INTERIM REPORT 2016

Connecting Communities
Sharing Growth

Highlights

Financial

- Total revenue of the Group increased 5.4% to HK$21,307 million. Revenue excluding Mainland of China and international subsidiaries increased 5.4% to HK$14,781 million
- Post-tax underlying profit attributable to equity shareholders of the Company:

– Recurrent business profit	HK$4,866 million	up 7.8%
– Property development profit	HK$207 million	down HK$2,104 million
– Underlying profit	HK$5,073 million	down 25.7%

- Profit after investment property revaluation amounted to HK$5,121 million
- Net assets decreased 14.7% to HK$145,239 million, mainly due to the special dividend payable relating to the XRL Agreement. Net debt-to-equity ratio was at 8.6%
- Interim dividend of HK$0.25 per share declared (with scrip dividend alternative)

Hong Kong Business Operations

- Service maintained at world-class 99.9% on-time performance level, with best ever May performance since KCRC rail merger in 2007
- Station commercial and property rental businesses recorded revenue growth and positive rental reversions
- Tender for LOHAS Park Package 10 was awarded in March 2016
- Rail Gen 2.0 – good construction progress on existing four new rail projects. XRL Agreement approved by independent shareholders and Legislative Council
- HKSAR Government invited the Company to submit project proposals for three new rail projects under RDS 2014

Mainland of China and International Businesses

- Good operational performances in all our rail businesses outside Hong Kong
- Stockholms Pendeltåg legal challenge resolved by our client, Stockholm Public Transport. Franchise starts December 2016
- Tender submitted for Hangzhou Metro Line 5. Proposals being prepared for South Western Rail franchise in the UK and extension of franchise for Metro Trains Melbourne

Contents

Outlook

- Global economic outlook remains uncertain. However, our Hong Kong transport, and station and property rental businesses are defensive by nature
- Development profits for Tiara in Shenzhen will be booked upon handover of sold units; low-rise units currently expected to be handed over before the end of 2016
- Up to end March 2017, subject to market conditions, the Company expects to tender out the eleventh package at LOHAS Park and first package for each at Ho Man Tin Station and Wong Chuk Hang Depot. As agent for KCRC, the Company also expects to tender out the first package of the Kam Sheung Road Station site

Hong Kong Operating Network with Future Extensions

Legend

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

Existing Network

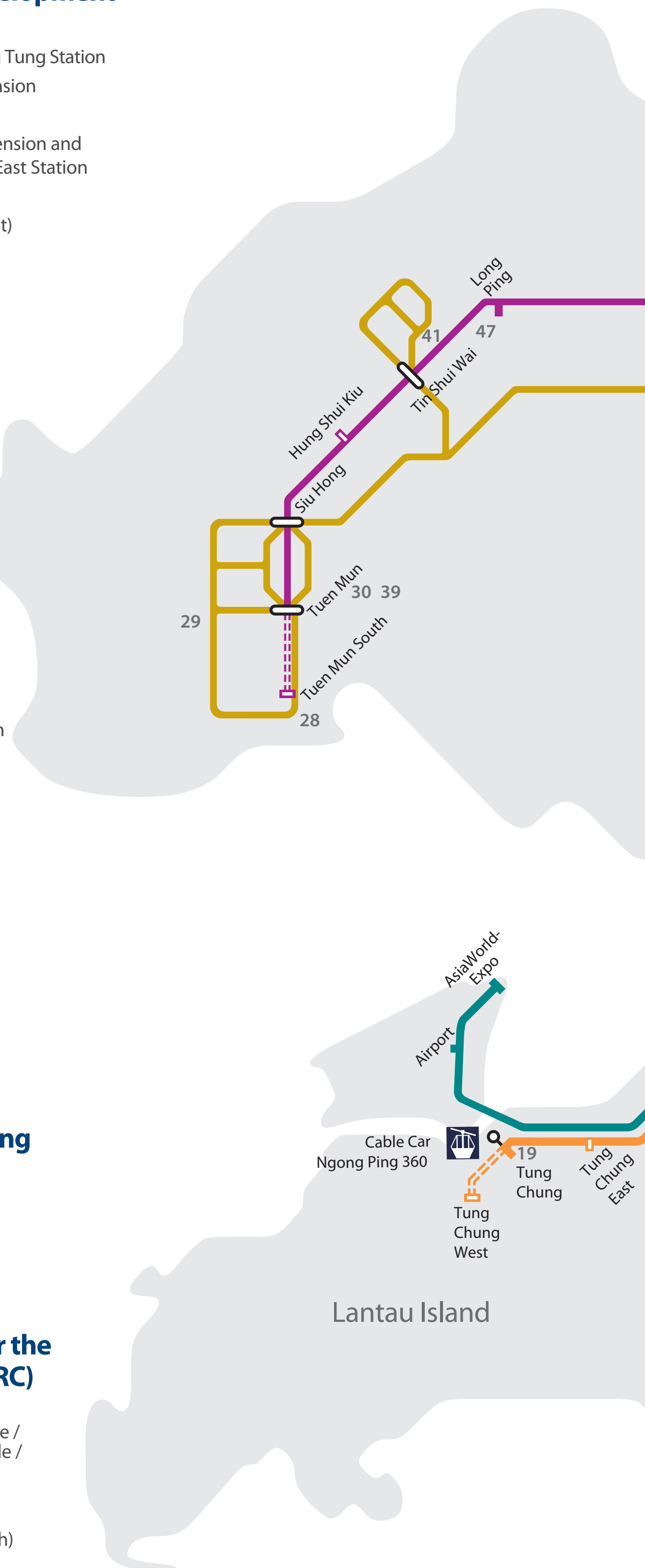
- Airport Express
- Disneyland Resort Line
- East Rail Line
- Island Line
- Kwun Tong Line
- Light Rail
- Ma On Shan Line
- Tseung Kwan O Line
- Tsuen Wan Line
- Tung Chung Line
- West Rail Line

Potential Future Extensions under Railway Development Strategy 2014

- Northern Link and Kwu Tung Station
- Tuen Mun South Extension
- East Kowloon Line
- Tung Chung West Extension and Possible Tung Chung East Station
- Hung Shui Kiu Station
- South Island Line (West)
- North Island Line

Projects in Progress

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



Properties Owned / Developed / Managed by the Corporation

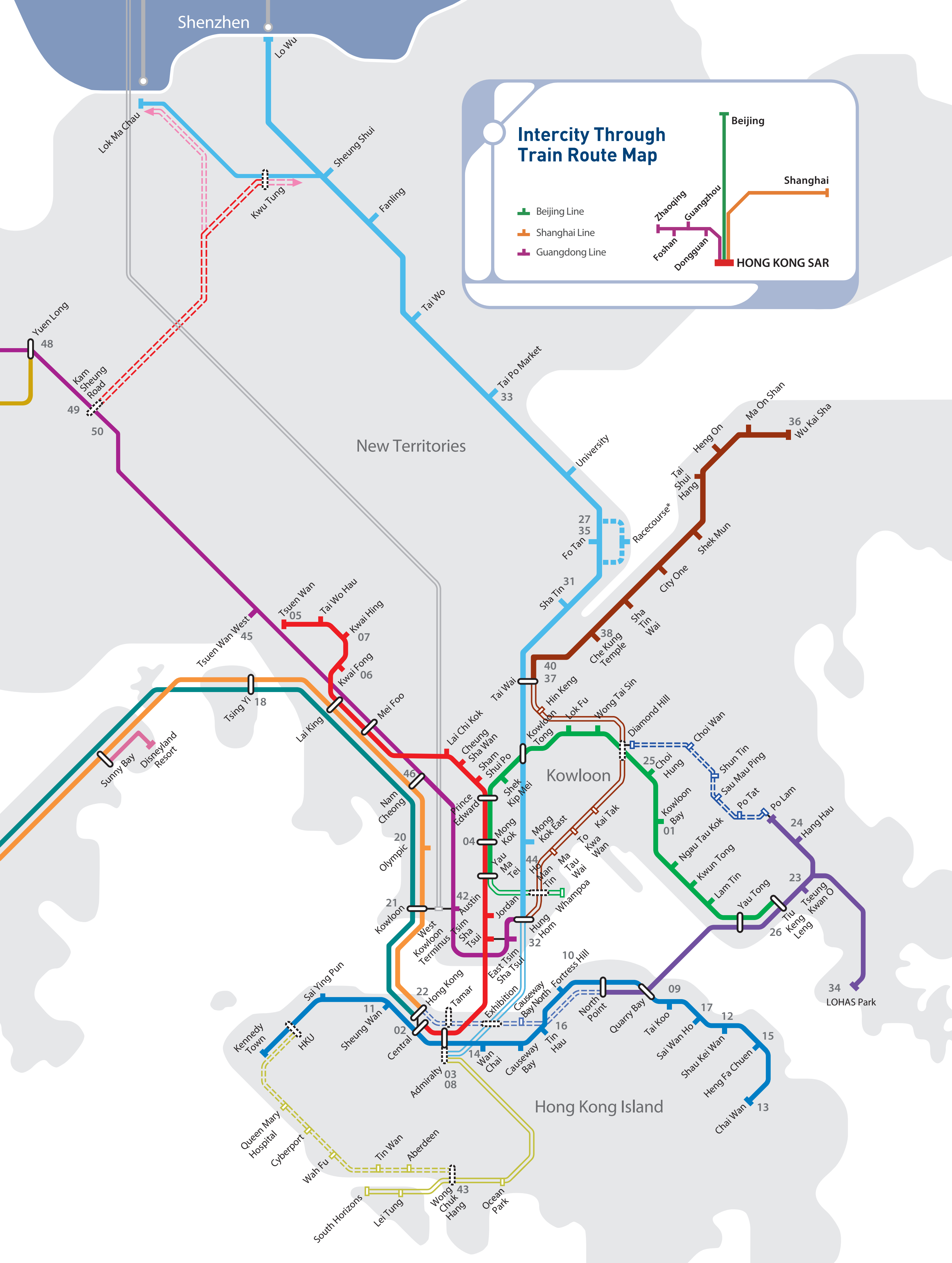
01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Tower
11 Hongway Garden / Infinitus Plaza
12 Perfect Mount Gardens
13 New Jade Garden
14 Southorn 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 / Hemera
35 The Palazzo
36 Lake Silver
37 Festival City
38 The Riverpark
39 Century Gateway
42 The Austin / Grand Austin
45 City Point

Property Developments Under Construction / Planning

34 LOHAS Park Packages
40 Tai Wai Station
41 Tin Wing Stop
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
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 The Spectra / Long Ping Station (South)
48 Yuen Long Station
49 Kam Sheung Road Station
50 Pat Heung Maintenance Centre



Intercity Through Train Route Map
Beijing Line
Shanghai Line
Guangdong Line
Beijing
Shanghai
Zhaoqing
Guangzhou
Foshan
Dongguan
HONG KONG SAR
Shenzhen
New Territories
Kowloon
Hong Kong Island
Lo Wu
Lok Ma Chau
Sheung Shui
Kwu Tung
Fanling
Tai Wo
Tai Po Market
33
University
Racecourse*
Fo Tan
27
35
Sha Tin
31
Tai Wai
40
37
Yuen Long
48
Kam Sheung Road
49
50
Tsuen Wan West
45
Tsuen Wan
05
Tai Wo Hau
Kwai Hing
07
Kwai Fong
06
Lai King
Mei Foo
Tsing Yi
18
Sunny Bay
Disneyland Resort
46
Nam Cheong
20
Olympic
21
Kowloon
West Kowloon Terminus
42
Austin
Tsim Sha Tsui
Jordan
East Tsim Sha Tsui
Hung Hom
32
Lai Chi Kok
Cheung Sha Wan
Sham Shui Po
Prince Edward
04
Mong Kok
Yau Ma Tei
Shek Kip Mei
Kowloon Tong
Lok Fu
Wong Tai Sin
Diamond Hill
Hin Keng
Mong Kok East
44
Ho Man Tin
Ma Tau Wai
To Kwa Wan
Kai Tak
Whampoa
Choi Wan
Shun Tin
Sau Mau Ping
Po Tat
Po Lam
25
Choi Hung
Kowloon Bay
01
Ngau Tau Kok
Kwun Tong
Lam Tin
Yau Tong
24
Hang Hau
23
Tseung Kwan O
26
Tiu Keng Leng
34
LOHAS Park
Che Kung Temple
38
Sha Tin Wai
City One
Shek Mun
Tai Shui Hang
Heng On
Ma On Shan
36
Wu Kai Sha
Kennedy Town
HKU
Sai Ying Pun
11
Sheung Wan
02
Central
22
Hong Kong
Tamar
Admiralty
03
08
14
Wan Chai
Exhibition
Causeway Bay
Causeway Bay North
10
Fortress Hill
16
Tin Hau
North Point
Quarry Bay
09
Tai Koo
17
Sai Wan Ho
12
Shau Kei Wan
15
Heng Fa Chuen
13
Chai Wan
Queen Mary Hospital
Cyberport
Wah Fu
Tin Wan
Aberdeen
43
Wong Chuk Hang
Ocean Park
Lei Tung
South Horizons

Chairman's Letter

"New initiatives have been launched and significant achievements made in each of the three areas outlined in our vision for MTR: our rail network, our customers and our people."

Dear Shareholders and other Stakeholders,

It has been an engaging and gratifying first six months as Chairman since taking up my appointment on 1 January this year. The time has not been without its challenges, as the business environment has been less buoyant than in recent years, but MTR has continued to deliver services of the highest standard to its customers and we have made further progress on our growth strategy at home and abroad.

New initiatives have been launched and significant achievements made in each of the three areas outlined in our vision for MTR: our rail network, our customers and our people. As we move forward, we remain focused on a clear objective – to build on our world-class operations to make MTR a leading multinational company at the forefront of sustainable rail transport, connecting and growing communities with caring service.

Our strong operational performance but also the more challenging business conditions in the first half of 2016 are reflected in the Company's financial results. Profit attributable to equity shareholders for the six months arising from recurrent businesses increased by 7.8% to HK$4,866 million. Post-tax property development profit fell by 91.0% to HK$207 million, and hence profit attributable to equity shareholders arising from underlying businesses declined by 25.7% to HK$5,073 million. Including investment property revaluation, net profit attributable to equity shareholders was HK$5,121 million, representing earnings per share after revaluation of HK$0.87. In addition to the one-off special cash dividend of HK$4.40 per share, of which the first tranche (of HK$2.20 per share) was paid on 13 July 2016, and the second tranche (also of HK$2.20 per share) is to be paid in the second half of 2017, your Board has declared an interim ordinary dividend of HK$0.25 per share.

Our Network

For our Hong Kong rail network, our focus is to successfully complete the four new rail lines we are constructing, while making significant enhancements to the existing network. By doing so, we can be well positioned to meet our customers' future needs and aspirations. These tasks form what we call "Rail Gen 2.0", a new era for rail transportation in Hong Kong that will underpin its further economic and social development.

Progress on our four railway projects in the first six months has been solid. The Kwun Tong Line Extension is targeted to open in October this year. We are pressing ahead at full steam on the South Island Line (East), according to the target opening at the end of the year, but the remaining tight construction timetable puts this at risk. The Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") is targeted for completion in the third quarter of 2018, followed by the opening of the two corridors of the Shatin to Central Link in 2019 and 2021.

As previously reported, an important step forward on the Express Rail Link was the agreement reached with Government regarding the further funding of the project, the "XRL Agreement". With the approval of the XRL Agreement by our independent shareholders on 1 February and the approval of additional funding for the Express Rail Link project by the HKSAR Legislative Council on 11 March, the XRL Agreement became fully effective. Under the XRL Agreement, (1) Government will fund the project cost up to a level of HK$84.42 billion (an increase of up to HK$19.42 billion (the "Current Cost Increase") from the original project cost estimate of HK$65 billion) and, if the project exceeds this amount, MTR will be responsible for any costs above this amount (except for certain agreed excluded costs); (2) we will also pay a special cash dividend of HK$4.40 per share in two equal tranches of HK$2.20 each to all shareholders, the first such tranche having been paid on 13 July with the second tranche expected to be paid in the second half of 2017; and (3) Government has reserved the right to refer to arbitration the question of the Company's liability (if any) under the project Entrustment Agreements for the Current Cost Increase, after the start of commercial operations on the new line. Once again, on behalf of everyone at MTR, I wish to express my sincere appreciation to the independent shareholders and the legislators for giving their support.

Beyond these four new MTR lines, Government has identified seven new rail projects under its Railway Development Strategy 2014 that will be implemented in phases by 2031. Government has invited us to submit project proposals first for three of these projects, namely the Northern Link including Kwu Tung Station, Tuen Mun South Extension and East Kowloon Line, and technical studies are already underway.

Outside Hong Kong, we have submitted the tender for Hangzhou Metro Line 5. We are preparing our bid for the South Western Rail franchise in the UK and our negotiation for the concession extension of Metro Trains Melbourne in Australia.

Our Customers

As regards our customers, our priorities are on the two key areas of service and safety. In the first six months of the year, we continued to run our railway services at exceptional levels of efficiency, with 99.9% of passenger journeys on the heavy rail network on time. There were only three delays in our heavy rail network and one delay in our light rail network, which lasted for 31 minutes or more, that were attributable to factors within MTR's control. Our safety record was likewise excellent.

Maintaining such high levels of service on our existing network requires continuous investment and Rail Gen 2.0 involves a major asset replacement programme. In addition to spending HK$9.3 billion on new trains and signalling systems, we will replace 160 chillers in stations and depots with more energy efficient models. New Light Rail vehicles are also being ordered, and we are undertaking major modifications to Hung Hom, Diamond Hill and Admiralty stations that will improve connectivity across Hong Kong. These investments under Rail Gen 2.0 are in addition to spending on other improvements to our network, ranging from bus replacement to better passenger information display systems.

To make such investments we need a sustainable financial model. Ours is based on the Fare Adjustment Mechanism ("FAM") that was agreed with Government. The FAM has served both MTR and the people of Hong Kong well over the years. It is fair, objective and transparent and has successfully balanced different interests to keep MTR fares at a reasonable level. Internationally, our Hong Kong network ranks highly on measures of affordability and our fare increases over the past seven years on average have been below inflation. In April, at Government's request, we agreed to a joint review of the FAM one year earlier than scheduled, together with a public consultation conducted by Government that began in May. We welcome constructive discussion on this important matter and are listening carefully to the different views that are being or have been expressed. It is clearly in the best interests of everyone for MTR to maintain a sustainable financial model so that we can continue to invest in our rail network to meet the needs of Hong Kong people.

