the Group's interim financial report as the Group has not novated any of its derivatives.

Notes to the Unaudited Interim Financial Report

2 Revenue and Expenses relating to Mainland of China and International Subsidiaries

Revenue and expenses relating to Mainland of China and international subsidiaries comprise:

in HK\$ million	Railway subsidiaries outside of Hong Kong				Property activities in Mainland of China	Total Mainland of China and international subsidiaries
	Stockholm Metro	Melbourne Train	Shenzhen Metro Longhua Line	Total		
Half year ended 30 June 2014						
Revenue	1,700	4,293	282	6,275	75	6,350
Expenses	1,648	4,009	197	5,854	68	5,922
Half year ended 30 June 2013						
Revenue	1,666	5,060	228	6,954	71	7,025
Expenses	1,591	4,738	177	6,506	59	6,565

3 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK\$ million	Half year ended 30 June 2014	Half year ended 30 June 2013
Share of surplus from property development	60	490
Income from receipt of properties for investment purpose	–	44
Agency fee and other income from West Rail property development	196	5
Other overhead costs net of miscellaneous income	(11)	(8)
	245	531

4 Interest and Finance Charges

Interest and finance charges comprise:

in HK\$ million	Half year ended 30 June 2014	Half year ended 30 June 2013
Interest expenses	714	733
Finance charges	20	19
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(136)	(125)
Exchange loss	109	5
Derivative financial instruments:		
– Fair value hedges	(18)	1
– Cash flow hedges:		
– transferred from hedging reserve to offset interest expenses	14	31
– transferred from hedging reserve to offset exchange loss	(110)	–
– Ineffective portion	(1)	–
Interest expenses capitalised	(221)	(127)
	371	537
Interest income	(97)	(110)
Interest income capitalised	–	8
	(97)	(102)
	274	435

5 Share of Profit or Loss of Associates

Share of profit or loss of associates comprises:

in HK\$ million	Half year ended 30 June 2014	Half year ended 30 June 2013
Share of profit or loss before taxation	162	85
Share of income tax expense	(33)	(34)
	129	51

6 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK\$ million	Half year ended 30 June 2014	Half year ended 30 June 2013
Current tax		
– Provision for Hong Kong Profits Tax at 16.5% (2013: 16.5%) for the period	876	696
– Mainland of China and overseas tax for the period	100	105
	976	801
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	–	7
– depreciation allowances in excess of related depreciation	112	89
– provision and others	(25)	3
	87	99
	1,063	900

The provision for Hong Kong Profits Tax for the half year ended 30 June 2014 is calculated at 16.5% (2013: 16.5%) on the estimated assessable profits for the period after deducting accumulated tax losses brought forward, if any. Current taxes for the Mainland of China and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2013: 16.5%) while those arising in the Mainland of China and overseas are calculated at the appropriate current rates of taxation ruling in the relevant countries.

7 Dividends

Dividends paid and proposed to equity shareholders of the Company comprise:

in HK\$ million	Half year ended 30 June 2014	Half year ended 30 June 2013
Dividends payable attributable to the period		
– Interim dividend declared after the balance sheet date of HK\$0.25 (2013: HK\$0.25) per share	1,450	1,450
Dividends payable/paid attributable to the previous year		
– Final dividend of HK\$0.67 (2012: HK\$0.54) per share approved and payable/paid during the period	3,886	3,130

The Company has recognised 2013 final dividend payable of HK\$2,971 million to the Financial Secretary Incorporated (the "FSI") of the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") and HK\$915 million to other equity shareholders in the amounts due to related parties (note 19) and creditors and accrued charges (note 20) respectively in the consolidated balance sheet as at 30 June 2014.

Notes to the Unaudited Interim Financial Report

8 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders for the half year ended 30 June 2014 of HK\$7,912 million (2013: HK\$6,158 million) and the weighted average number of ordinary shares in issue during the period of 5,799,238,536 (2013: 5,795,654,610), calculated as follows:

	Half year ended 30 June 2014	Half year ended 30 June 2013
Issued ordinary shares at 1 January	5,798,541,650	5,793,196,650
Effect of share options exercised	696,886	2,457,960
Weighted average number of ordinary shares at 30 June	5,799,238,536	5,795,654,610

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders for the half year ended 30 June 2014 of HK\$7,912 million (2013: HK\$6,158 million) and the weighted average number of ordinary shares in issue during the period of 5,802,332,891 (2013: 5,802,552,504) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

	Half year ended 30 June 2014	Half year ended 30 June 2013
Weighted average number of ordinary shares at 30 June	5,799,238,536	5,795,654,610
Effect of dilutive potential shares under the Company's share option schemes	3,094,355	6,897,894
Weighted average number of ordinary shares (diluted) at 30 June	5,802,332,891	5,802,552,504

C Both basic and diluted earnings per share would have been HK\$0.76 (2013: HK\$0.73) if the calculation is based on profit attributable to equity shareholders arising from underlying businesses of HK\$4,389 million (2013: HK\$4,251 million).

9 Segmental Information

The Group manages its businesses by the various business executive committees. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following six reportable segments:

- (i) Hong Kong transport operations: The provision of passenger operation and related services on the urban mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with the border of Mainland of China at Lo Wu and Lok Ma Chau, light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of China.
- (ii) Hong Kong station commercial businesses: Commercial activities including the letting of advertising, retail and car parking space at railway stations, the provision of telecommunication and bandwidth services in railway premises and other commercial activities within the Hong Kong transport operations network.
- (iii) Hong Kong property rental and management businesses: The letting of retail, office and car parking space and the provision of estate management services in Hong Kong.
- (iv) Hong Kong property development: Property development activities at locations near the railway systems in Hong Kong.
- (v) Mainland of China and international affiliates: The operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail spaces, provision of estate management services and development of properties in the Mainland of China.
- (vi) Other businesses: Businesses not directly relating to transport operations or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business and the provision of project management services to the HKSAR Government.

9 Segmental Information (continued)

The results of the reportable segments and reconciliation to the corresponding consolidated totals in the accounts are shown below:

in HK\$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates	Other businesses	Un-allocated amount	Total
Half year ended 30 June 2014								
Revenue	7,729	2,377	2,026	-	6,350	989	-	19,471
Operating expenses	(4,002)	(226)	(331)	-	(5,922)	(896)	-	(11,377)
Project study and business development expenses	-	-	-	-	-	-	(263)	(263)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	3,727	2,151	1,695	-	428	93	(263)	7,831
Profit on Hong Kong property development	-	-	-	245	-	-	-	245
Operating profit before depreciation, amortisation and variable annual payment	3,727	2,151	1,695	245	428	93	(263)	8,076
Depreciation and amortisation	(1,547)	(67)	(5)	-	(38)	(31)	-	(1,688)
Variable annual payment	(511)	(188)	(2)	-	-	-	-	(701)
Operating profit before interest and finance charges	1,669	1,896	1,688	245	390	62	(263)	5,687
Interest and finance charges	-	-	-	-	15	-	(289)	(274)
Investment property revaluation	-	-	3,523	-	-	-	-	3,523
Share of profit or loss of associates	-	-	-	-	25	104	-	129
Income tax	-	-	-	(42)	(91)	-	(930)	(1,063)
Profit for the half year ended 30 June 2014	1,669	1,896	5,211	203	339	166	(1,482)	8,002
Half year ended 30 June 2013								
Revenue	7,258	2,194	1,842	-	7,025	895	-	19,214
Operating expenses	(3,822)	(206)	(304)	-	(6,565)	(830)	-	(11,727)
Project study and business development expenses	-	-	-	-	-	-	(155)	(155)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	3,436	1,988	1,538	-	460	65	(155)	7,332
Profit on Hong Kong property development	-	-	-	531	-	-	-	531
Operating profit before depreciation, amortisation and variable annual payment	3,436	1,988	1,538	531	460	65	(155)	7,863
Depreciation and amortisation	(1,495)	(66)	(4)	-	(45)	(31)	-	(1,641)
Variable annual payment	(433)	(155)	(1)	-	-	-	-	(589)
Operating profit before interest and finance charges	1,508	1,767	1,533	531	415	34	(155)	5,633
Interest and finance charges	-	-	-	-	6	-	(441)	(435)
Investment property revaluation	-	-	1,907	-	-	-	-	1,907
Share of profit or loss of associates	-	-	-	-	(51)	102	-	51
Income tax	-	-	-	(84)	(107)	-	(709)	(900)
Profit for the half year ended 30 June 2013	1,508	1,767	3,440	447	263	136	(1,305)	6,256

Notes to the Unaudited Interim Financial Report

9 Segmental Information *(continued)*

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or goods were delivered.

in HK\$ million	Half year ended 30 June 2014	Half year ended 30 June 2013
Hong Kong (place of domicile)	13,088	12,170
Australia	4,293	5,060
Mainland of China	364	302
Sweden	1,700	1,666
Other countries	26	16
	6,383	7,044
	19,471	19,214

10 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below:

in HK\$ million	Half year ended 30 June 2014			Half year ended 30 June 2013		
	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax expense	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries and associates	(138)	–	(138)	29	–	29
– Non-controlling interests	11	–	11	(26)	–	(26)
	(127)	–	(127)	3	–	3
Surplus on revaluation of self-occupied land and buildings	52	(9)	43	305	(50)	255
Cash flow hedges: net movement in hedging reserve (note 10B)	41	(7)	34	45	(7)	38
Other comprehensive income	(34)	(16)	(50)	353	(57)	296