In addition to keeping fares affordable overall, we offer our customers fare promotions every year. We currently provide some HK$2.4 billion of fare concessions and promotions and, as we did last year, we are offering an additional package worth over HK$500 million for 2016/2017. In addition to fare promotions, we strive to make our customers' travel experiences more pleasant and enjoyable. In April, we launched a new "Happy Birthday • Happy Journey" programme, where one day of each month is chosen by lucky draw. Birthday packs with travel passes and gift coupons are given out each month to customers whose birthdays fall on the chosen day, adding a touch of delight to their journeys.

To find new ways to enhance customers' end-to-end journey experience, journey-mapping workshops were conducted for different target segments. Several customer experience enhancements, such as "Time to Next Train" information on the gate-top passenger information display system at selected stations, were launched during the first six months.

Our People

Having a dedicated team of professional, well-trained and motivated staff at all levels is essential to delivering the services our customers expect. We receive wide recognition for our commitment in inspiring, engaging and developing our employees. Earlier in the year MTR was named among the "Best Companies to Work for in Asia 2016" by HR Asia Magazine, and was honoured as the first runner-up of the "Most Attractive Employers in Hong Kong" by the Randstad Group, an international Human Resources consulting firm.

The Company's accumulated expertise is an invaluable asset and we are now planning to draw on it more broadly by establishing the MTR Academy. Our plan for such an institution to develop skilled railway professionals was highlighted in the Chief Executive's 2016 Policy Address and it is now taking shape. On 1 July, our former European Business Director, Mr Morris Cheung, became its President and we have allocated some existing office space to get it underway. The MTR Academy will offer signature programmes in railway engineering, operations, management and customer service. To support Hong Kong's role in the "One Belt, One Road" strategy, the MTR Academy will look to partner with local and overseas institutions to offer accredited joint programmes and undertake rail-related research. In the longer term, the MTR Academy aims to become a leading global research institute for rail technology and practices.

Contributions to the Community

Our rail and property services are very much a part of the lives of the people and communities we serve. Apart from treating our employees and shareholders responsibly, we make great efforts to support the development of our communities, contributing in different ways to enhancing people's quality of life and fostering a thriving environment in which to live and work.

We have now launched a new identity for our outreach and community investments called Community Connect, to complement our Youth Connect initiatives. In addition to existing programmes, Community Connect covers a number of new initiatives, such as offering a number of retail shops along the West Rail Line for lease to the social enterprises of non-governmental organisations at concessionary rates. We are also organising art-related activities in our malls. The first collaboration project of Community Connect, the "HK Design to Connect: DFA Awards Exhibition" was launched in May and co-organised with the Hong Kong Design Centre. This supplements our existing "art in mtr" programme, which in the first half of the year supported 42 events in seven of our stations.

Youth Connect, meanwhile, continued its good work during the first half of 2016. In May, over 120 secondary school students from seven schools attended the completion ceremony for our mentoring programme for secondary school students, "'Friend' for life's journeys". Through activities and voluntary services, the students and their "MTR Friends" broadened their horizons, widened their social networks, and injected a dose of energy and motivation as they planned for their years ahead.

We have also continued the dialogue started last year at the "Cross-Sector Summit on Pathways to Employment" by launching a social innovation platform that combines creative and critical thinking skills to come up with solutions to address societal challenges. We will be asking the public to help us select projects that we should pilot in Hong Kong to make the journey from education to work easier for our young people.

Board Transition

A strong Board is vital to the good corporate governance that underpins any successful business, and I welcome to our ranks Mr Anthony Chow Wing-kin, who was appointed as an Independent Non-executive Director on 18 May 2016. I also wish to thank Mr Edward Ho Sing-tin, who retired from the Board as Independent Non-executive Director on the same day. Being the longest-serving member on the Board, Edward has been giving insightful advice and making valuable contributions to the Company over the past 24 years.

Finally, I would like to thank my fellow directors for their valuable advice and the solid support they have given to me as Chairman. I must also extend my heartfelt gratitude to all of our staff members, whose daily contributions are the bedrock on which the Company rests. Although uncertainties lie ahead, with two new lines opening there is much cause for optimism. Our aim in the remainder of the year will be to continue to provide the people of Hong Kong with exceptional levels of service while pushing ahead with our new lines and increasing our profile in overseas markets.

Professor Frederick Ma Si-hang, *Chairman*
Hong Kong, 9 August 2016

CEO's Review of Operations and Outlook

> "Despite a more challenging environment, MTR's businesses made steady progress in the first half of 2016, both in Hong Kong and outside of Hong Kong. Further milestones were also achieved in the four railway expansion projects in Hong Kong..."

Dear Shareholders and other Stakeholders,

Despite a more challenging environment, MTR's businesses made steady progress in the first half of 2016, both in Hong Kong and outside of Hong Kong. Further milestones were also achieved in the four railway expansion projects in Hong Kong, a highlight of which were the approvals, both by our independent shareholders and the Finance Committee of the Legislative Council of the HKSAR ("LegCo"), relating to the agreement ("XRL Agreement") with Government regarding the further funding arrangements of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link").

Revenue growth from our Hong Kong transport operations benefited from a moderate passenger volume increase and fares adjusted in accordance with the Fare Adjustment Mechanism ("FAM"). Station commercial revenue increased, due mainly to positive rental reversions and an increase in rent from Duty Free Shops. Our property rental businesses in Hong Kong continued to benefit from positive rental reversions. Revenue from our Mainland of China and international rail subsidiaries increased mainly as a result of incremental contributions from new operations. As expected, property development profits were modest and in our property tendering activity, we awarded one property development package during the period, our tenth package at LOHAS Park.

Our service performance in Hong Kong remained at world-class levels, with train service delivery and passenger journeys on-time in our heavy rail network both maintained at 99.9% during the six-month period. Furthermore, there were only three delays in our heavy rail network and one delay in our light rail network which lasted for 31 minutes or more attributable to factors within MTR's control. Safety performance remained excellent, with incremental improvement achieved over an already world-class safety standard.

The Company's fares are adjusted based on the FAM, which provides a transparent and objective method for adjusting fares. It has resulted in our Hong Kong fare structure being ranked in the most affordable quartile of the relevant international benchmark while maintaining world-class service performance. In April 2016, the Board agreed to commence an early joint review of the FAM as requested by Government, thereby advancing the next scheduled review by one year.

The Company's growth strategy encompasses both Hong Kong and markets outside of Hong Kong. In our home market, "Rail Gen 2.0" envisages a next generation of rail travel to be implemented over the coming years, comprising completion of the current four network extension projects together with major asset replacement programmes for the existing network. For the network expansion projects, as at 30 June 2016, completion had reached 99.4% for the Kwun Tong Line Extension, 96.8% for the South Island Line (East), 81.5% for the Express Rail Link, and 59.0% for the Shatin to Central Link. Beyond these four projects, we have been asked by Government to prepare proposals for the first three extension projects under the Railway Development Strategy 2014 ("RDS 2014").

Outside of Hong Kong, in Beijing, construction work has begun on Beijing Metro Line 16 ("BJL16"). In Sweden, at the end of 2015, we were awarded the contract to operate and maintain the Stockholm Commuter Rail Systems concession (Stockholms Pendeltåg). The legal challenge from one of the failed bidders has now been resolved, and we will operate the service starting from December this year. In February 2016, we also acquired the remaining 50% shareholding of Tunnelbanan Teknik Stockholm ("TBT"), the Stockholm metro rolling stock maintenance joint-venture company, from our joint-venture partner.

Turning to our financial results, total revenue in the first six months of 2016 increased by 5.4% to HK$21,307 million, with operating profit before Hong Kong property development profits, depreciation, amortisation and variable annual payment being 5.6% higher at HK$8,810 million. Excluding the Company's Mainland of China and international subsidiaries, revenue grew by 5.4% and operating profit by 5.7%, with operating margin increasing by 0.2 percentage point to 57.2%. Recurrent profits attributable to equity shareholders, being net profits before property development profit and investment properties revaluation, increased by 7.8% to HK$4,866 million. Post tax profit from property developments was HK$207 million, mainly derived from sundry sources such as the sharing in kind of the kindergarten at Hemera. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders decreased by 25.7% to HK$5,073 million, representing earnings per share of HK$0.86. Gain in revaluation of investment properties was HK$48 million, as compared with HK$1,362 million in the first half of 2015. As a result, net profit attributable to equity shareholders was HK$5,121 million, equivalent to earnings per share of HK$0.87 after revaluation. Your Board has declared an interim ordinary dividend of HK$0.25 per share, the same as last year. In line with our progressive ordinary dividend policy, the Board will assess the final ordinary dividend when reviewing the full year results for 2016. Furthermore, shareholders are reminded of the special dividend relating to the XRL Agreement, the first tranche (of HK$2.20 per share) of which was paid on 13 July 2016, with the second tranche (also of HK$2.20 per share) to be paid in the second half of 2017.

Hong Kong Transport Operations

Total revenue from Hong Kong transport operations in the first half of 2016 was HK$8,617 million, representing an increase of 5.8% over the first half of 2015. Operating costs for the period rose by 4.3% to HK$4,533 million resulting in operating profit increasing by 7.5% to HK$4,084 million, with operating margin at 47.4%.

Safety

Safety saw a further improvement during the first half of 2016 with fewer reportable events on the Hong Kong heavy rail network compared with the already world-leading safety standard achieved in the same period of 2015.

Escalator safety remains one of our key priorities and the period saw numerous initiatives designed to promote the safe use of escalators, including outreach events by our Escalator Safety Special Task Force and new escalator safety announcements. We also enhanced efforts to improve safety on the Light Rail network, including a Light Rail and MTR Bus Road Safety Campaign and a Light Rail Junction Safety Promotion.

Patronage

Total patronage of all our rail and bus passenger services in Hong Kong increased by 0.3% to 952.1 million in the first half of 2016.

For the Domestic Service (comprising 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), total patronage reached 774.5 million, a 0.3% increase over the same period last year.

The Cross-boundary Service to Lo Wu and Lok Ma Chau recorded a 1.4% decrease in patronage to 55.4 million for the period. The decline was due to a fall in visitor arrivals from the Mainland of China.

Patronage on the Airport Express increased by 2.7% to 7.8 million, supported by a moderate increase in air passenger traffic.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong for the period remained at 5.51 million (5.50 million excluding the Intercity service). The Domestic Service, which accounts for the majority of this patronage, increased by 0.1% to 4.54 million.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong was 48.3% in the first five months of 2016 as compared to 48.5% in the first five months of 2015. Within this total, our share of cross-harbour traffic was 68.6%. Our share of the Cross-boundary business for the first five months of 2016 increased from 50.8% to 51.4% due to an increase in the proportion of local residents for land border crossing, who tended to choose railway service. Continued competition from other modes of transport saw our market share to and from the airport decreasing from 21.6 % to 21.4%.

Fare Revenue, Promotions and Concessions

Total Hong Kong fare revenue in the first six months of 2016 was HK$8,537 million, a 5.8% increase over the corresponding period of 2015. The Domestic Service accounted for HK$6,051 million or 71% of this total.

Average fare per passenger on our Domestic Service increased by 6.2% to HK$7.81.

Fare revenue from the Cross-boundary Service during the period was HK$1,586 million, an increase of 3.3% over the corresponding period of 2015. Fare revenue from the Airport Express grew by 5.7% to HK$486 million. Light Rail and Bus fare revenue was HK$346 million, 6.8% higher, while fare revenue from the Intercity service was HK$68 million, the same as in 2015.

The Company's fares are adjusted based on the FAM, which provides a transparent and objective basis for adjusting fares. In accordance with the FAM, on 26 June 2016 an overall fare adjustment of 2.65% was applied to applicable fares. In conjunction with this adjustment, we announced our 2016/2017 fare promotions package. The package will bring fare savings of over HK$500 million to our customers between June 2016 and June 2017, and is in addition to our ongoing fare concessions and promotions, which in 2015 amounted to HK$2.4 billion.

As part of this package, a new fare promotion programme, the "Designated Saturday Offer", will be introduced later this year. On the first Saturday of each of the five months starting November 2016, Adult Octopus holders travelling on the Domestic Service will enjoy concessionary fares equal to Child Octopus fares, while concessionary Octopus holders will enjoy a flat fare of HK$1. In addition, since 1 July 2016, all MTR Fare Savers across Hong Kong have offered a HK$2 discount.

Other 2016/2017 fare promotions include more than four months of the "10% Same-Day Second-Trip Discount" from 26 June to 31 October 2016 using HK$186 million which the Company has set aside under the Profit-related Fare Concession Scheme and Service Performance Arrangement. The "Early Bird Discount Promotion" will be extended for one year to 31 May 2017. Both the "MTR City Saver" and the "Monthly Pass Extra" promotions will also be extended for one year to 30 June 2017. In addition, passengers will receive a HK$50 MTR Shops Cash Coupon for each purchase of any July or August "Monthly Pass Extra" or "MTR City Saver" during these two months.

Meeting our customers' expectations for high levels of service and a more comprehensive network requires billions of dollars in investment each year, in our people, in our assets and in new rail lines; for example, in 2015, apart from new rail line investment, we invested more than HK$7 billion in maintaining, replacing and upgrading our existing Hong Kong transport network. Our ability to maintain such investments is underpinned by the FAM, which was agreed by Government and approved by LegCo at the time of the merger with Kowloon-Canton Railway Corporation ("KCRC") in 2007. This is a transparent mechanism that employs objective criteria to calculate fare adjustments. It has served stakeholders well over the past years. Between 2008 (the first full year after the merger with KCRC) and 2015, our fares have increased at an average annual rate of 2.9%. This is lower than both the average annual increase in inflation of 3.5%, as recorded by the Composite Consumer Price Index, and the average annual increase of 4.6% in payroll as measured by the Hong Kong Payroll Index. Our fares rank in the most affordable quartile according to international benchmarking amongst leading global metro companies, and we achieve this in the context of the world-class level of service performance enjoyed by the Hong Kong public.

Under our Operating Agreement, the FAM is normally reviewed once every five years, with the next scheduled review due in 2017/18. Based on mutual consent, MTR agreed in April 2016 to an early joint review of the FAM with Government after receiving a request from Government in March 2016, thus advancing the next scheduled review by one year. In the review process, we recognise the importance of balancing the interests of all stakeholders, including our customers, staff and shareholders, as well as maintaining a sustainable financial model such that we can continue to invest in our rail network to maintain high quality services. Government has invited views from the public on the review in a consultation that will last until 19 August 2016. We have started our own stakeholder engagement process and are continuing to discuss the review with Government in order to reach a balanced solution.

Service Performance

Service performance during the first six months of 2016 remained at world-class levels, with May 2016 recording the best month of May for passenger journeys on-time since the merger with KCRC in 2007. Train service delivery and passenger journeys on-time in our heavy rail network remained at 99.9%, exceeding the targets in our Operating Agreement as well as our own more demanding Customer Service Pledges. During the period, more than 950,000 and 540,000 train trips were made on our heavy rail and light rail network respectively. Only three delays on the heavy rail network and one delay on the light rail network lasting 31 minutes or more were attributable to factors within MTR's control.

Recognition of our Services

During the first half of 2016, MTR's transport services won a number of key awards, including the "Public Transportation Service Award" in the "Sing Tao Service Awards 2015" from Sing Tao Daily, the "Public

Operations Performance in the first half of 2016

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%	**99.9%**
– 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%	**99.9%**
– 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%	**99.7%**
– 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%	**99.8%**
– 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	650,000	**4,013,470**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	650,000	**6,617,868**
Ticket reliability: 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	8,500	**59,693**
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%	**99.8%**
– 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%	**99.7%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.7%**
– West Rail Line	97.0%	99.0%	**99.7%**
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%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.8%**
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%	**99.8%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

* *The Light Rail ticket machine replacement works and testing are underway. Performance data will be available after completion of installation, testing and trial operations of the new ticket machines.*

Transportation Award" in the "Hong Kong Service Awards 2016" from East Week magazine, and the "Top Service Awards 2016 – Category Award of Public Transportation" from Next Magazine.

Investing in Network Improvements

Rail Gen 2.0

In early 2016, we announced the launch of Rail Gen 2.0, which encompasses both significant on-going enhancements to our existing rail network and completion of the four remaining new railway lines and extensions to be delivered over the next few years. When completed, Rail Gen 2.0 will offer our passengers increased services, enhanced environments and an extended "next generation" rail network.

Under the Rail Gen 2.0 programme, a number of existing major systems and assets are being upgraded and replaced.

A total of 93 new and more comfortable 8-car trains costing HK$6 billion will replace the same number of existing 8-car trains currently operating on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. Following completion of the conceptual design, the train mock-up will be completed in the third quarter of 2016.

The existing signalling systems on the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines as well as the Airport Express are being replaced at a cost of HK$3.3 billion, which will increase the overall capacity of these lines by about 10%. The Tsuen Wan Line will be the first of these lines to be re-signalled, with target completion in 2018. Installation of new signalling equipment and train modification are underway. For the Island, Kwun Tong and Tseung Kwan O lines, site surveys for the provision of new signalling equipment commenced in the first quarter of 2016 and are making good progress.

The installation of new chillers at Wan Chai Station will begin in the fourth quarter of this year. This will be followed by a large-scale chiller replacement programme of 160 chillers in 38 stations and four depots that is expected to start in the fourth quarter of 2017.

Also included in Rail Gen 2.0 is the replacement of 30 Phase 2 Light Rail vehicles, together with the purchase of another ten new vehicles, for which the procurement contract was awarded in July this year.

To enhance train services and to serve the future Shatin to Central Link East West Corridor, the existing 28 7-car trains on the West Rail Line are being converted to 8-car trains under the Shatin to Central Link project. As at 30 June 2016, five 8-car trains had entered passenger service. All 8-car trains are targeted to be in service in 2018, increasing overall carrying capacity on the West Rail Line by about 14%.

Rail Gen 2.0 also involves major enhancements to three stations, which will serve as interchange stations after the new railway lines open. At Hung Hom Station, the refurbished southern part of the concourse was opened in March 2016, as part of the modification works under the Shatin to Central Link project. Stage two of the works in the northern part of the station is targeted for completion in 2017. Major modifications to Admiralty Station under the Shatin to Central Link and South Island Line (East) projects and to Diamond Hill Station under the Shatin to Central Link project are taking place.