B The components of other comprehensive income of the Group relating to cash flow hedges are as follows:

in HK\$ million	Half year ended 30 June 2014	Half year ended 30 June 2013
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	138	14
Amounts transferred to initial carrying amount of hedged items	1	(1)
Amounts transferred to profit or loss:		
– Interest and finance charges	(96)	31
– Other expenses	(2)	1
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the period	(23)	(2)
– Amounts transferred to profit or loss	16	(5)
	34	38

11 Investment Properties

All investment properties of the Group were revalued at 30 June 2014 and 2013 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuations are based on the income capitalisation approach. Under this approach, the market value is derived from the capitalisation of the rental revenue to be received under existing tenancies and the estimated full market rental value to be received upon expiry of the existing tenancies with reference to the market rental levels prevailing as at the date of valuation by an appropriate single market yield rate.

Based on the valuations performed by Jones Lang LaSalle Limited, the Group recognised the net increase in fair value of HK\$3,523 million (2013: HK\$1,907 million) under investment property revaluation in the consolidated profit and loss account. Investment properties are revalued semi-annually and future market condition changes may result in further gains or losses to be recognised through the profit and loss account in subsequent periods.

12 Other Property, Plant and Equipment

A Acquisitions and Disposals

During the half year ended 30 June 2014, the Group acquired or commissioned assets at a total cost of HK\$607 million (2013: HK\$621 million). Items of civil works and plant and equipment with a net book value of HK\$15 million (2013: HK\$28 million) were disposed during the same period, resulting in a net loss on disposal of HK\$9 million (2013: HK\$9 million).

B Valuation

All of the Group's self-occupied land and buildings are held in Hong Kong under medium-term leases and carried at fair value. All self-occupied land and buildings were revalued by using primarily the direct comparison approach assuming sale of properties in their existing state with vacant possession at the reporting date by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuation resulted in a revaluation surplus of HK\$52 million (2013: HK\$305 million), which, net of deferred tax provision of HK\$9 million (2013: HK\$50 million), has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve account (note 10A).

13 Service Concession Assets

During the half year ended 30 June 2014, the Group incurred HK\$774 million (2013: HK\$475 million) of expenditure for the replacement and upgrade of the rail and bus system leased from the Kowloon-Canton Railway Corporation ("KCRC") ("Additional Concession Property") under service concession arrangement in the Rail Merger and HK\$137 million (2013: HK\$232 million) of expenditure for asset additions in respect of Shenzhen Metro Longhua Line.

14 Railway Construction in Progress

A Railway Construction in Progress of the Company

Movements of railway construction in progress are as follows:

in HK\$ million	Balance at 1 January	Net expenditure	Utilisation of government grant (note 20)	Principal and interest repayable of government grant	Balance at 30 June/ 31 December
At 30 June 2014 (Unaudited)					
West Island Line Project	–	1,172	(20)	165	1,317
South Island Line (East) Project	8,821	1,456	–	–	10,277
Kwun Tong Line Extension Project	2,727	567	–	–	3,294
	11,548	3,195	(20)	165	14,888
At 31 December 2013 (Audited)					
West Island Line Project	–	1,441	(1,441)	–	–
South Island Line (East) Project	5,410	3,411	–	–	8,821
Kwun Tong Line Extension Project	2,048	679	–	–	2,727
	7,458	5,531	(1,441)	–	11,548

Notes to the Unaudited Interim Financial Report

14 Railway Construction in Progress *(continued)*

A Railway Construction in Progress of the Company *(continued)*

(i) West Island Line ("WIL") Project

The government grant provided by HKSAR Government to the Company for the WIL Project is subject to a repayment mechanism whereby, within 24 months of commercial operations commencing on the WIL, the Company has to pay to the HKSAR Government amounts to reflect the excess of the original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest). During the half year ended 30 June 2014, the Company has recognised an amount with a principal of HK\$140 million and interest of HK\$25 million to pay back the HKSAR Government under the repayment mechanism (2013: nil).

Subsequent to 30 June 2014, the Company completed the review on the latest project cost forecast of WIL and there will be an increase in its project cost estimate from the original estimate of HK\$17.4 billion (including capitalised interests expense estimate of HK\$0.2 billion) to the latest estimate of approximately HK\$18.4 billion (including capitalised interests income of HK\$0.1 billion). As at 30 June 2014, the Company has incurred net cumulative expenditure of HK\$1.3 billion (after offsetting the government grant of HK\$12.7 billion) and has authorised outstanding commitments on contracts of HK\$0.4 billion for this project.