The programme to retrofit Automatic Platform Gates on the Ma On Shan Line, as part of the Shatin to Central Link project, is on target for completion in 2017. For the East Rail Line, preliminary works including platform strengthening works are in progress. Automatic Platform Gates on the East Rail Line will be installed after the new signalling system and new trains are in operation.

Other Network Improvements

On the Western extension of the Island Line, we opened the last remaining entrance for Sai Ying Pun Station, at Ki Ling Lane, on 27 March 2016, followed by the opening of the passenger lift at that entrance on 25 June 2016.

In addition to the programmes under Rail Gen 2.0, we are setting aside another HK$140 million to invest in various improvement projects. These include adding wide gates and ventilation fans in stations, and for our Light Rail network, widening four Light Rail stop platforms, replacing benches on all platforms and replacing the passenger information display system.

We are also investing about HK$200 million to purchase 68 new double-decker buses to replace existing models. The first new bus commenced service in January 2016 and as at 30 June 2016, 15 new buses have entered service. In addition, to increase capacity, the procurement of ten additional new buses is under review.

As part of the ongoing station improvement programme, refurbishment works have commenced at Lo Wu and Kowloon Bay stations to bring more spacious environments and a more convenient and comfortable travel experience to passengers.

To improve accessibility to stations, more external lifts came into service during the first half of 2016, including those in Lai King, Diamond Hill and Sai Ying Pun stations. The remodelled Entrance A1 at Tsim Sha Tsui Station, which features a "Crystal Cube" with an external lift, opened in May 2016.

We have also continued to enhance our communications with passengers. New liquid-crystal information display systems for station concourses and platforms are being installed on the Island, Kwun Tong and Tsuen Wan lines. By the end of June 2016, 27 stations had installed the new passenger information display systems.

Responding to Our Customers

To identify ways to enhance customers' end-to-end journey experience, several journey-mapping workshops were conducted for different target segments. As a result, a number of customer experience enhancement initiatives were identified and launched in the first half of 2016. These included "Time to Next Train" information on the gate-top passenger information display system and enhanced platform signage at selected stations, as well as the deployment of mobile staff with portable devices to solve ticketing problems for customers at the gate-line during peak hours.

Passenger behaviour also plays a part in enhancing the journey experience. To remind passengers of the need for courteous behaviour when travelling on MTR, a courtesy campaign "Ride with manners" was launched in March 2016, focusing initially on behaviour when boarding trains.

To thank our customers for their support and bring more joy to passengers, in April 2016 we launched a new "Happy Birthday • Happy Journey" programme. Under this programme, one day of each month is chosen by lucky draw and all Hong Kong Identity Card holders whose birthday falls on that day become eligible to redeem a Birthday Pack, containing a specially designed "Happy Birthday One-day Pass", a HK$50 MTR Malls gift voucher and other merchant coupons.

To provide a channel for customers to express their appreciation for caring service, in January 2016 we organised a Service Appreciation Campaign to recognise our frontline staff. Customers were invited to vote for their "most liked" MTR service team and share personal stories about their journeys involving praiseworthy MTR service. More than 12,000 votes and 2,000 stories were received during the campaign period.

Hong Kong Station Commercial Businesses

Revenue from our Hong Kong station commercial businesses increased by 4.5% in the first six months of 2016 to HK$2,695 million when compared with the first six months of 2015. The growth mainly reflected higher rental income from station shops. Operating costs of our Hong Kong station commercial businesses rose by 2.4% to HK$253 million, resulting in a 4.7% increase in operating profit to HK$2,442 million, representing an operating margin of 90.6%.

Station retail revenue for the period increased 5.6% to HK$1,841 million as rents increased due to trade mix refinements, positive rental reversions in station shops and increases in rents in accordance with lease contract, for the Duty Free Shops at Lo Wu and Hung Hom stations.

As at 30 June 2016, there were 1,351 station shops, occupying 56,110 square metres of retail space. This represents a decrease of 11 shops and 128 square metres as compared with 31 December 2015, resulting from the demolition of shops at Hung Hom and Admiralty stations to facilitate the construction works for the new rail lines. During the first six months, 18 new brands were introduced to the network, while renovations were underway at Lo Wu, Hung Hom, Admiralty and Tai Po Market stations.

Advertising revenue in the first half of 2016 increased marginally by 0.2% to HK$498 million, due to the more challenging economic environment. The number of advertising units in stations and trains reached 45,048 during the period, with the e-shop network being expanded from ten to 20 stations.

Revenue from telecommunications in the first six months of 2016 grew by 8.7% to HK$274 million. The increase was due to incremental revenue from mobile data capacity enhancement. We are also working with a telecom operator to upgrade Wi-Fi equipment at 84 stations to provide enhanced service.

Hong Kong Property Businesses

The Hong Kong residential property market continued to face challenges in the first half of 2016, with increasing flat supply, a volatile stock market, the possibility of increases in interest rates and the impact of slower economic growth in the Mainland of China and Hong Kong. Property values have moved downwards since the peak in September 2015, with the Mass Centa-City Leading Index dropping from 148.6 in September 2015 to 130.0 in June 2016, a 12.5% decrease. Sales volumes in the primary market declined to a 25-year low in February 2016, although there was some recovery in the second quarter of 2016. The primary residential market was more resilient than the secondary market, with sales of new units boosted by incentives and flexible payment terms from developers. In the commercial sector, Grade-A office rents continued to be underpinned by strong demand from enterprises outside of Hong Kong, such as those from the Mainland of China. However the retail segment suffered both from the fall-off in Mainland tourists, which led to reduced spending on luxury goods, and also weaker local consumption due to the strong Hong Kong currency. For the first half of 2016, the value of total retail sales in Hong Kong dropped 10.5% compared with the same period in 2015.

Property Development in Hong Kong

Profit from Hong Kong property development in the first half of 2016 was HK$219 million, mainly derived from sundry sources such as the sharing in kind of the kindergarten at Hemera.

Acting as agent for the relevant subsidiary of KCRC, in March 2016 the presale of The Spectra (the Long Ping Station (North) site) was launched, with about 42% of 912 units sold up to 30 June 2016.

Property Development Packages Completed during the period and Awarded

Location	Developers	Type	Gross floor area *(sq. m.)*	Tender award date	Expected completion date
LOHAS Park Station					
Package Four	Sun Hung Kai Properties Limited	Residential	122,302	Awarded in April 2014	2020
Package Five	Wheelock and Company Limited	Residential	102,336	Awarded in November 2014	2020
Package Six	Nan Fung Group Holdings Limited	Residential	136,970	Awarded in January 2015	2021
Package Seven	Wheelock and Company Limited	Residential Retail Kindergarten	70,260 44,500 1,160	Awarded in June 2015	2022
Package Eight	Cheung Kong Property Holdings Limited	Residential	97,000	Awarded in October 2015	2021
Package Nine	Wheelock and Company Limited	Residential Kindergarten	104,110 810	Awarded in December 2015	2022
Package Ten	Nan Fung Group Holdings Limited	Residential	75,400	Awarded in March 2016	2022
Tai Wai Station					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	Awarded in October 2014	2022
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	Awarded in February 2015	2021
Nam Cheong Station#					
Nam Cheong	Sun Hung Kai Properties Limited	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	2017
Long Ping (South)	Chinachem Group	Residential	41,990	Awarded in June 2013	2019
Tsuen Wan West Station#					
TW5 Cityside	Chinachem Group	Residential Retail	66,114 11,210	Awarded in January 2012	2018
TW5 Bayside	Cheung Kong Property Holdings Limited	Residential Retail Kindergarten	167,100 40,000 550	Awarded in August 2012	2018
TW6	New World Development Co. Ltd. and Vanke Property (Overseas) Limited	Residential	62,711	Awarded in January 2013	2018
Yuen Long Station#					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	Awarded in August 2015	2022

 # as a development agent for the relevant subsidiaries of KCRC

** excluding a bicycle park with cycle track*

^ including a 24-hour pedestrian walkway and a covered landscape plaza

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	About 320,000	2016 – 2020	2020 – 2025
Wong Chuk Hang Station	Residential Retail	357,500 47,000		
Ho Man Tin Station	Residential	128,400		

Notes:

1 Property development packages for which we are acting as development agent for the relevant subsidiaries of KCRC are not included.

2 These property development packages are subject to review in accordance with planning approval, land grant conditions and completion of statutory processes.

Our property tendering activity saw LOHAS Park Package 10 awarded to a subsidiary of Nan Fung Group Holdings Limited in March 2016.

We continue to work with our developer partners in taking forward property development packages which had previously been tendered out. These nine property development packages comprise seven packages at LOHAS Park, one at the Tin Wing Light Rail Stop and one in Tai Wai Station. Over 16,000 residential units will be provided covering a total gross floor area ("GFA") of approximately 990,000 square metres when these developments are completed.

Construction activities for these property development packages are progressing as planned. The superstructure works of LOHAS Park Package 4 commenced in the first half of 2016, while the superstructure works of LOHAS Park Package 5 will commence in the second half of 2016. Foundation works for LOHAS Park Package 6 and 7, as well as the Tai Wai Station Development, have also commenced. Railway migration works to facilitate property development at the Tin Wing Light Rail Stop Development are progressing well. West Rail Line property development projects, where we act as agent for the relevant subsidiaries of KCRC, are progressing as planned.

We continue to assess the feasibility of other property developments along our railway lines. One possible site is above our depot in Siu Ho Wan on Lantau Island. With necessary zoning and other approvals, around 14,000 residential units could be built. Much work is still required including zoning, site planning, depot re-provisioning, obtaining necessary approvals as well as finalising the business model to implement the project. Another possible site is above the existing Yau Tong Ventilation Building. A preliminary feasibility study has been carried out and the site is expected to allow for the construction of around 500 residential units. Government has commenced the process to rezone the Yau Tong site for development purposes, while we have started the Environmental Impact Assessment for the Siu Ho Wan site. At this preliminary stage there can be no assurance that the Siu Ho Wan and Yau Tong proposals will become commercially viable projects for MTR.

Property Rental and Management Businesses in Hong Kong

Revenue from our Hong Kong property rental and property management businesses in the first half of 2016 grew by 4.6% over the first half of 2015 to HK$2,359 million. Operating costs rose by 1.1% to HK$361 million, resulting in operating profits rising 5.3% to HK$1,998 million, with operating margin at 84.7%.

Total property rental income in Hong Kong for the period was HK$2,218 million, a 4.2% increase. Rental reversion in our shopping mall portfolio averaged 3.2% during the period. As at 30 June 2016, our shopping malls in Hong Kong and the Company's 18 floors at Two International Finance Centre office building remained close to 100% let.

In view of the changing demographics in the eastern side of Hong Kong Island, the first floor of the East Wing of Paradise Mall is being revamped with major repartitioning works, to create more attractive retail offerings for customers. The works commenced in March 2016 and are on schedule for target completion by the end of 2016.

As at 30 June 2016, the Company's attributable share of investment properties in Hong Kong was 212,301 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of offices, and 15,267 square metres of property for other use.

Hong Kong property management revenue in the first six months of 2016 rose by 11.9% to HK$141 million, mainly due to incremental contributions from Hemera, Grand Austin, The Austin and City Point. As at 30 June 2016, the number of residential units under the Company's management was 96,066, unchanged from the end of 2015. Managed commercial space was over 764,000 square metres.

Hong Kong Property Investment Projects

The coming five years will see a significant expansion of our investment properties portfolio in Hong Kong as we add about 120,620 square metres (GFA) to our retail portfolio, increasing attributable GFA by approximately 40%.

The new Tai Wai shopping centre, of 60,620 square metres (GFA), is targeted to open in the second half of 2021. The Company has already contributed HK$7.5 billion to this development, and will retain ownership of the mall when completed and bear the fit-out costs.

The LOHAS Park shopping centre will have 44,500 square metres (GFA) and is targeted to open towards the end of 2020. The Company will contribute a total of HK$4.98 billion to the development, of which HK$2.44 billion has already been invested with the remaining HK$2.54 billion to be paid upon the completion of mall construction, expected to be in 2019. We will also retain ownership and bear the fit out cost of the shopping centre. Foundation works have commenced on both the Tai Wai and LOHAS Park projects.

The extension of Maritime Square will increase its retail area by 12,100 square metres (GFA) at a cost of approximately HK$2.4 billion. As at 30 June 2016, superstructure works had reached the third storey of the four-storey building. The extension is targeted to open in the second half of 2017.

In East Kowloon, floors seven and eight of our offices above Telford Plaza are being converted to retail use, adding a further 3,400 square metres (GFA) to the shopping centre at an estimated project cost of HK$550 million. The conversion works commenced in December 2015 and the project is scheduled to open also in the second half of 2017.

Hong Kong Network Expansion

The completion of the four new rail lines currently under construction is central to our Rail Gen 2.0 initiative, and will add 53 km to our existing network route length of 220.9 km, with 16 more stations serving the people of Hong Kong.

New Rail Lines Owned by MTR

Kwun Tong Line Extension

The 2.6-km Kwun Tong Line Extension will extend the Kwun Tong Line from Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa. As at 30 June 2016, the project was 99.4% complete, with overall civil works 99.9% complete and electrical and mechanical ("E&M") works 98.0% complete. Opening is targeted for October this year.

All structural works and major E&M equipment installation at Ho Man Tin Station have been completed. Statutory inspections for railway services and operational safety by relevant Government departments are progressing as planned. One of the major milestones achieved was the completion of the Fire Services Department inspection at Ho Man Tin Station in May 2016 and Whampoa Station in June 2016 respectively. For Whampoa Station, the station structure has been completed and E&M works were substantially complete. Train testing is also progressing well. Communication programmes to brief the local community on the station facilities and the future train service have commenced.

The current estimated cost of the project remains at HK$7.2 billion (before capitalised interest).

South Island Line (East)

The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District of Hong Kong Island. As at 30 June 2016, the project was 96.8% complete and, although we continue to work towards the target opening at the end of the year, the remaining tight construction timetable puts this at risk.

At Admiralty Station, with the cavern structural works and platforms required for line opening completed, the fit-out and E&M works are progressing in full swing with a tight schedule. The station box structure was 98.7% complete, while fit-out and E&M works were 82.6% complete as at 30 June 2016. Ocean Park and Wong Chuk Hang stations as well as the Wong Chuk Hang Depot, Lee Wing Street Ventilation Building and Nam Fung Ventilation Building have entered the pre-operational phase, with a series of testing and preparatory works underway to prepare for operation. Statutory inspections at South Horizons Station were completed in June 2016. Structural works for Lei Tung Station are complete, with fitting-out and E&M works nearing completion. Construction of the Nam Fung and Ap Lei Chau tunnels has been completed. In the Southern Loop section between Wong Chuk Hang and South Horizons stations, the train test run was completed in January 2016. In the Northern Loop section between Ocean Park and Admiralty stations, the train test run was completed in May 2016 and was followed by the train test run for the whole line.

The current estimated cost of the project remains at HK$16.9 billion (before capitalised interest) and although there is a risk that this may be exceeded, the excess (if any) is not expected to be material.

New Rail Projects Entrusted to MTR by Government

Express Rail Link

The 26-km Express Rail Link 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. It will be served by the West Kowloon Terminus, which at around 380,000 square metres (GFA) is one of the largest underground high-speed rail stations in the world. As at 30 June 2016, the project was 81.5% complete.

Construction of the West Kowloon Terminus achieved steady progress and was 73.1% complete as at 30 June 2016. All segments for the V-trusses of the Station Entrance Building have been erected. Fabrication of the external wall system commenced in March 2016. De-propping of the Station Entrance Building permanent steel structure was completed in May 2016. Tunnels works have progressed as planned and were 97.4% complete as at 30 June 2016. Over 73.9% of tracks had been laid and track installation in the southbound and northbound tunnels between Shek Kong and Hoi Tin Road was completed in May 2016.

The Company's project management responsibilities are set out in two Entrustment Agreements with Government. The first Entrustment Agreement ("XRL Preliminary Entrustment Agreement") covers, among other things, preliminary and detailed design and site investigation, while the second Entrustment Agreement ("XRL Entrustment Agreement") covers, among other things, completion of detailed design and construction and commissioning into service of the Express Rail Link.

The XRL Agreement relating to the further funding arrangements for the project was approved by the Company's independent shareholders on 1 February 2016 and became unconditional upon approval by the Finance Committee of LegCo on 11 March 2016 of Government's additional funding obligations.

Under the XRL Agreement, Government will bear and finance the project cost up to HK$84.42 billion (an increase of up to HK$19.42 billion (the "Current Cost Increase") from the original project cost estimate of HK$65 billion). If the project exceeds HK$84.42 billion, MTR will bear and finance any project costs exceeding HK$84.42 billion (if any) except in limited circumstances specified in the XRL Agreement. MTR will also pay a special dividend in cash of HK$4.40 per share in aggregate. The first tranche of this special dividend of HK$12.94 billion in total (being HK$2.20 per share) was paid on 13 July 2016. The second tranche of special dividend (also of HK$2.20 per share) will be paid in the second half of 2017. Other terms of the XRL Preliminary Entrustment Agreement and the XRL Entrustment Agreement (together, the "Entrustment Agreements") remain, except for amendments reflecting the XRL Agreement's proposed arrangements. These amendments also include an increase in the Project Management Fee payable to the Company under the XRL Entrustment Agreement to HK$6.34 billion (from HK$4.59 billion) and revision of the programme for completion of the Express Rail Link project to the third quarter of 2018. In addition, Government reserves the right to refer to arbitration the question of the Company's liability (if any) under the Entrustment Agreements for the Current Cost Increase, after the commencement of commercial operations on the new line ("Arbitration").

In the event that (i) Government refers to Arbitration the question of the Company's liability (if any) under the Entrustment Agreements for the Current Cost Increase; and (ii) the arbitrator does not determine that the liability cap contained in the XRL Entrustment Agreement ("Liability Cap") is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Increase would exceed the Liability Cap, then the Company shall bear such amount as is awarded to the Government up to the Liability Cap; seek the approval of its independent shareholders for the Company to bear the excess liability above the Liability Cap; and if the approval of the independent shareholders is obtained, pay the excess liability to Government.