(ii) South Island Line (East) ("SIL(E)") Project

Subsequent to 30 June 2014, the Company completed the review on the latest project cost forecast of SIL(E) and there will be an increase in project cost estimate from the original estimate of HK\$15.4 billion (including capitalised interests expense estimate of HK\$1.9 billion) to the latest estimate of approximately HK\$16.7 billion (including capitalised interests expense of HK\$1.5 billion). As at 30 June 2014, the Company has incurred net cumulative expenditure of HK\$10.3 billion and has authorised outstanding commitments on contracts of HK\$1.2 billion for this project.

(iii) Kwun Tong Line Extension ("KTE") Project

The project cost of KTE is estimated at HK\$6.2 billion (including estimated project cost before capitalised interest remained unchanged at HK\$5.9 billion and capitalised interests expense estimated at HK\$0.3 billion). As at 30 June 2014, the Company has incurred net cumulative expenditure of HK\$3.3 billion and has authorised outstanding commitments on contracts of HK\$0.8 billion for this project.

B Railway Construction in Progress under Entrustment by the HKSAR Government – Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project

On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the XRL (the "XRL Preliminary Entrustment Agreement"). Pursuant to the XRL Preliminary Entrustment Agreement, the HKSAR Government is obligated to pay the Company the Company's in-house design costs and certain on-costs, preliminary costs and staff costs.

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the XRL on the understanding that the Company would subsequently be invited to undertake the operation of the XRL under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the XRL (the "XRL Entrustment Agreement"). Pursuant to the XRL Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the XRL and the HKSAR Government, as owner of XRL, is responsible for bearing and financing the full amount of the total cost of such activities (the "Entrustment Cost") and for paying to the Company HK\$4,590 million in accordance with an agreed payment schedule (the "Project Management Fee"). As at 30 June 2014 and up to the date of this interim report, the Company has received payments from the HKSAR Government in accordance with the payment schedule.

Under the XRL Entrustment Agreement, in the event that a material modification to the programme for the execution of the entrustment activities is likely to result in a material increase or decrease in project management responsibilities or costs of the Company, the Company and the HKSAR Government are to negotiate in good faith to agree an increase or, as the case may be, decrease in the Project Management Fee. Further, under the XRL Entrustment Agreement, certain payments by the HKSAR Government (including the Project Management Fee) are subject to a maximum annual aggregate limit of HK\$2 billion and a total limit of HK\$10 billion.

The HKSAR Government has the right to claim against the Company if the Company breaches the XRL Entrustment Agreement and, under the XRL Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the XRL Entrustment Agreement or breach by the Company of the XRL Entrustment Agreement. Under the XRL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the XRL Preliminary Entrustment Agreement and the XRL Entrustment Agreement (other than for death or personal injury) is limited to the total aggregate value of certain specified amounts that have been and will be received by the Company from the HKSAR Government under the XRL Preliminary Entrustment Agreement and the fees that have been and will be received by the Company from the HKSAR Government under the XRL Entrustment Agreement.

14 Railway Construction in Progress *(continued)*

B Railway Construction in Progress under Entrustment by the HKSAR Government – Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“XRL”) Project *(continued)*

In April 2014, the Company announced that the construction period for the XRL project needed to be extended, with the opening of the line for passenger service now expected in 2017 (the “Revised Timeline”). In July 2014, the Company provided an update project cost estimate for the XRL project (of HK\$71.52 billion, inclusive of future insurance and project management costs) to the HKSAR Government. The HKSAR Government is reviewing the Revised Timeline and the updated project cost estimate and the Company is cooperating to provide additional information to assist the HKSAR Government in its review. Given (i) the XRL Entrustment Agreement provides that the HKSAR Government shall bear and finance the full amount of the Entrustment Cost; (ii) the negotiations, pursuant to the XRL Entrustment Agreement, to agree a variation in the Project Management Fee have not commenced (as of 30 June 2014 and up to the date of this interim report); and (iii) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company in relation to the setting of the Revised Timeline (as of 30 June 2014 and up to the date of this interim report), the Company is not able to estimate reliably the financial effect on the Company, if any, arising from the setting of the Revised Timeline. The Company will reassess its position from time to time.

15 Property Development in Progress

Movements of property development in progress during the half year ended 30 June 2014 and the year ended 31 December 2013 are as follows:

in HK\$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Exchange differences	Balance at 30 June/ 31 December
At 30 June 2014 (Unaudited)						
Airport Railway Property Projects	–	2	(2)	–	–	–
Tseung Kwan O Extension Property Projects	1,145	83	(8)	–	–	1,220
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	5,976	38	(2,379)	–	–	3,635
South Island Line (East) Property Project	939	51	–	–	–	990
Kwun Tong Line Extension Property Project	275	39	–	–	–	314
Shenzhen Property Project	2,898	229	–	–	(69)	3,058
	11,233	442	(2,389)	–	(69)	9,217
At 31 December 2013 (Audited)						
Airport Railway Property Projects	–	4	(4)	–	–	–
Tseung Kwan O Extension Property Projects	1,150	61	(6)	(60)	–	1,145
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	5,906	81	–	(11)	–	5,976
South Island Line (East) Property Project	692	247	–	–	–	939
Kwun Tong Line Extension Property Project	175	100	–	–	–	275
Shenzhen Property Project	2,507	320	–	–	71	2,898
	10,430	813	(10)	(71)	71	11,233

16 Properties Held for Sale

in HK\$ million	At 30 June 2014 (Unaudited)	At 31 December 2013 (Audited)
Properties held for sale		
– at cost	1,049	1,054
– at net realisable value	51	51
	1,100	1,105

Properties held for sale at net realisable value are stated net of provision of HK\$6 million (31 December 2013: HK\$6 million) made in order to state these properties at the lower of their cost and estimated net realisable value.

Notes to the Unaudited Interim Financial Report

17 Derivative Financial Assets and Liabilities

The notional amounts and fair values of derivative financial assets and liabilities are as follows:

in HK\$ million	At 30 June 2014 (Unaudited)		At 31 December 2013 (Audited)	
	Notional amount	Fair value	Notional amount	Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– fair value hedges	3,491	9	3,491	10
– cash flow hedges	87	3	102	3
– not qualified for hedge accounting	183	1	124	4
Cross currency swaps				
– fair value hedges	2,405	17	1,629	13
– cash flow hedges	1,249	92	–	–
Interest rate swaps				
– fair value hedges	900	76	2,563	85
	8,315	198	7,909	115
Derivative Financial Liabilities				
Foreign exchange forwards				
– cash flow hedges	124	2	47	3
– not qualified for hedge accounting	–	–	27	–
Cross currency swaps				
– fair value hedges	417	41	5,856	75
– cash flow hedges	1,187	164	1,887	227
Interest rate swaps				
– fair value hedges	1,150	45	1,150	65
– cash flow hedges	900	18	1,482	19
	3,778	270	10,449	389
Total	12,093		18,358	

18 Debtors, Deposits and Payments in Advance

The Group's credit policies in respect of receivables arising from its principal activities are as follows:

- (i) The majority of fare revenue from Hong Kong transport operations is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.
- (ii) Fare revenue from Shenzhen Metro Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types.
- (iii) Franchise revenue in Melbourne is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue in Stockholm is collected in the transaction month with the remainder being collected in the following month.
- (iv) Rentals, advertising and telecommunications service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.
- (v) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.
- (vi) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.
- (vii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.
- (viii) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

18 Debtors, Deposits and Payments in Advance *(continued)*

The ageing of debtors is analysed as follows:

in HK\$ million	At 30 June 2014 (Unaudited)	At 31 December 2013 (Audited)
Amounts not yet due	1,712	2,596
Overdue by 30 days	311	387
Overdue by 60 days	52	50
Overdue by 90 days	9	9
Overdue by more than 90 days	5	4
Total debtors	2,089	3,046
Deposits and payments in advance	567	575
	2,656	3,621

Included in the amounts not yet due as at 30 June 2014 was HK\$359 million (31 December 2013: HK\$1,389 million) in respect of property development.

19 Material Related Party Transactions

The FSI of the HKSAR Government, which holds approximately 76.4% of the Company's issued share capital on trust for the HKSAR Government, is the majority shareholder of the Company. Transactions between the Group and the HKSAR Government departments or agencies, or entities controlled by the HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised 2009), *Related Party Disclosures*, and are identified separately in this interim financial report.

As at 30 June 2014, amounts due from/to the HKSAR Government and other related parties in respect of material related party transactions with the Group are stated below:

in HK\$ million	At 30 June 2014 (Unaudited)	At 31 December 2013 (Audited)
Amounts due from:		
– HKSAR Government	1,160	600
– KCRC	6	9
– associates	70	45
	1,236	654
Amounts due to:		
– HKSAR Government	3,145	4
– KCRC	1,201	1,371
– an associate	–	13
	4,346	1,388

As at 30 June 2014, the amount due from the HKSAR Government related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the West Island Line, South Island Line (East) and Kwun Tong Line Extension projects, reimbursement of the fare revenue difference in relation to the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, agency fee receivables and reimbursable costs in respect of West Rail property development, as well as receivables and retention for other entrustment and maintenance works. The amount due to the HKSAR Government as at 30 June 2014 related to 2013 final dividend payable (note 7), principal and interests of government grant accruals under the repayment mechanism of the WIL Project (note 14A) as well as land administrative fees in relation to railway extension.