Shatin to Central Link

The ten-station 17-km Shatin to Central Link connects existing railway lines to form an East West Corridor and a North South Corridor with six interchange stations. The lines will provide vital new links across Hong Kong. Overall, the project was about 59.0% complete as at 30 June 2016, with the East West Corridor and North South Corridor being 74.1% and 34.8% complete respectively. Pursuant to the Shatin to Central Link Entrustment Agreement ("SCL Entrustment Agreement"), the Government is responsible to bear all the work costs specified in the SCL Entrustment Agreement including costs to contractors and costs to the Company ("Interface Works Costs") except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred.

A number of major project milestones were achieved during the period. For the East West Corridor, break-through of all tunnels between Hin Keng and Diamond Hill stations was achieved in April 2016. Stage one modification works at the Hung Hom Station southern concourse were completed and reopened to the public in March 2016. This was followed by the commencement of stage two concourse modification works in the northern part of the station in April 2016. The first 8-car train was transferred to Tai Wai Depot on the Ma On Shan Line in May 2016 for the necessary testing and commissioning. Our project team and the local community celebrated another milestone on 6 June 2016 with the topping-out of the third Shatin to Central Link station and also the first Shatin to Central Link interchange station, Diamond Hill Station. The overall completion of the tunnel excavation for the East West Corridor will be marked by completion of the uptrack excavation from To Kwa Wan Station to Ho Man Tin Station, expected in August 2016.

For the North South Corridor, the first tunnel boring machine was put into operation in March 2016. The uptrack tunnel drive from Causeway Bay to Exhibition Station is progressing as planned and was about 81.0% complete as at 30 June 2016. For the immersed tube cross-harbour tunnel contract, piling works at the Hung Hom marine cofferdam were completed in June 2016. This was followed by dewatering, commencing in July 2016. Production of the immersed tube tunnel units is progressing as planned and was about 62.0% complete as at 30 June 2016.

Despite reasonable construction progress, and as reported previously, the programme for delivery of the Shatin to Central Link has been impacted by a number of key external events. Firstly, on the East West Corridor, the time taken in confirming actions to be undertaken relating to archaeological finds at the To Kwa Wan Station site has led to an 11-month delay in this corridor, with the estimated completion now in 2019. Secondly, on the North South Corridor, the anticipated late hand-over of certain critical work sites for construction of the new Exhibition Station due to infrastructure works by other parties, including as a result of the discovery of an unforeseen large metal object on the seabed in the vicinity, together with the additional works incorporated into the underground structure of Exhibition Station to allow flexibility for future construction works above the station, have already caused a six-month delay in that corridor. These issues mean that the estimated completion of the project as a whole is now in 2021. Any further delay in site hand-over will result in an equivalent additional delay to the completion of the North South Corridor. Our project team has been working diligently to explore and implement measures to improve progress and recover or mitigate the delays as far as possible.

Taking into account the continuing difficulties and challenges, including those described above, the Company considers it is likely that the cost estimate for the Shatin to Central Link will need to be revised upwards significantly to include the additional HK$4,100 million that was previously reported as a result of the archaeological finds in the To Kwa Wan area, the late handover of construction sites at Exhibition Station, the previously unbudgeted foundation works for top-side development at Exhibition Station and other factors such as lower availability of labour in Hong Kong's construction sector. The Company has advised Government that it will therefore conduct a detailed review of the project cost estimate for the project as a whole. Given the complexity of the project works, the continuing uncertainties associated with some of the issues highlighted above and the fact that the North South Corridor is currently only 34.8% complete, this review will only be completed in the second half of 2017 after which the Company will formally report the findings to Government.

New Railway Projects Under Discussion

Beyond the four new lines under construction, Government has identified seven new rail projects under RDS 2014 to be implemented in phases. In the first quarter of 2016, Government invited the Company to submit project proposals for three of these projects, namely the Northern Link (including Kwu Tung Station), Tuen Mun South Extension and the East Kowloon Line. Technical studies for these future lines are now underway to support the project proposals.

Mainland of China and International Businesses

In the first half of 2016, revenue from our Mainland of China and International railway and property related subsidiaries was HK$6,526 million, a 5.6% increase when compared to the first half of 2015.

Revenue from our railway related subsidiaries outside of Hong Kong, namely MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), Metro Trains Melbourne Pty. Ltd. ("MTM"), MTR Tunnelbanan AB (renamed from MTR Stockholm AB on 8 June 2016), MTR Tech AB (as a subsidiary starting from 15 February 2016), MTR Express (Sweden) AB, MTR Pendeltågen AB ("MTRP"), MTR Corporation (Crossrail) Limited ("MTRXR"), Metro Trains Sydney Pty. Limited and the Joint Venture for the design and construction of the Sydney Metro Northwest ("SMNW"), was HK$6,454 million. This represents an increase of 5.7% over the first six months of 2015. Operating costs increased 6.3% to HK$6,090 million, resulting in a 3.4% decrease in operating profit to HK$364 million, with the operating profit margin at 5.6%. The increase in revenue reflects the incremental contributions from MTRXR, which we started operating in May 2015, and the acquisition of the remaining 50% of TBT which was subsequently renamed as MTR Tech AB, offset by lower contributions from MTM.

Our associates outside of Hong Kong contributed profits of HK$152 million in the first half of 2016, compared with HK$49 million in the first half of 2015, reflecting improved performance from our Hangzhou and Beijing associates. The number of passengers carried by our railway subsidiaries and associates outside of Hong Kong was estimated at 884 million in the period, compared to approximately 755 million in the corresponding period of 2015.

CEO's Review of Operations and Outlook

Railway Businesses in the Mainland of China

Beijing

Our 49% associate Beijing MTR Corporation Limited ("BJMTR") operates three lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line and Beijing Metro Line 14 ("BJL14").

During the first six months of 2016, BJL4 and the Daxing Line exceeded their service targets. Combined ridership in the first half of 2016 was about 212 million passenger trips, with average weekday patronage of more than 1.25 million. This represented increases of 4% and 5% respectively compared with same period last year. The two lines have 35 stations and a combined length of 50 km.

The latest operating plan for BJL14 is now to complete the line in five phases. Three phases of BJL14 have already been put into passenger service, comprising a 12.4-km Phase 1 West Section with seven stations, a 14.8-km Phase 2 East Section with ten stations, which is connected to a 16.6-km Phase 3 Middle Section with nine stations. These three phases recorded a combined 86 million passenger trips and average weekday patronage of about 537,000 during the first half of 2016. With the opening of Phase 3, as from 31 December 2015, the 30-year concession has commenced. During the first six months of 2016, BJL14 exceeded its service targets. MTR's equity contribution to BJMTR to support BJL14 is estimated at RMB 2.45 billion.

The Concession Agreement for the BJL16 Public-Private-Partnership ("PPP") project was signed by BJMTR on 28 November 2015. Under the agreement, BJMTR will provide E&M systems as well as rolling stock. BJMTR will also undertake the operation and maintenance of the line for 30 years. Civil construction works, for which the Beijing Municipal Government is responsible, have begun and first phase operation is expected to commence by the end of this year, with full line operation after 2017. The line will run 50 km from Beianhe to Wanping, encompassing 29 stations. MTR's equity contribution to BJMTR to support BJL16 is estimated at up to RMB 2.45 billion.

Beijing is building a new airport in the Daxing area which is planned to commence service in 2019. A new airport express line will connect the Beijing Daxing airport with the city and BJMTR is considering participating in the tender for investment and operation of this new line. The tender process is expected to commence in the second half of 2016.

Shenzhen

The Shenzhen Metro Line 4 ("SZL4") operated by our wholly-owned subsidiary MTR(SZ) performed steadily, with a 7% increase in patronage to about 95.9 million in the period. The line has 15 stations and covers 20.5 km.

Although patronage has continued to increase on SZL4, there has been no increase in fares since we started operating the line in 2010. Unlike our rail business in Beijing and Hangzhou, MTR(SZ) does not benefit from a shadow fare subsidy mechanism. We understand that there continue to be discussions within the Shenzhen Municipal Government regarding fare adjustments. If such fare adjustments are not implemented, the long-term financial viability of SZL4 may be impacted.

Hangzhou

Our 49% associate in Hangzhou, Hangzhou MTR Corporation Limited ("HZMTR"), operates Hangzhou Metro Line 1 ("HZL1"). Operational performance was steady, with patronage growing by 15% in the first half of 2016 to 96.7 million. HZL1 was extended by 5.7 km in November 2015 to cover 54 km and 34 stations. The extension is operated under an operating and maintenance business model.

HZMTR has continued to record a net loss due to patronage being lower than originally expected. However, this net loss was lower than in the prior year period due mainly to higher fare revenue as a result of improved patronage, partially offset by incremental interest expenses. Patronage on HZL1 continues to grow and average weekday patronage for the period is 549,000.

MTR submitted a tender for Hangzhou Metro Line 5, another PPP project on 16 May 2016. The tender is for a 49% interest in the project, with Hangzhou Metro Group Company Limited retaining the remaining 51%. The winner of the tender is currently expected to be announced in the second half of 2016.

International Railway Businesses

United Kingdom

In London, having taken over management of the West Anglia Inner suburban routes, London Overground Rail Operations Limited ("LOROL") now manages 81 stations with a route length of 167 km. The current London Overground concession expires in November 2016 and our bid for the new concession was unsuccessful. LOROL is now assisting Transport for London ("TfL") to ensure a smooth handover to the new operator. The LOROL team which has operated the concession so successfully over the last nine years has earned our sincere gratitude.

MTRXR commenced operations in May 2015 under the name "TfL Rail". TfL Rail consists of services devolved from the previous Greater Anglia franchise covering 14 stations. It will be renamed the "Elizabeth Line" when the section through central London becomes operational, targeted to be in 2018. When the full Elizabeth Line is operational in 2019, it will serve 40 stations with a route length of 118 km. During the first six months of 2016, MTRXR has continued to deliver improved operational performance.

Also in the UK, we are partnering with FirstGroup in a bid for the South Western Rail franchise, with the Company as a minority 30% shareholder. The Invitation to Tender was received in June 2016 and tender will be submitted in September 2016.

Sweden

MTR Tunnelbanan AB delivered good operational performance in the first half of 2016, with the punctuality of all lines above the contractual targets as well as a record high customer satisfaction. Ridership for the period was estimated at 174 million, with average weekday patronage estimated at 1.2 million.

The MTR Express service between Stockholm and Gothenburg recorded excellent operational performance and high levels of customer satisfaction. Passenger numbers remain below initial forecast although continuing to improve as a result of intensified marketing, promotion and sales campaigns. In a recent independent national customer survey, MTR Express was ranked as the number one rail operator in Sweden.

On 15 February 2016, MTR acquired the 50% shareholding in TBT from the joint-venture partner Mantena AS, following which TBT was renamed MTR Tech AB. The acquisition brings rolling stock maintenance for the metro network in Stockholm fully under MTR management.

In December 2015, our wholly-owned subsidiary MTR Nordic was awarded the concession to operate the Stockholm commuter train service (Stockholms Pendeltåg), including the rolling stock maintenance, for ten years, with an option to extend for four more years. Stockholms Pendeltåg serves the greater Stockholm area, with 53 stations and a total route length of 241 km. The legal challenge against the tender process from one of the failed bidders has now been resolved. MTRP, our wholly-owned subsidiary, will operate the service starting from December 2016.

Australia

In Melbourne, our 60% owned subsidiary MTM saw steady performance in the Melbourne metro network, which has 218 stations and covers 390 km. This concession will expire in November 2017 and, with good operational performance, MTM has qualified to negotiate directly with the Government of Victoria for an extension. Preparation work for this negotiation is on-going.

In Sydney, the consortium of which MTR is a member is responsible for the design, construction, financing as well as the future operation and maintenance of the SMNW PPP project. Construction works for the PPP project have begun and progress is in accordance with programme. Upon completion, the 36-km railway between Rouse Hill and Chatswood will be the country's first fully automated rapid transit network. Service commencement is expected in the first half of 2019.

Sydney Metro City and Southwest ("SMCSW"), a 29-km line extension from Chatswood Station of SMNW through a new Sydney Harbour crossing to Bankstown, is planned to start construction in 2017 and operation in 2024. MTR, being a member of the consortium for the SMNW PPP project, is exploring potential participation in the SMCSW project.

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

Following very successful presales of Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1, we have been preparing for the handover of completed units, which will be carried out in two batches: the first, comprising units sold in the low rise buildings on top of the depot, by the end of this year; and the remaining units, which comprise the vast majority, by middle of next year. This is our first property development in the Mainland of China and the project has a total developable GFA of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA). Booking of profits from Tiara will take place when the units are handed over to buyers.

In Tianjin, our 49% owned associate, Tianjin TJ-Metro MTR Construction Company Limited, is making progress in the development of the Beiyunhe Station project on Tianjin Metro Line 6, with piling works underway. The project faces a number of obstacles, however, including softening market demand in Tianjin, especially for offices (the mixed use project has approximately 60,000 square metres GFA of offices) as well as a significant increase in the estimated construction cost due to a more complex basement construction. We and our 51% partner, Tianjin Metro (Group) Company Limited, are in discussions with the relevant government bodies to resolve these challenges. The possible solutions may necessitate changes to design schemes and the general layout plan.

Revenue from our property rental and property management businesses in the Mainland of China decreased by 6.5% to HK$72 million in the first half of 2016, as compared with the corresponding period of last year, mainly due to adverse exchange rate movements. Our shopping mall in Beijing, Ginza Mall, was 99.6% occupied as at 30 June 2016. The Company also manages third party properties in the Mainland of China which, as at 30 June 2016, covered a GFA of 230,000 square metres, unchanged from the end of 2015.

Other Businesses

The Ngong Ping Cable Car and associated theme village ("Ngong Ping 360") saw revenue increase by 13.9% in the first six months of 2016 to HK$188 million. Visitor numbers for the period increased by 7.6% to 0.83 million, mainly due to six more operating days compared with the same period last year. The six months saw various promotions, including one with a Hello Kitty theme, one featuring an Ip Man Experience Hall and those aimed at children and the elderly. We are currently formulating a detailed track rope replacement plan, as part of the long-term asset replacement programme.

The Company's share of Octopus' net profit in the first half of 2016 rose by 23.9% to HK$145 million. As at 30 June 2016, more than 7,000 service providers in Hong Kong were accepting Octopus for payment. Total cards and other stored-value Octopus products in circulation reached 31.5 million, with average daily transaction volumes and value reaching 13.8 million and HK$173.5 million respectively.

Financial Review

Despite the challenging environment in the first half of 2016, our business was steady and resilient amid the economic slowdown. In the first half of 2016, the Group delivered stable profit growth from our recurrent businesses and recorded modest profits from our property development business.

The Group's total revenue and total operating expenses increased by 5.4% and 5.3% to HK$21,307 million and HK$12,497 million, respectively. Revenue from Hong Kong transport operations was HK$8,617 million, an increase of 5.8% mainly due to adjustments in fares under the FAM which were partly offset by fare concessions. Expenses relating to Hong Kong transport operations grew by 4.3% to HK$4,533 million due to more operational staff, coupled with increases in staff salaries. Revenue from station commercial businesses increased by 4.5% to HK$2,695 million, mainly due to positive rental reversions of station shops and increases in base rents in accordance with lease contracts of Duty Free Shops. The related expenses were 2.4% higher at HK$253 million. Hong Kong property rental and management businesses recorded revenue of HK$2,359 million, up 4.6% due to positive rental reversions. The related expenses slightly increased by 1.1% to HK$361 million.

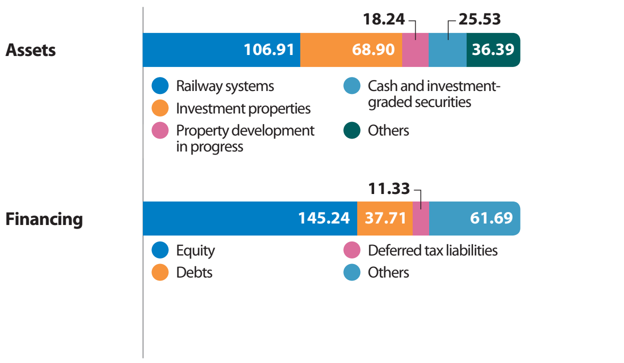
Revenue from the subsidiaries outside of Hong Kong increased by 5.6% to HK$6,526 million, with the related operating expenses increasing by 5.8% to HK$6,174 million and operating profits increasing by 2.0% to HK$352 million. On a constant exchange rate basis, the revenue and expenses from our railway related subsidiaries outside of Hong Kong would have increased by 7.6% and 8.0% respectively, and operating profits would have slightly increased by 0.1% mainly due to higher franchise income from Stockholm metro, increase in patronage of SZL4 and incremental profit contributions from our new operation, MTRXR, in the United Kingdom, offset by a reduction in profits at MTM and losses in MTR Express.

Revenue from other businesses in Hong Kong was HK$1,110 million, an increase of 5.9% mainly due to a higher level of project management work performed for Government, which is recognised on a cost recovery basis, as well as higher revenue from Ngong Ping 360. The related expenses increased by 6.6% to HK$1,046 million in line with the revenue growth.

Simplified Consolidated Statement of Financial Position

As at 30 June 2016

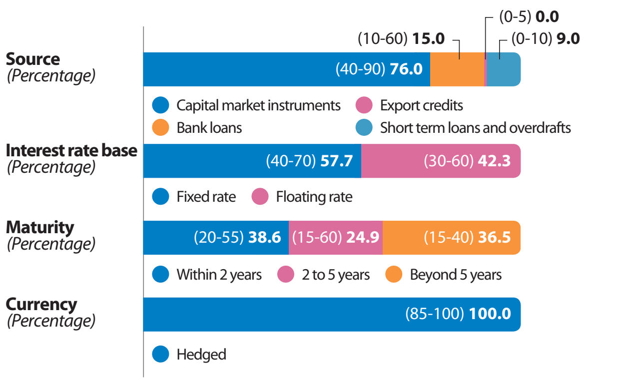
(HK$ billion)



Preferred Financing Model and Debt Profile

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

(Preferred Financing Model) *vs.* **Actual debt profile** *As at 30 June 2016*



Including project study and business development expenses of HK$130 million, operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment arising from recurrent businesses was HK$8,837 million in the first half of 2016, an increase of 5.3% over the same period of 2015. The operating loss from Mainland of China property development was HK$27 million, being mainly sales and marketing expenses for Tiara in Shenzhen, and was lower than the same period of 2015 by HK$20 million. Total operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment increased by 5.6% to HK$8,810 million, with operating margin maintained at 41.3%.