The amount due from KCRC related to the recoverable cost for certain capital works and property enabling works in accordance with the agreements in relation to the Rail Merger. The amount due to KCRC related to mandatory payments and related interest payable to KCRC in respect of the property development site along the Light Rail as well as the accrued portion of fixed annual payment and variable annual payment arising from the Rail Merger.

Notes to the Unaudited Interim Financial Report

19 Material Related Party Transactions *(continued)*

The amount due from associates included mainly receivables in relation to the daily Octopus card transactions with Octopus Cards Limited, rental receivable in respect of depots and depot equipment from and the outstanding balance of loan to Tunnelbanan Teknik Stockholm AB ("TBT"), staff secondment and other support services fees receivable from Beijing (MTR) Corporation Limited ("Beijing MTR") as well as management fee received from London Overground Rail Operations Ltd ("LOROL"). The amount due to an associate as at 31 December 2013 related to rolling stock maintenance service fees payable to TBT.

During the half year ended 30 June 2014, cash dividends paid or payable to the FSI of the HKSAR Government amounted to HK\$2,971 million (2013: HK\$2,395 million). In respect of the project management activities for HKSAR Government, the Group recognised revenue at HK\$383 million (2013: HK\$362 million) for the XRL project and HK\$331 million (2013: HK\$308 million) for the Shatin to Central Link project.

Details of major related party transactions entered into by the Group with the HKSAR Government in prior years that are still relevant for the current period and those with KCRC in respect of the Rail Merger were described in the Group's audited accounts for the year ended 31 December 2013.

During the half year ended 30 June 2014, the Group had the following transactions with its associates, namely Octopus Holdings Limited and its subsidiaries ("Octopus Group"), TBT, Beijing MTR and LOROL:

in HK\$ million	Half year ended 30 June 2014	Half year ended 30 June 2013
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	66	62
– Fees received or receivable in respect of load agent, Octopus card issuance and refund services, computer equipment and relating services and warehouse storage space provided to Octopus Group	18	15
– Dividend received from Octopus Group	20	34
TBT		
– Expenses paid or payable in respect of rolling stock maintenance and other supporting services provided by TBT for the Stockholm Metro operation	341	320
– Fees received or receivable in respect of depots and depot equipment rental and other support services provided to TBT	73	66
Beijing MTR		
– Fees received or receivable in respect of staff secondment and other support services provided to Beijing MTR	14	17
LOROL		
– Dividend received from LOROL	4	–
– Fees received or receivable in respect of management services provided to LOROL	10	–

20 Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

in HK\$ million	At 30 June 2014 (Unaudited)	At 31 December 2013 (Audited)
Due within 30 days or on demand	3,754	4,820
Due after 30 days but within 60 days	2,621	2,031
Due after 60 days but within 90 days	811	534
Due after 90 days	2,586	2,351
	9,772	9,736
Rental and other refundable deposits	2,748	2,657
Accrued employee benefits	1,521	1,380
Dividend payable to other equity shareholders (note 7)	915	–
Government grant on West Island Line Project un-utilised (note 14A)	–	20
	14,956	13,793

21 Loans and Other Obligations

Notes issued by the Group during the half year ended 30 June 2014 and 2013 comprise:

in HK\$ million	Half year ended 30 June 2014		Half year ended 30 June 2013	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	550	544	1,398	1,361

During the half year ended 30 June 2014, notes of AUD80 million (or HK\$550 million) (2013: HK\$700 million) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited, while the Company did not issue any debt securities (2013: USD90 million (or HK\$698 million)). The notes issued by the subsidiary are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the half year ended 30 June 2014, the Group redeemed HK\$500 million (2013: HK\$2,306 million) of its unlisted debt securities and USD600 million (or HK\$4,658 million) of its listed debt securities (2013: nil).

22 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2014 and the year ended 31 December 2013 are as follows:

in HK\$ million	Deferred tax arising from						Total
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses		
30 June 2014 (Unaudited)							
Balance as at 1 January 2014	9,833	498	(30)	(24)	(17)	10,260	
Charged/(credited) to consolidated profit and loss account	112	–	(25)	–	–	87	
Charged to reserves	–	9	–	7	–	16	
Exchange difference	2	–	1	–	–	3	
Balance as at 30 June 2014	9,947	507	(54)	(17)	(17)	10,366	
31 December 2013 (Audited)							
Balance as at 1 January 2013	9,332	440	(182)	(12)	(12)	9,566	
Charged/(credited) to consolidated profit and loss account	506	–	19	–	(5)	520	
Charged/(credited) to reserves	–	58	136	(12)	–	182	
Exchange difference	(5)	–	(3)	–	–	(8)	
Balance as at 31 December 2013	9,833	498	(30)	(24)	(17)	10,260	

B Deferred tax assets and liabilities recognised on the consolidated balance sheet are as follows:

in HK\$ million	At 30 June 2014 (Unaudited)	At 31 December 2013 (Audited)
Net deferred tax assets	(31)	(29)
Net deferred tax liabilities	10,397	10,289
	10,366	10,260

Notes to the Unaudited Interim Financial Report

23 Share Capital and Other Statutory Capital Reserves

The components of share capital and other statutory capital reserves are as follows:

in HK\$ million	At 30 June 2014 (Unaudited)	At 31 December 2013 (Audited)
Share capital	44,521	5,798
Other statutory capital reserves	–	38,644
	44,521	44,442

A Share Capital

	At 30 June 2014 (Unaudited)		At 31 December 2013 (Audited)	
	Number of shares	HK\$ million	Number of shares	HK\$ million
Authorised: (note 23A(i))				
Ordinary shares of HK\$1.00 each (note 23A(ii))	–	–	6,500,000,000	6,500
Ordinary shares, issued and fully paid:				
At 1 January	5,798,541,650	5,798	5,793,196,650	5,793
Shares issued under share option schemes before 3 March 2014	143,500	1	5,345,000	5
Transition to no-par value regime on 3 March 2014 (note 23A(iii))	–	38,647	–	–
Shares issued under share option schemes on or after 3 March 2014	2,511,700	75	–	–
At 30 June/31 December	5,801,196,850	44,521	5,798,541,650	5,798

Notes:

- Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.
- In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.
- In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), any amount standing to the credit of the share premium account and the capital reserve has become part of the Company's share capital on 3 March 2014.

B Other Statutory Capital Reserves

in HK\$ million	At 30 June 2014 (Unaudited)	At 31 December 2013 (Audited)
At 1 January	38,644	38,488
Employee share options exercised before 3 March 2014	3	156
Transition to no-par value regime on 3 March 2014 (note 23A(iii))	(38,647)	–
At 30 June/31 December	–	38,644

Prior to 3 March 2014, share premium represented the amount by which the issue price of shares exceeded the par value of those shares. The application of the share premium account was governed by section 48B of the predecessor Hong Kong Companies Ordinance (Cap. 32). Pursuant to the Articles of Association of the Company, the capital reserve can only be applied in paying up in full unissued shares to be allotted and distributed as fully paid bonus shares to the shareholders of the Company.

In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), any amount standing to the credit of the share premium account and the capital reserve has become part of the Company's share capital on 3 March 2014 (note 23A). The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

23 Share Capital and Other Statutory Capital Reserves *(continued)*

C New shares issued and fully paid up during the half year ended 30 June 2014 comprise:

	Number of shares	Weighted average exercise price HK\$	Proceeds received/Transfer from employee share-based capital reserve		
			Share capital account HK\$ million	Share premium account HK\$ million	Total HK\$ million
Employee share options exercised before 3 March 2014:					
– 2007 Share Option Scheme	143,500	21.51	1	3	4
Transition to no-par value regime on 3 March 2014 (note 23A(iii))	–	–	3	(3)	–
Employee share options exercised on or after 3 March 2014: (note 23C(i))					
– 2007 Share Option Scheme	2,511,700	25.57	75	–	75
	2,655,200		79	–	79

Note:

- (i) The amount in the employee share-based capital reserve is transferred out directly to share capital account upon share options exercised since the new Hong Kong Companies Ordinance (Cap. 622) commenced operation on 3 March 2014.

D Movements in the number of share options outstanding are as follows:

	Half year ended 30 June 2014		Half year ended 30 June 2013	
	New Joiners Share Option Scheme	2007 Share Option Scheme	New Joiners Share Option Scheme	2007 Share Option Scheme
Outstanding at 1 January	84,500	73,001,100	297,500	57,087,100
Granted during the period	–	19,895,500	–	21,605,000
Exercised during the period	–	(2,655,200)	(213,000)	(4,084,500)
Forfeited during the period	–	(654,500)	–	(325,000)
Outstanding at 30 June	84,500	89,586,900	84,500	74,282,600
Exercisable at 30 June	84,500	50,272,400	84,500	37,047,600

E During the half year ended 30 June 2014, the Company offered to grant 19,895,500 share options under the Company's 2007 Share Option Scheme to certain eligible employees of the Company and one of its subsidiaries (the "Grantees") on 23 May 2014. All were accepted by the grantees on 30 May 2014.