Hong Kong property development profit in the first half of 2016 was HK$219 million, mainly derived from sundry sources such as the sharing in kind for the kindergarten at Hemera (LOHAS Park Package 3). This was HK$2,592 million lower than the same period in 2015 when substantial property development profit was recognised from Hemera. Depreciation and amortisation charges increased by 6.8% to HK$2,008 million mainly due to the additional depreciation charges on new asset additions in our existing Hong Kong railway network. Variable annual payment to KCRC increased by 10.3% to HK$867 million as the incremental revenue was charged at the highest progressive rate of 35%. Operating profit before interest and tax therefore decreased by 27.5% to HK$6,154 million.

Interest and finance charges were HK$268 million in the first half of 2016, a decrease of 9.2% mainly due to higher interest income. Investment property revaluation gain amounted to HK$48 million. Our share of profit from Octopus Holdings Limited increased by 23.9% to HK$145 million. Our share of profit from other associates was HK$152 million, an increase of HK$103 million over the same period in 2015. The increase was due to improvements in the results of HZMTR and BJMTR, mainly resulting from patronage growth in 2016.

Net profit attributable to shareholders, after deducting income tax of HK$1,037 million and profits shared by non-controlling interests of HK$73 million, decreased by 37.5% to HK$5,121 million in the first half of 2016. Earnings per share therefore decreased from HK$1.40 to HK$0.87. Excluding investment property revaluation, the underlying profit attributable to equity shareholders was HK$5,073 million, with underlying earnings per share of HK$0.86. Profit from our recurrent businesses grew by 7.8% to HK$4,866 million, while post-tax property development profits decreased from HK$2,311 million to HK$207 million in the first half of 2016.

Our statement of financial position remained strong, as the Group's net assets decreased by 14.7% from HK$170,171 million as at 31 December 2015 to HK$145,239 million as at 30 June 2016, due to the special dividend of HK$25,884 million accrued following the approval of the XRL Agreement by shareholders and LegCo earlier this year.

Total assets increased by HK$14,870 million to HK$255,973 million as a result of capitalisation of further construction costs of the South Island Line (East) and Kwun Tong Line Extension, renewal and upgrade works for our existing Hong Kong railway network and higher cash balances. There was also equity contribution to BJMTR to support BJL14. Total liabilities have increased by HK$39,802 million since 31 December 2015 to HK$110,734 million as at 30 June 2016. This was mainly due to the special dividend accrued as well as the sales proceeds received in advance in respect of Tiara in Shenzhen. The Group's net debt-to-equity ratio decreased from 11.3% at 31 December 2015 to 8.6% at 30 June 2016. If the HK$4.40 per share Special Dividend payable totalling approximately HK$25,884 million had been paid on 30 June 2016, the Group's net debt-to-equity ratio as at 30 June 2016 would have increased from 8.6% to 26.4%.

Net cash generated from operating activities decreased by HK$320 million to HK$9,407 million in the first half of 2016. The decrease was mainly due to higher tax payments. Receipts from property developments of HK$5,062 million in the first half of 2016, which were HK$2,622 million higher than the same period in 2015, and mainly related to proceeds from Hemera in Hong Kong and Tiara in Shenzhen. Including other cash receipts of HK$734 million mainly relating to proceeds from shares issued under our share option scheme, net cash receipts from operating and investing activities increased from HK$12,553 million in the first half of 2015 to HK$15,203 million in the first half of 2016.

Total capital expenditure for railway operations paid during the first half of 2016 was HK$4,231 million. This included HK$2,128 million for the purchase of assets for our Hong Kong transport operations' existing railways and related operations, HK$2,054 million for the construction of the Hong Kong railway extension projects, HK$49 million for other Mainland of China and overseas transport operations. For property related businesses, total capital expenditure paid was HK$1,026 million. This included HK$191 million in respect of Hong Kong property development projects, HK$643 million for Tiara and HK$192 million for Hong Kong investment property projects and related fitting out work.

The Group paid variable annual payment to KCRC amounting to HK$1,649 million. Taking into account the cash investment into BJMTR of HK$1,191 million and other payments, net cash payments decreased from HK$15,149 million in the first half of 2015 to HK$8,493 million in the first half of 2016. After these items and net loan drawdown of HK$6,154 million, the Group's cash balance increased from HK$12,318 million at 31 December 2015 to HK$25,182 million at 30 June 2016.

Financing Activities

The US Federal Reserve did not follow through with further interest rate hikes in the first half of 2016, preferring to take a wait-and-see approach in light of the uneven growth in the US economy and the increasingly complex and uncertain global environment.

Although commodity and oil prices have rebounded from cyclical lows, continuing global over-capacity and lack of inflation, together with significant safe haven demand for US Treasuries, particularly after the 'Brexit' vote, sent Treasury yields to fresh historical lows with the 10-year and 30-year yields ending the period at 1.47% p.a. and 2.28% p.a. respectively.

Taking advantage of the drop in long-term interest rates, the Group issued a number of HK and US dollars long-term fixed rate notes through private placement. Totalling about HK$3 billion with maturities ranging from 15 to 35 years, these notes helped secure attractive, cost effective fixed rate long-term funding whilst further lengthening and diversifying the debt maturity profile.

A HK$15 billion syndicated loan facility launched in February was met with overwhelming interest and successfully closed in June with the size increased to HK$25 billion and participation by 21 major banks from across Asia, Australia, the Middle East, Europe and North America. The facility comprises a HK$12.5 billion 3-year term loan and a HK$12.5 billion 5-year revolving credit facility. All-in pricing of the 3-year term loan is the lowest in the HK dollar loan market since the 2008 Global Financial Crisis and that of the 5-year revolving facility is also the lowest amongst current outstanding 5-year facilities.

At the end of June 2016, the Company had total cash and bank deposit balances of HK$16,855 million. This, together with total undrawn committed banking facilities of HK$31,700 million, would provide comfortable forward funding coverage well into 2017.

The Company's debt portfolio is prudently managed in accordance with our Preferred Financing Model. At the end of June 2016, 38.6% of total debt outstanding had maturity of less than 2 years, 24.9% between 2 and 5 years, and 36.5% beyond 5 years, reflecting modest refinancing risk. With 100% of debt outstanding either denominated in or hedged into HK dollars, foreign exchange rate risk was minimal. Approximately 57.5% of debt outstanding was at fixed rate, reflecting a manageable interest rate risk.

During the first half of 2016, the Company's weighted average borrowing cost remained the same at 2.9% p.a. as in the same period last year. Group weighted average borrowing cost decreased to 3.1% p.a. from 3.6% p.a. mainly due to lower PBOC reference lending rates and repayment of project loans with higher interest rates in the Mainland of China.

The Company's credit ratings remained strong and on par with the Hong Kong SAR Government at AAA and Aa1 by Standard and Poor's and Moody's respectively, although rating outlook was changed to negative in April and March 2016 respectively after the outlook for Hong Kong was downgraded from stable.

MTR Academy

The Company continues to make progress on the establishment of the MTR Academy in Hong Kong which aims to develop local and other nations' human resources for the railway and transport industry. The President of the Academy was appointed with effect from 1 July 2016. The initial Hong Kong campus of the Academy will be located in the MTR Hung Hom Building. The space is under renovation and will be opened by the end of 2016. In addition to the Qualifications Framework accredited programmes on railway operations and maintenance for MTR employees and the Hong Kong community, the Academy is developing other programmes tailored for executives and managers of railway operating companies in the Mainland of China and overseas.

Human Resources

The Company, together with its subsidiaries, employed 17,411 people in Hong Kong and 8,672 people outside of Hong Kong as at 30 June 2016. Our associates employed an additional 11,167 people in and outside of Hong Kong. During the first six months of 2016, 766 new hires were taken on and 646 people were promoted internally, while staff turnover remained low at 3.5% in Hong Kong.

In support of current operational needs and future business growth, a robust manpower resourcing strategy has been formulated, with active recruitment activities such as Community Recruitment Days, to attract talents at various levels. Proactive manpower planning and a global resourcing strategy are also in place to cater for the needs of our global businesses.

We continue to groom our young talents through various graduate development programmes covering job rotations and attachments, study trips, management training and action learning projects. A range of leadership development and learning programmes have also been launched to support the growth of staff across all levels. During the first half of 2016, 3,547 courses were held in Hong Kong providing an average of 3.2 training days per employee.

Various programmes are in place to reinforce staff engagement and motivation. To strengthen the corporate culture, 35 Culture-in-Action Managers Workshops have been conducted for over 1,500 managers since August 2015, with the first "Culture-in-Action Change Agents Forum" held in March 2016.

A total of 4,297 communication sessions were conducted under the "Enhanced Staff Communication Programme" during the first half of the year. Internationally, our popular global internal communications platform MTRconnects had recorded over 758,500 hits by 30 June 2016.

The Work Improvement Team programme, together with the Staff Suggestion Scheme, continue to encourage collective innovation, process improvement and staff engagement in our Hong Kong, Mainland of China and international businesses.

With our dedication to employee engagement and Human Resources practices to inspire and develop staff, the Company was named among the "Best Companies to Work for in Asia 2016" by HR Asia Magazine, one of the leading publications for HR professionals. The Company was also honoured as the first runner-up of the "Most Attractive Employers in Hong Kong" organised by the Randstad Group, an international Human Resources consultant firm.

Community Engagement

In March 2016 we launched a new identity for our corporate responsibility initiatives called Community Connect. Complementing our Youth Connect initiatives, Community Connect encompasses a number of new and existing programmes, such as offering retail spaces within our West Rail Line for social enterprises that will be rolled out in 2016, as well as the continued collaboration with the Hong Kong Repertory Theatre on the Master of Railway Safety School Tour, which is now in its fifth year. We are also making space available in our malls for art-related activities. This enriches our existing "art in mtr" programme, which aims to enhance passengers' travelling experience.

One of our Community Connect initiatives, our "More Time Reaching Community" scheme, supported 123 community projects involving over 1,900 volunteers in the first half of 2016. In addition, over HK$2.9 million was donated to charitable and other organisations. In July 2016, a special donation, comprising contributions from MTR staff and the Company, was made via the Fire Services Department to the families of the two gallant fire fighters who died battling the Ngau Tau Kok blaze. In recognition of our commitment to caring for the community, our employees and the environment over the past years, the Company has been awarded the "10 Years Plus Caring Company Logo" by the Hong Kong Council of Social Service since 2015.

Outlook

The global outlook remains uncertain, reflecting slowing economic growth in many countries and geo-political uncertainties resulting from events such as the outcome of the UK referendum on membership of the European Union and forthcoming elections in a number of countries. These factors have impacted Hong Kong, which has seen a decline in retail sales, a softening in the residential property markets and slower GDP growth.

Despite this more challenging environment, our Hong Kong transport business is defensive by nature and although we expect passenger volume growth to be muted, it will be supported by the opening of the Kwun Tong Line Extension targeted for October this year. We are also targeting to open the South Island Line (East) at the end of the year, although the remaining tight construction timetable puts this at risk. Rental reversions at our station retail and property rental businesses will be subject to market conditions, while our advertising business will be sensitive to Hong Kong's overall economic conditions.

As mentioned previously, we do not expect to launch any new pre-sales on any of our current Hong Kong property development projects in the second half of the year. Hence any profits from Hong Kong property development will come from sundry sources such as the sale of existing inventory units and car parking spaces. In the Mainland of China, following the successful pre-sales of Tiara in Shenzhen, we will book profits on units sold when such units are handed over to buyers. Based on construction progress, we expect to hand over units sold in the low-rise buildings on the depot podium before the end of this year, while the high rise units, which account for the vast majority of the development, will be handed over next year.

In our property tendering activities in Hong Kong over the next six months or so, subject to market conditions, we expect to tender out three of our development packages, these being our eleventh package at LOHAS Park and our first package for each at Ho Man Tin Station and Wong Chuk Hang Depot. As agent for the relevant subsidiary of KCRC, subject to completion of statutory process, we also expect to tender out the first package of the Kam Sheung Road Station site.

Outside of Hong Kong, if local currencies continue to be weak, this may have an adverse impact on profits when such profits are translated back into Hong Kong dollars. The opening of Phase 1 of BJL16, expected at the end of this year, and the take-over of operations of Stockholms Pendeltåg, will add to our businesses.

A number of changes have been made to our senior management team to strengthen its effectiveness.

Dr Peter Ewen joined as Engineering Director on 22 February 2016 to oversee the Company's new Engineering Division. Ms Margaret Cheng was appointed as Human Resources Director with effect from 1 June 2016. Mr Herbert Hui joined as Finance Director – Designate on 1 June 2016 and was appointed as Finance Director on 2 July 2016.

To strengthen the focus on Hong Kong railway operations and to respond to the business and operational growth within and outside of Hong Kong, the new position of Managing Director – Operations and Mainland Business has been created. This new post was taken up on 1 May 2016 by Dr Jacob Kam, formerly Operations Director, who was succeeded in his previous role by Mr Adi Lau, formerly Deputy Director – Operating.

Following Mr Morris Cheung's appointment as President of the MTR Academy on 1 July 2016, his responsibilities as European Business Director were transferred to Ms Gill Meller, Legal Director & Secretary, whose title changed to Legal and European Business Director on the same date. The procurement and contract administration function, which was previously part of the Legal and Procurement Division, was transferred to the Engineering Division.

Finally I wish to express my gratitude to the Board for their encouragement and support. My thanks also go out to all my MTR colleagues both in and outside of Hong Kong for their excellent work and their dedication in providing our customers with world-class levels of service.

Lincoln Leong Kwok-kuen, *Chief Executive Officer*
Hong Kong, 9 August 2016

Key Figures

	Half year ended 30 June 2016	Half year ended 30 June 2015	% Increase/ (Decrease)
Financial highlights *(HK$ million)*			
Revenue			
– Hong Kong transport operations	**8,617**	8,147	5.8
– Hong Kong station commercial businesses	**2,695**	2,579	4.5
– Hong Kong property rental and management businesses	**2,359**	2,255	4.6
– Mainland of China and international subsidiaries	**6,526**	6,181	5.6
– Other businesses	**1,110**	1,048	5.9
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	**8,810**	8,346	5.6
Profit on Hong Kong property development	**219**	2,811	(92.2)
Operating profit before depreciation, amortisation and variable annual payment	**9,029**	11,157	(19.1)
Profit attributable to equity shareholders arising from underlying businesses	**5,073**	6,827	(25.7)
Total assets	**255,973**	241,103^	6.2
Loans, other obligations and bank overdrafts	**27,067**	20,811^	30.1
Obligations under service concession	**10,534**	10,564^	(0.3)
Total equity attributable to equity shareholders	**145,076**	170,055^	(14.7)
Financial ratios			
Operating margin *(%)*	**41.3**	41.3	–
Operating margin (excluding Mainland of China and international subsidiaries) *(%)*	**57.2**	57.0	0.2% pt.
Net debt-to-equity ratio* *(%)*	**8.6#**	11.3^	(2.7%) pts.
Interest cover *(times)*	**14.6**	16.6	(2.0) times
Share information			
Basic earnings per share *(HK$)*	**0.87**	1.40	(37.9)
Basic earnings per share arising from underlying businesses *(HK$)*	**0.86**	1.17	(26.5)
Dividend per share *(HK$)*	**0.25**	0.25	–
Share price at 30 June *(HK$)*	**39.20**	36.10	8.6
Market capitalisation at 30 June *(HK$ million)*	**230,543**	210,883	9.3
Operations highlights			
Total passenger boardings in Hong Kong *(million)*			
– Domestic Service	**774.5**	772.5	0.3
– Cross-boundary Service	**55.4**	56.2	(1.4)
– Airport Express	**7.8**	7.6	2.7
– Light Rail and Bus	**112.5**	111.1	1.3
Average number of passengers *(thousand)*			
– Domestic Service *(weekday)*	**4,537**	4,534	0.1
– Cross-boundary Service *(daily)*	**304.5**	310.7	(2.0)
– Airport Express *(daily)*	**42.8**	41.9	2.1
– Light Rail and Bus *(weekday)*	**638.5**	632.3	1.0
Fare revenue per passenger *(HK$)*			
– Domestic Service	**7.81**	7.36	6.2
– Cross-boundary Service	**28.63**	27.29	4.9
– Airport Express	**62.29**	60.59	2.8
– Light Rail and Bus	**3.08**	2.92	5.5
Proportion of franchised public transport boardings (January to May) *(%)*	**48.3**	48.5	(0.2%) pt.

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

^ *Figures as at 31 December 2015*

\# *If the HK$4.40 per share special dividend payable totalling HK$25.88 billion as at 30 June 2016 had been paid as at 30 June 2016, the Group's net debt-to-equity ratio as at 30 June 2016 would have increased from 8.6% to 26.4%.*

Members of the Board, the Board Committees and the Executive Directorate

List of Members of the Board and the Executive Directorate and their Roles and Functions (as at 9 August 2016)

		Board Committees					
	Executive Committee	Audit Committee	Nominations Committee	Remuneration Committee	Capital Works Committee	Risk Committee	Corporate Responsibility Committee
Members of the Board							
Non-executive Directors							
Professor Frederick Ma Si-hang (Chairman)			M	M			C
Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)			M	M			
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)			M	M			
Permanent Secretary for Development (Works) (Hon Chi-keung)					M	M	
Commissioner for Transport (Ingrid Yeung Ho Poi-yan)		M				M	
Independent Non-executive Directors							
Pamela Chan Wong Shui			M				M
Dr Dorothy Chan Yuen Tak-fai				C	M		
Vincent Cheng Hoi-chuen				M			M
Anthony Chow Wing-kin				M	M		
Dr Eddy Fong Ching		C	M				
James Kwan Yuk-choi					M	M	
Lau Ping-cheung, Kaizer					M		M
Lucia Li Li Ka-lai		M				M	
Alasdair George Morrison		M				C	
Ng Leung-sing			M			M	
Abraham Shek Lai-him			C		M		
Benjamin Tang Kwok-bun				M		M	
Dr Allan Wong Chi-yun		M			C		
Executive Director							
Lincoln Leong Kwok-kuen (Chief Executive Officer)	C						M
Members of the Executive Directorate							
Lincoln Leong Kwok-kuen (Chief Executive Officer)	C						M
Jacob Kam Chak-pui (Managing Director-Operations and Mainland Business)	M						
Margaret Cheng Wai-ching (Human Resources Director)	M						M
Morris Cheung Siu-wa (President of MTR Academy)	M						
Peter Ronald Ewen (Engineering Director)	M						
Herbert Hui Leung-wah (Finance Director)	M						
Adi Lau Tin-shing (Operations Director)	M						
Gillian Elizabeth Meller (Legal and European Business Director)	M						
Linda So Ka-pik (Corporate Affairs Director)	M						M
David Tang Chi-fai (Property Director)	M						
Philco Wong Nai-keung (Projects Director)	M						
Jeny Yeung Mei-chun (Commercial Director)	M						

C: Chairman of the committee
M: Member of the committee

Corporate governance is the collective responsibility of Members of the Board and the Board firmly believes that good corporate governance is fundamental in ensuring the proper management of the Company in the interests of all of its stakeholders. The Board seeks to identify and formalise best practices for adoption by the Company on a continuous basis.

Corporate Governance Code Compliance

During the six months' period ended 30 June 2016, 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").

Business Ethics

Practising integrity and responsible business ethics is paramount to the Company's continued success. The Company's Code of Conduct lays down the requirements of the Company in terms of ethical practices and obliges staff to operate transparently and under the highest principles of fairness, impartiality and integrity in all of the places where the Company does business.

The Code of Conduct is reviewed and updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements. Education programmes are in place to raise staff awareness. Staff members are also encouraged to report existing or perceived violations and malpractices. Proper procedures have already been put in place pursuant to the Whistle-blowing policy of the Company, under which staff members can raise their concerns in a safe environment and in complete confidence if they have genuine suspicions about wrongdoings.

To enable new recruits to embrace the Company's values and ethical commitments, they will be briefed on the Code of Conduct as part of the staff induction programme. In addition, the Code of Conduct is uploaded onto the Company's website (www.mtr.com.hk).

The Code also serves as a guideline to promote a comparable ethical culture in our subsidiaries and associates in Hong Kong, the Mainland of China and overseas.

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 ("Model Code"). After having made specific enquiry, the Company confirms that Members of the Board and their alternate directors, and Members of the Executive Directorate have complied with the Model Code throughout the six months' period ended 30 June 2016.

Senior managers, other nominated managers and staff who, because of their office in the Company, are likely to be in possession of Inside Information (which term shall bear the same meaning as 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.

Changes during the period from 1 January 2016 to 9 August 2016

Changes in Composition of Members of the Board

1. Professor Frederick Ma Si-hang, a Non-executive Director ("NED") of the Company, was appointed as the Chairman of the Company, the chairman of the Corporate Responsibility Committee, and a member of each of the Nominations Committee and the Remuneration Committee of the Company with effect from 1 January 2016. He ceased to be a member of the Audit Committee of the Company with effect from the same date.

2. Mr Abraham Shek Lai-him, an Independent Non-executive Director ("INED") of the Company, ceased to be a member of the Corporate Responsibility Committee of the Company with effect from 1 January 2016.

3. Mr Benjamin Tang Kwok-bun, an INED of the Company, was appointed as a member of the Remuneration Committee of the Company and ceased to be a member of the Capital Works Committee of the Company, both with effect from 1 January 2016.

4. Mr Anthony Chow Wing-kin, who was elected as a new Member of the Board of Directors of the Company at the Company's 2016 Annual General Meeting held on 18 May 2016 (the "2016 AGM"), became an INED and a member of each of the Capital Works Committee and the Remuneration Committee of the Company with effect from the conclusion of the 2016 AGM.

5. Dr Allan Wong Chi-yun became the chairman of the Capital Works Committee of the Company with effect from the conclusion of the 2016 AGM.
6. Mr Edward Ho Sing-tin, who did not stand for re-election at the 2016 AGM, retired as an INED of the Company, the chairman of the Capital Works Committee and a member of the Remuneration Committee of the Company, all with effect from the conclusion of the 2016 AGM.

Change in Composition of Alternate Director

Mr Andrew Lai Chi-wah (Deputy Secretary for Financial Services and the Treasury (Treasury)2 of the Financial Services and the Treasury Bureau) became an Alternate Director to Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury), a NED of the Company, replacing Ms Mable Chan with effect from 1 August 2016.

Changes in Composition of Members of the Executive Directorate

1. With effect from 1 January 2016, Ms Linda So Ka-pik, the Company's Corporate Affairs Director, became a member of the Corporate Responsibility Committee of the Company.
2. With effect from 22 February 2016, Dr Peter Ronald Ewen became the Company's Engineering Director and a member of the Executive Directorate of the Company. Dr Ewen heads a new Engineering Division to drive excellence in the Company's Engineering functions and to strengthen its control and check and balance processes. In his current role, he is also responsible for overseeing the procurement and contract administration function to help centralise the planning and check and balance functions for the Company's new railway and asset replacement projects within the Company's Engineering Division.
3. With effect from 1 May 2016, Dr Jacob Kam Chak-pui became the Company's Managing Director – Operations and Mainland Business and ceased to be Operations Director of the Company. Dr Kam, in his current role, is responsible for overseeing the Company's transport operations in Hong Kong and its rail and property businesses in the Mainland of China. He is also responsible for overseeing railway operations standards and ensuring mutual learning of best practices among all the Company's railway operations globally. He continues to be a member of the Executive Directorate of the Company.
4. With effect from 1 May 2016, Mr Adi Lau Tin-shing became the Company's Operations Director and a member of the Executive Directorate of the Company. Mr Lau succeeded Dr Kam as Operations Director and is responsible for overseeing the Company's railway operations in Hong Kong.
5. With effect from 1 June 2016, Ms Margaret Cheng Wai-ching became the Company's Human Resources Director, a member of the Executive Directorate of the Company and a member of the Corporate Responsibility Committee of the Company.
6. With effect from 1 July 2016, Mr Morris Cheung Siu-wa became President of MTR Academy of the Company and ceased to be the Company's European Business Director. Mr Cheung, in his current role, spearheads and oversees the development of the MTR Academy, with an objective to develop competent railway professionals through offering programmes related to railway engineering, operations, management and customer service, and undertaking rail-related research. He continues to be a member of the Executive Directorate. He ceased to be a member of the Corporate Responsibility Committee of the Company with effect from 1 January 2016.
7. With effect from 1 July 2016, Ms Gillian Elizabeth Meller became the Company's Legal and European Business Director. Ms Meller, in her current role, is responsible for managing and overseeing the growth of the Company's European business, in addition to her responsibilities as the Company's Legal Director and Secretary. She continues to be a member of the Executive Directorate and the Company Secretary of the Company. She ceased to be a member of the Corporate Responsibility Committee of the Company with effect from 1 January 2016.
8. With effect from 2 July 2016, Mr Herbert Hui Leung-wah became the Company's Finance Director and a member of the Executive Directorate of the Company. Mr Hui joined the Company as Finance Director – Designate on 1 June 2016.
9. With effect from 2 July 2016, Mr Stephen Law Cheuk-kin ceased to be the Company's Finance Director and a member of the Executive Directorate of the Company, upon expiry of his service contract with the Company.

Corporate Governance and Other Information

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:

Name of Director	Changes in Information
	New appointments
Philco Wong Nai-keung	Council member of Construction Industry Council and a member of its Committee on Construction Safety (both since 1 February 2016)
Jeny Yeung Mei-chun	(1) Chartered Fellow of The Chartered Institute of Logistics and Transport in Hong Kong (since 15 February 2016) (2) Member of the Hong Kong Tourism Board (since 1 March 2016) (3) Member of the Advisory Committee on Enhancing Self-Reliance Through District Partnership (ESR) Programme (since 1 July 2016)
Lincoln Leong Kwok-kuen	Chartered Fellow of The Chartered Institute of Logistics and Transport in Hong Kong (since 18 April 2016)
Gillian Elizabeth Meller	Fellow of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries (since 31 May 2016)
Lau Ping-cheung, Kaizer	Chairperson of the Traffic, Transport and District Improvement Items Subcommittee of the Lantau Development Advisory Committee (since 30 June 2016)
	Re-appointments
Lau Ping-cheung, Kaizer	Member of the Lantau Development Advisory Committee (since 1 February 2016)
Dr Dorothy Chan Yuen Tak-fai	Advisor to the Serco Group (HK) Limited (since 1 April 2016)
David Tang Chi-fai	NED of Urban Renewal Authority of the HKSAR Government (since 1 May 2016)
Jeny Yeung Mei-chun	Member of the Marketing Management Committee of The Hong Kong Management Association (since 7 July 2016)
	Cessation of appointments
Lau Ping-cheung, Kaizer	Deputy Chairperson of the Planning and Conservation Subcommittee of the Lantau Development Advisory Committee (until 31 January 2016)
Philco Wong Nai-keung	Member of the Committee on Procurement and Subcontracting of Construction Industry Council (until 31 January 2016)
Professor Frederick Ma Si-hang	(1) NED of China Mobile Communications Corporation (until 2 February 2016) (2) INED and chairman of the Audit and Compliance Committee of Agricultural Bank of China Limited (until 12 May 2016)
Abraham Shek Lai-him	Director of The Hong Kong Mortgage Corporation Limited (until 25 April 2016)
Lincoln Leong Kwok-kuen	Member of the Board of Governors of The Chinese International School Foundation Limited (until 25 May 2016)
Dr Eddy Fong Ching	Chairman of the Council of The Open University of Hong Kong (until 19 June 2016)
Anthony Chow Wing-kin	INED of Fountain Set (Holdings) Limited (until 24 June 2016)
Pamela Chan Wong Shui	Chairman of Hong Kong Deposit Protection Board (until 30 June 2016)
Benjamin Tang Kwok-bun	Council Member of Centennial College (until 30 June 2016)

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.

In March 2016, a site visit to the MTR Gallery at Kowloon Station, The Elements, the West Kowloon Terminus site, Tsing Yi Operations Control Centre, Maritime Square and its extension as well as Tierra Verde, was arranged for Members of the Board to give them first-hand on-site understanding about the Company's railway operations, property and projects businesses. In addition, a site visit to different construction sites of the Express Rail Link project was arranged for Members of the Capital Works Committee to allow them to acquire a better understanding of the site conditions and construction progress.

The Company's external legal advisor gave a briefing to Members of the Board and Members of the Executive Directorate on the topics covered in the annual update to the Directors' Manual at the January 2016 Board Meeting.

Board and Board Committee Meetings

Regular Board Meetings

The Board held three regular meetings during the six months' period ended 30 June 2016. At these regular meetings, the Board reviewed and discussed matters relating to the different businesses and financial performance of the Company. In addition, other key matters discussed at these Board meetings included:

- Directors' Manual update;
- Election / re-election of Directors at the 2016 AGM, proposed nomination of a new Board Member, and proposed changes in the composition of Board Committees;
- 2016 AGM;
- Annual review of size, structure and composition of the Board;
- Annual review of corporate governance functions;
- Risk management and internal control systems effectiveness for 2015;
- Contract awards relating to railway projects and property work;
- Update on new railway projects;
- Update on various major projects relating to the operating railway in Hong Kong;
- Annual train service performance and customer feedback 2015;
- Next generation railway – Rail Gen 2.0;
- Principles for revising MTR fares under Fare Adjustment Mechanism in 2016;
- MTR Academy;
- Update on China business and development;
- Investment project in Europe;
- 2015 Annual Report and Accounts;
- Corporate Safety Governance Annual Report 2015;
- Sustainability Report 2015;
- Ngong Ping 360 Limited 2015 annual results;
- Enterprise Risk Management Half Yearly Report 2015; and
- Proceedings of Audit Committee, Corporate Responsibility Committee, Capital Works Committee and Risk Committee.

Special Board Meetings

The Chairman held four special Board meetings during the six months' period ended 30 June 2016 and a number of matters were covered, including the Express Rail Link project, the MTR Academy, the proposed early review of the Fare Adjustment Mechanism and an investment project in the Mainland of China.

Corporate Governance and Other Information

Private Board Meetings

The Chairman held two private Board meetings during the six months' period ended 30 June 2016. At these meetings, the Board discussed the performance of members and changes to the organizational structure of the Executive Directorate.

Board Committee Meeting

A meeting of the Board committee was held on 11 March 2016 to consider and approve:

(i) the final dividend for the year ended 31 December 2015;

(ii) the 2015 Annual Report and Accounts with recommendation of the same for shareholders' approval at the 2016 AGM; and

(iii) the Preliminary Announcement of Results.

Communication With Shareholders

General Meeting

The Company convened a general meeting on 1 February 2016 (the "General Meeting") to obtain the approval of the Company's independent shareholders for the purposes of implementing all the arrangements contained in the Deed of Agreement in relation to the Express Rail Link between HKSAR Government and the Company dated 30 November 2015, including declaration of a special dividend (the "Ordinary Resolution").

The Ordinary Resolution at the General Meeting was passed by way of a poll with overwhelming support of more than 98% of votes in favour, and the poll results were posted on the respective websites of the Company (www.mtr.com.hk) and The Stock Exchange of Hong Kong Limited ("HKSE") on the same day after the General Meeting.

To facilitate the Company's shareholders who did not attend the General Meeting, the whole proceedings were webcast and posted on the Company's website (www.mtr.com.hk) in the same evening.

Annual General Meeting

The Company's 2016 AGM was held on 18 May 2016. 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 purchase of the Company's shares, shareholders of the Company also approved, with more than 93% of votes in favour in each case, the following resolutions:

- Re-election of Mr Vincent Cheng Hoi-chuen and election of Mr Lau Ping-cheung, Kaizer and Dr Allan Wong Chi-yun as Members of the Board of the Company;
- Election of Mr Anthony Chow Wing-kin as a new Member of the Board of Directors of the Company; and
- Declaration of a final dividend of HK$0.81 per share for the year ended 31 December 2015, giving a full year dividend of HK$1.06 per share, which was an increase of 0.95% compared to the dividend declared for 2014.

All resolutions at the 2016 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 2016 AGM, the whole proceedings were recorded and posted on the Company's website (www.mtr.com.hk) in the same evening.

Constitutional Document

The Company's Articles of Association (in both English and Chinese) are available on the Company's website (www.mtr.com.hk) and the HKSE's website. During the six months' period ended 30 June 2016, there was no change to the Company's Articles of Association.

Directors' Interests in Shares and Underlying Shares of the Company

As at 30 June 2016, 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:

	No. of Ordinary Shares held				No. of Share Options#	No. of Share Awards#		
Member of the Board and/or the Executive Directorate	Personal interests*	Family interests†	Other interests	Corporate interests	Personal interests*	Personal interests*	Total interests	Percentage of aggregate interests to total no. of voting shares in issue
Frederick Ma Si-hang	–	70,000 (Note 1)	70,000 (Note 1)	–	–	–	70,000	0.00119
Lincoln Leong Kwok-kuen	1,180,066	–	–	23,000 (Note 2)	–	359,984	1,563,050	0.02658
Pamela Chan Wong Shui	9,002	1,675	–	–	–	–	10,677	0.00018
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	–	3,350	0.00006
Lucia Li Li Ka-lai	–	1,614 (Note 3)	2,215 (Note 3)	–	–	–	3,829	0.00007
Ingrid Yeung Ho Poi-yan	1,116	–	–	–	–	–	1,116	0.00002
Jacob Kam Chak-pui	165,633	–	–	–	–	93,850	259,483	0.00441
Morris Cheung Siu-wa	43,598	–	–	–	–	43,750	87,348	0.00149
Peter Ronald Ewen (Note 4)	–	–	–	–	–	35,700	35,700	0.00061
Adi Lau Tin-shing (Note 5)	20,971	–	–	–	158,000	26,684	205,655	0.00350
Stephen Law Cheuk-kin (Note 6)	5,566	–	–	–	65,000	68,734	139,300	0.00237
Gillian Elizabeth Meller	5,650	–	–	–	–	86,200	91,850	0.00156
Linda So Ka-pik (Note 7)	–	–	–	–	–	60,450	60,450	0.00103
David Tang Chi-fai	86,783	–	–	–	–	87,850	174,633	0.00297
Philco Wong Nai-keung	7,233	–	–	–	55,000	93,267	155,500	0.00264
Jeny Yeung Mei-chun	562,850	–	–	–	–	89,350	652,200	0.01109

Notes

1 *The 70,000 shares were indirectly held by The Ma Family Trust established by Professor Frederick Ma Si-hang for himself and his family of which his spouse was also a beneficiary.*

2 *The 23,000 shares were held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr Lincoln Leong Kwok-kuen.*

3 *The 1,614 shares were held by Mrs Lucia Li Li Ka-lai's spouse and the 2,215 shares were jointly held by Mrs Li and her spouse.*

4 *Dr Peter Ronald Ewen was appointed as Engineering Director and a Member of the Executive Directorate of the Company with effect from 22 February 2016.*

5 *Mr Adi Lau Tin-shing was appointed as Operations Director and a Member of the Executive Directorate of the Company with effect from 1 May 2016.*

6 *Mr Stephen Law Cheuk-kin ceased to be Finance Director and a Member of the Executive Directorate of the Company with effect from 2 July 2016.*

7 *Ms Linda So Ka-pik was appointed as Corporate Affairs Director and a Member of the Executive Directorate of the Company with effect from 16 September 2015.*

Details of the Share Options and Share Awards are set out in the sections headed "2007 Share Option Scheme" and "2014 Share Incentive Scheme" respectively on pages 38 to 41

* *Interests as beneficial owner*

† *Interests of spouse or child under 18 as beneficial owner*

Save as disclosed above and the sections headed "2007 Share Option Scheme" and "2014 Share Incentive Scheme":

A as at 30 June 2016, no Member 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 2016, 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 Company's voting shares in issue and the number of shares in which it was interested as at 30 June 2016 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 in issue
The Financial Secretary Incorporated ("FSI") (in trust on behalf of Government)	4,434,552,207	75.40%

The Company has been informed by the Hong Kong Monetary Authority that, as at 30 June 2016, approximately 0.50% 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 "Directors' Interests in Shares and Underlying Shares of the Company" and "Substantial Shareholders' Interests", as at 30 June 2016, 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.