24 Fair Value Measurement of Financial Instruments

In accordance with HKFRS 13, *Fair Value Measurement*, the level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3: Fair value measured using significant unobservable inputs

Notes to the Unaudited Interim Financial Report

24 Fair Value Measurement of Financial Instruments *(continued)*

A Financial Assets and Liabilities Carried at Fair Value

All the financial instruments below are measured at fair value on a recurring basis. The level of fair value hierarchy within which the fair value measurements are categorised is analysed below:

in HK\$ million	Fair value at 30 June 2014 (Unaudited)	Fair value measurements as at 30 June 2014	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	13	–	13
– Cross currency swaps	109	–	109
– Interest rate swaps	76	–	76
	198	–	198
Investments in securities	515	515	–
	713	515	198
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	2	–	2
– Cross currency swaps	205	–	205
– Interest rate swaps	63	–	63
	270	–	270

in HK\$ million	Fair value at 31 December 2013 (Audited)	Fair value measurements as at 31 December 2013	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	17	–	17
– Cross currency swaps	13	–	13
– Interest rate swaps	85	–	85
	115	–	115
Investments in securities	472	472	–
	587	472	115
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	3	–	3
– Cross currency swaps	302	–	302
– Interest rate swaps	84	–	84
	389	–	389

There are no Level 3 measurements of financial instruments. During the half year ended 30 June 2014 and 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

24 Fair Value Measurement of Financial Instruments *(continued)*

A Financial Assets and Liabilities Carried at Fair Value *(continued)*

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments. For interest rate swaps, cross currency swaps and foreign exchange forward contracts, the discount rates used were derived from the swap curves of the respective currencies at the balance sheet date. Closing exchange rates at the balance sheet date were used to convert value in foreign currency to local currency.

B Financial Assets and Liabilities Not Carried at Fair Value

The carrying amounts of the Group's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 30 June 2014 and 31 December 2013 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

in HK\$ million	At 30 June 2014		At 31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	14,021	14,974	18,491	19,172
Other obligations	387	472	380	439

The above fair value measurement is categorised as Level 2. The discount cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's capital market instruments and other obligations. The discount rates used were derived from the swap curves of the respective currencies at the balance sheet date. Closing exchange rates at the balance sheet date were used to convert value in foreign currency to local currency.

25 Cash Generated from Operations

Reconciliation of operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment to cash generated from operations is as follows:

in HK\$ million	Half year ended 30 June 2014 (Unaudited)	Half year ended 30 June 2013 (Unaudited)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	7,831	7,332
Adjustments for:		
– Decrease in provision for obsolete stock	(1)	(2)
– Loss on disposal of fixed assets	9	11
– Amortisation of deferred income from transfers of assets from customers	(11)	(7)
– (Increase)/decrease in fair value of derivative instruments	(3)	4
– Unrealised (gain)/loss on revaluation of investment in securities	(1)	4
– Employee share-based payment expenses	23	22
– Exchange (gain)/loss	(4)	5
Operating profit from recurrent businesses before working capital changes	7,843	7,369
Increase in debtors, deposits and payments in advance	(54)	(187)
Increase in stores and spares	(53)	(62)
Increase in creditors and accrued charges	1,116	735
Cash generated from operations	8,852	7,855

Notes to the Unaudited Interim Financial Report

26 Capital Commitments

A Outstanding capital commitments as at 30 June 2014 not provided for in the accounts were as follows:

in HK\$ million	Hong Kong transport operations, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas operations	Total
At 30 June 2014 (Unaudited)					
Authorised but not yet contracted for	5,141	–	1,261	47	6,449
Authorised and contracted for	5,691	2,364	561	2,003	10,619
	10,832	2,364	1,822	2,050	17,068
At 31 December 2013 (Audited)					
Authorised but not yet contracted for	3,017	–	89	3	3,109
Authorised and contracted for	5,602	4,439	500	2,363	12,904
	8,619	4,439	589	2,366	16,013

B The capital commitments under Hong Kong transport operations, station commercial and other businesses comprise the following:

in HK\$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 30 June 2014 (Unaudited)				
Authorised but not yet contracted for	2,340	418	2,383	5,141
Authorised and contracted for	685	199	4,807	5,691
	3,025	617	7,190	10,832
At 31 December 2013 (Audited)				
Authorised but not yet contracted for	1,432	247	1,338	3,017
Authorised and contracted for	529	199	4,874	5,602
	1,961	446	6,212	8,619

27 Approval of Interim Financial Report

The interim financial report was approved by the Board on 25 August 2014.

Review Report to the Board of Directors of MTR Corporation Limited

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 34 to 56 which comprises the consolidated balance sheet of MTR Corporation Limited as of 30 June 2014 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2014 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
25 August 2014



MTR Corporation Limited

MTR Headquarters Building, Telford Plaza

Kowloon Bay, Kowloon, Hong Kong

GPO Box 9916, Hong Kong

Telephone: (852) 2993 2111

Facsimile : (852) 2798 8822

www.mtr.com.hk

Stock Code: 66