2007 Share Option Scheme

Movements in the outstanding share options to subscribe for ordinary shares of the Company granted under the 2007 Share Option Scheme during the six months' period ended 30 June 2016 are set out below:

Executive Directorate and eligible employees	Date granted	Options granted (Notes 1 to 3)	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2016	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2016	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Lincoln Leong Kwok-kuen	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	170,000	26.85	–	38.40
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	170,000	28.84	–	38.40
	30/3/2012	201,000	23/3/2013 – 23/3/2019	201,000	–	–	201,000	27.48	–	38.40
	6/5/2013	256,000	26/4/2014 – 26/4/2020	256,000	85,000	–	256,000	31.40	–	38.31
Jacob Kam Chak-pui	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	65,000	26.85	–	38.40
	21/7/2010	50,000	28/6/2011 – 28/6/2017	50,000	–	–	50,000	27.73	–	38.40
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	170,000	28.84	–	38.40
	30/3/2012	172,000	23/3/2013 – 23/3/2019	172,000	–	–	172,000	27.48	–	38.40
	6/5/2013	202,500	26/4/2014 – 26/4/2020	202,500	67,500	–	202,500	31.40	–	38.40
Morris Cheung Siu-wa	21/7/2010	35,000	28/6/2011 – 28/6/2017	11,000	–	–	11,000	27.73	–	37.55
	20/12/2010	65,000	16/12/2011 – 16/12/2017	21,000	–	–	21,000	28.84	–	37.55
	30/3/2012	122,000	23/3/2013 – 23/3/2019	122,000	–	–	122,000	27.48	–	37.55
	6/5/2013	180,500	26/4/2014 – 26/4/2020	180,500	59,500	–	180,500	31.40	–	37.96
Adi Lau Tin-shing (Note 4)	11/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	75,000	26.85	–	38.20
	21/12/2010	75,000	16/12/2011 – 16/12/2017	75,000	–	–	75,000	28.84	–	38.45
	30/3/2012	69,000	23/3/2013 – 23/3/2019	69,000	–	–	69,000	27.48	–	38.45
	6/5/2013	78,000	26/4/2014 – 26/4/2020	78,000	26,000	–	–	31.40	78,000	–
	30/5/2014	80,000	23/5/2015 – 23/5/2021	80,000	27,000	–	–	28.65	80,000	–
Stephen Law Cheuk-kin (Note 5)	1/11/2013	196,000	25/10/2014 – 25/10/2020	196,000	–	–	131,000	29.87	65,000	38.65
Gillian Elizabeth Meller	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	65,000	26.85	–	38.45
	17/12/2010	90,000	16/12/2011 – 16/12/2017	90,000	–	–	90,000	28.84	–	38.45
	30/3/2012	158,500	23/3/2013 – 23/3/2019	158,500	–	–	158,500	27.48	–	38.45
	6/5/2013	184,000	26/4/2014 – 26/4/2020	184,000	61,000	–	184,000	31.40	–	38.45
David Tang Chi-fai	15/12/2009	65,000	8/12/2010 – 8/12/2016	43,000	–	–	43,000	26.85	–	38.25
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	65,000	28.84	–	37.55
	30/3/2012	163,500	23/3/2013 – 23/3/2019	163,500	–	–	163,500	27.48	–	37.83
	6/5/2013	182,500	26/4/2014 – 26/4/2020	182,500	60,500	–	182,500	31.40	–	38.43

2007 Share Option Scheme (continued)

Executive Directorate and eligible employees	Date granted	Options granted (Notes 1 to 3)	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2016	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2016	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Philco Wong Nai-keung	30/3/2012	70,500	23/3/2013 – 23/3/2019	23,500	–	–	23,500	27.48	–	38.50
	6/5/2013	81,000	26/4/2014 – 26/4/2020	81,000	27,000	–	81,000	31.40	–	38.50
	30/5/2014	83,000	23/5/2015 – 23/5/2021	83,000	28,000	–	28,000	28.65	55,000	38.50
Jeny Yeung Mei-chun	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	65,000	26.85	–	38.40
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	65,000	28.84	–	38.40
	30/3/2012	161,000	23/3/2013 – 23/3/2019	161,000	–	–	161,000	27.48	–	38.40
	6/5/2013	187,000	26/4/2014 – 26/4/2020	187,000	62,000	–	187,000	31.40	–	38.40
Other eligible employees	9/12/2009	670,000	8/12/2010 – 8/12/2016	470,000	–	–	470,000	26.85	–	38.40
	10/12/2009	2,551,000	8/12/2010 – 8/12/2016	726,000	–	–	558,000	26.85	168,000	38.31
	11/12/2009	2,297,000	8/12/2010 – 8/12/2016	570,500	–	–	428,500	26.85	142,000	38.02
	12/12/2009	610,000	8/12/2010 – 8/12/2016	135,000	–	–	135,000	26.85	–	38.40
	14/12/2009	2,443,000	8/12/2010 – 8/12/2016	514,000	–	–	287,000	26.85	227,000	37.91
	15/12/2009	2,773,000	8/12/2010 – 8/12/2016	532,000	–	–	380,000	26.85	152,000	38.15
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	373,500	–	–	247,500	26.85	126,000	38.38
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	167,000	–	–	84,000	26.85	83,000	38.31
	18/12/2009	389,000	8/12/2010 – 8/12/2016	108,000	–	–	70,000	26.85	38,000	38.03
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	–	70,000	26.85	–	38.69
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	50,000	26.85	25,000	38.30
	21/12/2009	520,000	8/12/2010 – 8/12/2016	158,000	–	–	44,000	26.85	114,000	38.28
	22/12/2009	256,000	8/12/2010 – 8/12/2016	122,000	–	–	65,000	26.85	57,000	38.85
	21/7/2010	270,000	28/6/2011 – 28/6/2017	45,000	–	–	–	27.73	45,000	–
	16/12/2010	194,000	16/12/2011 – 16/12/2017	55,000	–	–	55,000	28.84	–	38.60
	17/12/2010	4,907,000	16/12/2011 – 16/12/2017	2,349,000	–	6,000	1,677,000	28.84	666,000	38.30
	18/12/2010	673,000	16/12/2011 – 16/12/2017	389,500	–	–	145,000	28.84	244,500	38.32
	19/12/2010	174,000	16/12/2011 – 16/12/2017	25,000	–	–	25,000	28.84	–	38.30
	20/12/2010	4,789,500	16/12/2011 – 16/12/2017	1,675,000	–	–	809,000	28.84	866,000	38.39
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	1,096,500	–	–	496,500	28.84	600,000	38.21
	22/12/2010	975,000	16/12/2011 – 16/12/2017	486,000	–	–	178,000	28.84	308,000	37.61
	23/12/2010	189,000	16/12/2011 – 16/12/2017	75,000	–	–	17,000	28.84	58,000	38.60
	7/7/2011	215,000	27/6/2012 – 27/6/2018	35,000	–	–	–	26.96	35,000	–
	30/3/2012	15,868,500	23/3/2013 – 23/3/2019	7,258,000	–	9,500	3,342,500	27.48	3,906,000	38.20
	6/5/2013	20,331,500	26/4/2014 – 26/4/2020	15,559,000	5,925,500	48,000	6,666,500	31.40	8,844,500	38.37
	1/11/2013	188,500	25/10/2014 – 25/10/2020	188,500	15,500	46,500	96,000	29.87	46,000	38.13
	30/5/2014	19,812,500	23/5/2015 – 23/5/2021	17,796,000	6,389,500	154,500	2,882,500	28.65	14,759,000	37.97

Notes

1 *No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme on 7 June 2007. The 2007 Share Option Scheme expired at 5.00 p.m. on 6 June 2014, with no further option granted since then.*

2 *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.*

3 *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*

4 *Mr Adi Lau Tin-shing was appointed as Operations Director and a Member of the Executive Directorate of the Company with effect from 1 May 2016.*

5 *Mr Stephen Law Cheuk-kin ceased to be Finance Director and a Member of the Executive Directorate of the Company with effect from 2 July 2016.*

2014 Share Incentive Scheme

The Company adopted the 2014 Share Incentive Scheme on 15 August 2014. The purposes of the 2014 Share Incentive Scheme are to retain management and key employees, to align participants' interests with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the 2014 Share Incentive Scheme as award holders in accordance with the rules of the 2014 Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares (together, the "Award Shares"). The Award Shares to be granted under the 2014 Share Incentive Scheme are ordinary shares in the capital of the Company.

In general, the Company will pay to the third party trustee (the "Trustee") monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from ordinary shares of the Company held as part of the funds of the trust to acquire existing ordinary shares of the Company from the market. Such ordinary shares will be held on trust by the Trustee for the relevant award holders. The Trustee shall not exercise any voting rights in respect of any ordinary shares of the Company held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested Award Shares. An award holder shall have no right to any dividend held under the trust.

The maximum number of Award Shares that may at any time be the subject of an outstanding award granted under the 2014 Share Incentive Scheme shall not exceed 2.5 per cent. of the number of issued ordinary shares of the Company as at 1 January 2015, the effective date of the 2014 Share Incentive Scheme (the "Effective Date").

For the six months' period ended 30 June 2016, a total of 2,588,350 Award Shares (2015: 4,029,200 Award Shares) were awarded under the 2014 Share Incentive Scheme. As at 30 June 2016, a total of 5,650,829 Award Shares were neither vested, lapsed nor been forfeited, representing 0.1% of the issued ordinary shares of the Company as at the Effective Date. The Remuneration Committee of the Company has also approved a one-off special Restricted Share award to Ms Margaret Cheng Wai-ching, who was appointed as the Human Resources Director and a Member of the Executive Directorate of the Company with effect from 1 June 2016, under the Company's 2014 Share Incentive Scheme that is equivalent in value to approximately HK$3,000,000 and such special Restricted Share award is expected to be granted to Ms Cheng during the second half of 2016.

The particulars of the Award Shares granted are as follows:

Executive Directorate and eligible employees	Date of award	Types of Award Shares granted: Restricted Shares	Types of Award Shares granted: Performance Shares	Award Shares outstanding as at 1 January 2016	Award Shares vested during the period	Award Shares lapsed and/or forfeited during the period	Award Shares outstanding as at 30 June 2016
Lincoln Leong Kwok-kuen	27/4/2015	60,200	255,000	315,200	20,066	–	295,134
	8/4/2016	64,850	–	–	–	–	64,850
Jacob Kam Chak-pui	27/4/2015	22,050	57,600	79,650	7,350	–	72,300
	8/4/2016	21,550	–	–	–	–	21,550
Morris Cheung Siu-wa	27/4/2015	–	28,800	28,800	–	–	28,800
	8/4/2016	14,950	–	–	–	–	14,950
Peter Ronald Ewen (Note 1)	8/4/2016	–	35,700	–	–	–	35,700
Adi Lau Tin-shing (Note 2)	27/4/2015	8,600	12,550	21,150	2,866	–	18,284
	8/4/2016	8,400	–	–	–	–	8,400
Stephen Law Cheuk-kin (Note 3)	27/4/2015	16,700	57,600	74,300	5,566	–	68,734
Gillian Elizabeth Meller	27/4/2015	16,950	57,600	74,550	5,650	–	68,900
	8/4/2016	17,300	–	–	–	–	17,300
Linda So Ka-pik (Note 4)	8/4/2016	16,400	44,050	–	–	–	60,450
David Tang Chi-fai	27/4/2015	18,450	57,600	76,050	6,150	–	69,900
	8/4/2016	17,950	–	–	–	–	17,950
Philco Wong Nai-keung	27/4/2015	21,700	57,600	79,300	7,233	–	72,067
	8/4/2016	21,200	–	–	–	–	21,200
Jeny Yeung Mei-chun	27/4/2015	19,350	57,600	76,950	6,450	–	70,500
	8/4/2016	18,850	–	–	–	–	18,850
Other eligible employees	27/4/2015	2,172,750	1,051,650	3,105,650	702,468	82,622	2,320,560
	8/4/2016	2,199,700	107,450	–	5,316	17,384	2,284,450

Notes

1 *Dr Peter Ronald Ewen was appointed as Engineering Director and a Member of the Executive Directorate of the Company with effect from 22 February 2016.*

2 *Mr Adi Lau Tin-shing was appointed as Operations Director and a Member of the Executive Directorate of the Company with effect from 1 May 2016.*

3 *Mr Stephen Law Cheuk-kin ceased to be Finance Director and a Member of the Executive Directorate of the Company with effect from 2 July 2016.*

4 *Ms Linda So Ka-pik was appointed as Corporate Affairs Director and a Member of the Executive Directorate of the Company with effect from 16 September 2015.*

Corporate Governance and Other Information

Purchase, Sale or Redemption of Listed Securities

The Group did not purchase, sell or redeem any of the Group's listed securities during the six months ended 30 June 2016. However, the Trustee of the 2014 Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the 2014 Share Incentive Scheme, purchased on the HKSE a total of 2,588,350 ordinary shares of the Company (2015: 4,029,200 ordinary shares) for a total consideration of approximately HK$99 million (2015: HK$150 million) during the same period.

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

As at 30 June 2016, the Group had borrowings of HK$20,513 million (2015: HK$13,334 million) with maturities ranging from 2016 to 2055 and undrawn committed banking facilities of HK$31,700 million (2015: HK$5,900 million), which were subject to the condition that Government, being the Company's controlling shareholder, owns more than half of all the Company's voting shares in issue. Failure to satisfy such condition may result in immediate repayment of the borrowings being demanded and cancellation of the undrawn committed banking facilities.

Closure of Register of Members

The Register of Members of the Company was closed from 24 August 2016 to 29 August 2016 (both dates inclusive), during which period no transfer of shares in the Company could be effected. In order to qualify for the 2016 interim dividend, all transfer documents, accompanied by the relevant share certificates, must have been lodged for registration 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, no later than 4:30 p.m. on 23 August 2016. The 2016 interim dividend, with a scrip dividend option (except for shareholders with registered addresses in the United States of America or any of its territories or possessions), is expected to be distributed on 13 October 2016 to shareholders whose names appeared on the Register of Members of the Company as at the close of business on 29 August 2016.

Consolidated Profit and Loss Account

in HK$ million	Note	**Half year ended 30 June 2016 (Unaudited)**	Half year ended 30 June 2015 (Unaudited)
Revenue from Hong Kong transport operations		**8,617**	8,147
Revenue from Hong Kong station commercial businesses		**2,695**	2,579
Revenue from Hong Kong property rental and management businesses		**2,359**	2,255
Revenue from Mainland of China and international subsidiaries	2	**6,526**	6,181
Revenue from other businesses		**1,110**	1,048
		21,307	20,210
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses		**(2,360)**	(2,182)
– Energy and utilities		**(700)**	(710)
– Operational rent and rates		**(99)**	(110)
– Stores and spares consumed		**(229)**	(241)
– Maintenance and related works		**(621)**	(612)
– Railway support services		**(136)**	(135)
– General and administration expenses		**(253)**	(218)
– Other expenses		**(135)**	(140)
		(4,533)	(4,348)
Expenses relating to Hong Kong station commercial businesses		**(253)**	(247)
Expenses relating to Hong Kong property rental and management businesses		**(361)**	(357)
Expenses relating to Mainland of China and international subsidiaries	2	**(6,174)**	(5,836)
Expenses relating to other businesses		**(1,046)**	(981)
Project study and business development expenses		**(130)**	(95)
Operating expenses before depreciation, amortisation and variable annual payment		**(12,497)**	(11,864)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment			
– Arising from recurrent businesses		**8,837**	8,393
– Arising from Mainland of China property development		**(27)**	(47)
		8,810	8,346
Profit on Hong Kong property development	3	**219**	2,811
Operating profit before depreciation, amortisation and variable annual payment		**9,029**	11,157
Depreciation and amortisation		**(2,008)**	(1,880)
Variable annual payment		**(867)**	(786)
Operating profit before interest and finance charges		**6,154**	8,491
Interest and finance charges	4	**(268)**	(295)
Investment property revaluation	11	**48**	1,362
Share of profit or loss of associates	5	**297**	166
Profit before taxation		**6,231**	9,724
Income tax	6	**(1,037)**	(1,446)
Profit for the period		**5,194**	8,278
Attributable to:			
– Equity shareholders of the Company		**5,121**	8,189
– Non-controlling interests		**73**	89
Profit for the period		**5,194**	8,278
Profit for the period attributable to equity shareholders of the Company:			
– Arising from underlying businesses before property development		**4,866**	4,516
– Arising from property development		**207**	2,311
– Arising from underlying businesses		**5,073**	6,827
– Arising from investment property revaluation		**48**	1,362
		5,121	8,189
Earnings per share:	8		
– Basic		**HK$0.87**	HK$1.40
– Diluted		**HK$0.87**	HK$1.40

The notes on pages 48 to 67 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 2016 (Unaudited)**	Half year ended 30 June 2015 (Unaudited)
Profit for the period		**5,194**	8,278
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		**70**	110
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of overseas subsidiaries and associates		**(290)**	(42)
– non-controlling interests		**5**	(12)
– Cash flow hedges: net movement in hedging reserve		**142**	(54)
		(143)	(108)
	10	**(73)**	2
Total comprehensive income for the period		**5,121**	8,280
Attributable to:			
– Equity shareholders of the Company		**5,043**	8,203
– Non-controlling interests		**78**	77
Total comprehensive income for the period		**5,121**	8,280

The notes on pages 48 to 67 form part of this interim financial report.

Consolidated Statement of Financial Position

in HK$ million	Note	**At 30 June 2016 (Unaudited)**	At 31 December 2015 (Audited)
Assets			
Fixed assets			
– Investment properties	11	**68,902**	68,388
– Other property, plant and equipment	12	**79,116**	79,576
– Service concession assets	13	**27,792**	27,755
		175,810	175,719
Property management rights		**27**	28
Goodwill	17	**61**	–
Railway construction in progress	14	**20,545**	19,064
Property development in progress	16	**18,236**	17,983
Deferred expenditure		**326**	288
Interests in associates		**7,250**	5,912
Deferred tax assets	24	**80**	91
Investments in securities		**351**	336
Properties held for sale	18	**1,086**	1,139
Derivative financial assets	19	**132**	81
Stores and spares		**1,550**	1,373
Debtors, deposits and payments in advance	20	**3,676**	5,135
Amounts due from related parties	21	**1,661**	1,636
Cash, bank balances and deposits		**25,182**	12,318
		255,973	241,103
Liabilities			
Bank overdrafts		**–**	50
Short-term loans		**2,106**	1,599
Creditors and accrued charges	22	**33,065**	22,860
Current taxation		**1,501**	953
Contract retentions		**1,043**	994
Amounts due to related parties	21	**24,602**	1,858
Loans and other obligations	23	**24,961**	19,162
Obligations under service concession		**10,534**	10,564
Derivative financial liabilities	19	**484**	830
Loan from holders of non-controlling interests		**112**	110
Deferred income		**998**	743
Deferred tax liabilities	24	**11,328**	11,209
		110,734	70,932
Net assets		**145,239**	170,171
Capital and reserves			
Share capital	25	**47,069**	46,317
Shares held for Share Incentive Scheme	25	**(222)**	(151)
Other reserves		**98,229**	123,889
Total equity attributable to equity shareholders of the Company		**145,076**	170,055
Non-controlling interests		**163**	116
Total equity		**145,239**	170,171

The notes on pages 48 to 67 form part of this interim financial report.

Consolidated Statement of Changes in Equity

				Other reserves							
in HK$ million	Note	Share capital	Shares held for Share Incentive Scheme	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total equity attributable to equity shareholders of the Company	Non-controlling interests	Total equity
30 June 2016 (Unaudited)											
Balance as at 1 January 2016		**46,317**	**(151)**	**2,912**	**(225)**	**210**	**(152)**	**121,144**	**170,055**	**116**	**170,171**
Changes in equity for the half year ended 30 June 2016:											
– Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**5,121**	**5,121**	**73**	**5,194**
– Other comprehensive income for the period		**–**	**–**	**70**	**142**	**–**	**(290)**	**–**	**(78)**	**5**	**(73)**
– Total comprehensive income for the period		**–**	**–**	**70**	**142**	**–**	**(290)**	**5,121**	**5,043**	**78**	**5,121**
– Special dividend	7	**–**	**–**	**–**	**–**	**–**	**–**	**(25,884)**	**(25,884)**	**–**	**(25,884)**
– 2015 final dividend	7	**–**	**–**	**–**	**–**	**–**	**–**	**(4,763)**	**(4,763)**	**–**	**(4,763)**
– Shares purchased for Share Incentive Scheme	25E	**–**	**(99)**	**–**	**–**	**–**	**–**	**–**	**(99)**	**–**	**(99)**
– Vesting of award shares of Share Incentive Scheme	25F	**2**	**28**	**–**	**–**	**(30)**	**–**	**–**	**–**	**–**	**–**
– Award shares of Share Incentive Scheme forfeited	25F	**–**	**–**	**–**	**–**	**(2)**	**–**	**2**	**–**	**–**	**–**
– Dividends paid to holders of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(31)**	**(31)**
– Employee share-based payments		**–**	**–**	**–**	**–**	**54**	**–**	**–**	**54**	**–**	**54**
– Employee share options exercised	25C	**750**	**–**	**–**	**–**	**(80)**	**–**	**–**	**670**	**–**	**670**
– Employee share options forfeited		**–**	**–**	**–**	**–**	**(1)**	**–**	**1**	**–**	**–**	**–**
Balance as at 30 June 2016		**47,069**	**(222)**	**2,982**	**(83)**	**151**	**(442)**	**95,621**	**145,076**	**163**	**145,239**
31 December 2015 (Audited)											
Balance as at 1 January 2015		45,280	–	2,641	(91)	214	418	114,863	163,325	157	163,482
Changes in equity for the half year ended 30 June 2015:											
– Profit for the period		–	–	–	–	–	–	8,189	8,189	89	8,278
– Other comprehensive income for the period		–	–	110	(54)	–	(42)	–	14	(12)	2
– Total comprehensive income for the period		–	–	110	(54)	–	(42)	8,189	8,203	77	8,280
– 2014 final dividend	7	–	–	–	–	–	–	(4,673)	(4,673)	–	(4,673)
– Dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	(31)	(31)
– Shares purchased for Share Incentive Scheme	25E	–	(150)	–	–	–	–	–	(150)	–	(150)
– Employee share-based payments		–	–	–	–	32	–	–	32	–	32
– Employee share options exercised	25C	476	–	–	–	(61)	–	–	415	–	415
Balance as at 30 June 2015		45,756	(150)	2,751	(145)	185	376	118,379	167,152	203	167,355
Changes in equity for the half year ended 31 December 2015:											
– Profit for the period		–	–	–	–	–	–	4,805	4,805	55	4,860
– Other comprehensive income for the period		–	–	161	(80)	–	(528)	(580)	(1,027)	(16)	(1,043)
– Total comprehensive income for the period		–	–	161	(80)	–	(528)	4,225	3,778	39	3,817
– Shares issued in respect of scrip dividend of 2014 final dividend		242	–	–	–	–	–	–	242	–	242
– 2015 interim dividend	7	–	–	–	–	–	–	(1,461)	(1,461)	–	(1,461)
– Shares issued in respect of scrip dividend of 2015 interim dividend		145	(1)	–	–	–	–	–	144	–	144
– Dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	(126)	(126)
– Employee share-based payments		–	–	–	–	46	–	–	46	–	46
– Employee share options exercised		174	–	–	–	(20)	–	–	154	–	154
– Employee share options forfeited		–	–	–	–	(1)	–	1	–	–	–
Balance as at 31 December 2015		46,317	(151)	2,912	(225)	210	(152)	121,144	170,055	116	170,171

The notes on pages 48 to 67 form part of this interim financial report.

Consolidated Cash Flow Statement

in HK$ million	Note	**Half year ended 30 June 2016 (Unaudited)**		Half year ended 30 June 2015 (Unaudited)	
Cash flows from operating activities					
Cash generated from operations	27	**9,371**		9,432	
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		**625**		653	
Current tax paid					
– Hong Kong Profits Tax paid		**(394)**		(274)	
– Mainland of China and overseas tax paid		**(195)**		(84)	
Net cash generated from operating activities			**9,407**		9,727
Cash flows from investing activities					
Capital expenditure					
– Purchase of assets for Hong Kong transport and related operations		**(2,128)**		(1,876)	
– Shenzhen Metro Longhua Line Project and related operations		**(24)**		(555)	
– Island Line Extension Project		**(252)**		(765)	
– South Island Line (East) Project		**(1,091)**		(1,158)	
– Kwun Tong Line Extension Project		**(711)**		(472)	
– Shenzhen Metro Longhua Line Depot property development		**(643)**		(272)	
– Hong Kong property development		**(191)**		(7,717)	
– Investment property projects and fitting out work		**(192)**		(80)	
– Other capital projects		**(25)**		(162)	
Variable annual payment		**(1,649)**		(1,472)	
Receipts in respect of Hong Kong property development		**2,006**		1,060	
Receipts in respect of Shenzhen Metro Longhua Line Depot property development		**3,056**		1,380	
Increase in bank deposits with more than three months to maturity when placed or pledged		**(1,291)**		(908)	
Purchase of investments in securities		**(51)**		(157)	
Proceeds from sale or redemption of investments in securities		**39**		126	
Proceeds from disposal of fixed assets		**2**		2	
Acquisition of a subsidiary, net of cash acquired		**44**		–	
Investment in associates		**(1,260)**		(61)	
Loan to an associate		**–**		(100)	
Net cash used in investing activities			**(4,361)**		(13,187)
Cash flows from financing activities					
Proceeds from shares issued under share option schemes		**670**		415	
Purchase of shares for Share Incentive Scheme		**(99)**		(150)	
Drawdown of loans		**7,407**		5,474	
Proceeds from issuance of capital market instruments		**2,944**		487	
Repayment of loans		**(4,147)**		(7,377)	
Repayment of capital market instruments		**–**		(500)	
Interest paid		**(301)**		(364)	
Interest received		**152**		97	
Finance charges paid		**(18)**		(11)	
Dividends paid to holders of non-controlling interests		**(31)**		(31)	
Net cash generated from/(used) in financing activities			**6,577**		(1,960)
Net increase/(decrease) in cash and cash equivalents			**11,623**		(5,420)
Cash and cash equivalents at 1 January			**6,227**		15,413
Cash and cash equivalents at 30 June			**17,850**		9,993
Analysis of the balances of cash and cash equivalents					
Cash, bank balances and deposits on the consolidated statement of financial position			**25,182**		14,353
Bank deposits with more than three months to maturity when placed or pledged			**(7,332)**		(4,342)
Bank overdrafts			**–**		(18)
Cash and cash equivalents in the consolidated cash flow statement			**17,850**		9,993

The notes on pages 48 to 67 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 68. 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 2015 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 2015 included in this interim financial report as comparative information does not constitute the Company's statutory annual consolidated accounts for that financial year but is derived from those accounts. Further information relating to these statutory accounts required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

- The Company has delivered the accounts for the year ended 31 December 2015 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.
- The Company's auditor has reported on those accounts. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

The accounting policies adopted for the preparation of this interim financial report are the same as those adopted in the preparation of the 2015 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:

- Annual Improvements to HKFRSs 2012 – 2014 Cycle
- Amendments to HKFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to HKAS 1, *Disclosure Initiative*
- Amendments to HKAS 16 and 38, *Clarification of Acceptable Methods of Depreciation and Amortisation*

The application of these amendments to HKFRSs in the current accounting period does not have an impact on the Group's 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:

	Half year ended 30 June 2016		Half year ended 30 June 2015	
in HK$ million	Revenue	Expenses	Revenue	Expenses
Railway-related subsidiaries outside of Hong Kong				
– Stockholm Metro and MTR Tech*	**1,404**	**1,343**	1,368	1,333
– Melbourne Train	**3,819**	**3,579**	4,083	3,799
– Shenzhen Metro Longhua Line	**326**	**248**	316	234
– Sydney Metro Northwest	**302**	**302**	181	181
– London Crossrail	**527**	**493**	134	131
– MTR Express	**76**	**112**	22	49
– Stockholms Pendeltåg	**–**	**13**	–	–
	6,454	**6,090**	6,104	5,727
Property rental and management businesses in Mainland of China	**72**	**57**	77	62
Property development in Mainland of China	**–**	**27**	–	47
Total Mainland of China and international subsidiaries	**6,526**	**6,174**	6,181	5,836

* MTR Tech AB (previously Tunnelbanan Teknik Stockholm AB) became a wholly owned subsidiary of the Group from 15 February 2016 (note 17)

The Group was awarded the concession to operate and maintain the Stockholms Pendeltåg commencing December 2016.

3 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK$ million	Half year ended 30 June 2016	Half year ended 30 June 2015
Share of surplus from property development	**159**	2,808
Income from receipt of properties for investment purpose	**83**	–
Agency fee and other income from West Rail property development	**19**	15
Other overhead costs net of miscellaneous income	**(42)**	(12)
	219	2,811

4 Interest and Finance Charges

Interest and finance charges comprise:

in HK$ million	Half year ended 30 June 2016		Half year ended 30 June 2015	
Interest expenses	**693**		719	
Finance charges	**26**		22	
Exchange loss/(gain)	**181**		(80)	
		900		661
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(80)**		(111)
Derivative financial instruments:				
– Fair value hedges	**3**		(3)	
– Cash flow hedges:				
– transferred from hedging reserve to offset interest expenses	**8**		11	
– transferred from hedging reserve to offset exchange (loss)/gain	**(189)**		92	
– Derivatives not qualified for hedge accounting	**6**		2	
		(172)		102
Interest expenses capitalised		**(271)**		(264)
		377		388
Interest income in respect of deposits with banks		**(109)**		(93)
		268		295

5 Share of Profit or Loss of Associates

Share of profit or loss of associates comprises:

in HK$ million	Half year ended 30 June 2016	Half year ended 30 June 2015
Share of profit or loss before taxation	**371**	220
Share of income tax expenses	**(74)**	(54)
	297	166

6 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	**Half year ended 30 June 2016**	Half year ended 30 June 2015
Current tax		
– Hong Kong Profits Tax	**862**	1,373
– Mainland of China and overseas tax	**152**	121
	1,014	1,494
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(55)**	(6)
	959	1,488
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**–**	(13)
– depreciation allowances in excess of related depreciation	**76**	70
– provisions and others	**2**	(99)
	78	(42)
	1,037	1,446

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2016 is calculated at 16.5% (2015: 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% (2015: 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 2016**	Half year ended 30 June 2015
Dividends payable attributable to the period		
– Interim dividend declared after the reporting period of HK$0.25 (2015: HK$0.25) per share	**1,470**	1,460
Dividends paid attributable to the previous year		
– Final dividend of HK$0.81 (2014: HK$0.80) per share approved and payable/paid during the period	**4,763**	4,673

Pursuant to the agreement entered into between the HKSAR Government and the Company dated 30 November 2015 (the "XRL Agreement"), the Company will pay a special dividend of HK$4.40 in aggregate per share in two equal tranches (HK$2.20 per share in cash in each tranche) conditional on satisfaction of the following conditions specified in the XRL Agreement (the "Conditions"):

(i) independent shareholder approval of the XRL Agreement and all the arrangements in aggregate contained in the XRL Agreement; and

(ii) HKSAR Legislative Council approval in respect of the HKSAR Government's additional funding obligations,

being granted prior to the back stop date specified in the XRL Agreement (being 30 September 2016 or earlier, if a termination of XRL Entrustment Agreement is commenced prior to that date).

Given the Company's independent shareholders gave their approval at the General Meeting held on 1 February 2016 and the approval from HKSAR Legislative Council in respect of the HKSAR Government's additional funding obligations was obtained on 11 March 2016, the Conditions have been satisfied. The first tranche of the special dividend was paid on 13 July 2016 and it is expected that the second tranche will be paid in the second half of 2017. There will be no scrip alternative for the special dividend. Details are set out in note 15A.

The Company has recognised 2015 final dividend payable of HK$3,592 million to the Financial Secretary Incorporated (the "FSI") of the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") and HK$1,171 million to other equity shareholders in the amounts due to related parties (note 21) and creditors and accrued charges (note 22) respectively in the consolidated statement of financial position as at 30 June 2016.

In addition, the Company has recognised special dividend payable of HK$19,512 million to the FSI of the HKSAR Government and HK$6,372 million to other equity shareholders in the amounts due to related parties (note 21) and creditors and accrued charges (note 22) respectively in the consolidated statement of financial position as at 30 June 2016.

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 2016 of HK$5,121 million (2015: HK$8,189 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme, which is calculated as follows:

	Half year ended 30 June 2016	Half year ended 30 June 2015
Issued ordinary shares at 1 January	**5,858,228,236**	5,826,534,347
Effect of share options exercised	**8,212,267**	8,310,688
Less: Shares held for Share Incentive Scheme	**(4,470,469)**	(631,796)
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 30 June	**5,861,970,034**	5,834,213,239

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 2016 of HK$5,121 million (2015: HK$8,189 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option schemes and Share Incentive Scheme, which is calculated as follows:

	Half year ended 30 June 2016	Half year ended 30 June 2015
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 30 June	**5,861,970,034**	5,834,213,239
Effect of dilutive potential shares under share option schemes	**9,868,911**	13,218,871
Effect of shares awarded under Share Incentive Scheme	**4,373,362**	934,071
Weighted average number of shares (diluted) at 30 June	**5,876,212,307**	5,848,366,181

C Both basic and diluted earnings per share would have been HK$0.86 (2015: HK$1.17) if the calculation is based on profit attributable to equity shareholders of the Company arising from underlying businesses of HK$5,073 million (2015: HK$6,827 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 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) Railway, property rental and management businesses outside Hong Kong: The construction, operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail spaces and provision of estate management services in the Mainland of China.

(vi) Mainland of China property development: Property development activities in the Mainland of China.

(vii) 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: Railway, property rental and management businesses outside Hong Kong	Mainland of China and international affiliates: Mainland of China property development	Other businesses	Un-allocated amount	Total
Half year ended 30 June 2016									
Revenue	**8,617**	**2,695**	**2,359**	**–**	**6,526**	**–**	**1,110**	**–**	**21,307**
Operating expenses	**(4,533)**	**(253)**	**(361)**	**–**	**(6,147)**	**(27)**	**(1,046)**	**–**	**(12,367)**
Project study and business development expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(130)**	**(130)**
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	**4,084**	**2,442**	**1,998**	**–**	**379**	**(27)**	**64**	**(130)**	**8,810**
Profit on Hong Kong property development	**–**	**–**	**–**	**219**	**–**	**–**	**–**	**–**	**219**
Operating profit before depreciation, amortisation and variable annual payment	**4,084**	**2,442**	**1,998**	**219**	**379**	**(27)**	**64**	**(130)**	**9,029**
Depreciation and amortisation	**(1,836)**	**(73)**	**(7)**	**–**	**(59)**	**–**	**(33)**	**–**	**(2,008)**
Variable annual payment	**(617)**	**(248)**	**(2)**	**–**	**–**	**–**	**–**	**–**	**(867)**
Operating profit before interest and finance charges	**1,631**	**2,121**	**1,989**	**219**	**320**	**(27)**	**31**	**(130)**	**6,154**
Interest and finance charges	**–**	**–**	**–**	**–**	**(6)**	**40**	**–**	**(302)**	**(268)**
Investment property revaluation	**–**	**–**	**48**	**–**	**–**	**–**	**–**	**–**	**48**
Share of profit or loss of associates	**–**	**–**	**–**	**–**	**152**	**–**	**145**	**–**	**297**
Income tax	**–**	**–**	**–**	**(25)**	**(93)**	**–**	**–**	**(919)**	**(1,037)**
Profit for the half year ended 30 June 2016	**1,631**	**2,121**	**2,037**	**194**	**373**	**13**	**176**	**(1,351)**	**5,194**
Half year ended 30 June 2015									
Revenue	8,147	2,579	2,255	–	6,181	–	1,048	–	20,210
Operating expenses	(4,348)	(247)	(357)	–	(5,789)	(47)	(981)	–	(11,769)
Project study and business development expenses	–	–	–	–	–	–	–	(95)	(95)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	3,799	2,332	1,898	–	392	(47)	67	(95)	8,346
Profit on Hong Kong property development	–	–	–	2,811	–	–	–	–	2,811
Operating profit before depreciation, amortisation and variable annual payment	3,799	2,332	1,898	2,811	392	(47)	67	(95)	11,157
Depreciation and amortisation	(1,730)	(71)	(7)	–	(39)	–	(33)	–	(1,880)
Variable annual payment	(561)	(223)	(2)	–	–	–	–	–	(786)
Operating profit before interest and finance charges	1,508	2,038	1,889	2,811	353	(47)	34	(95)	8,491
Interest and finance charges	–	–	–	–	4	1	–	(300)	(295)
Investment property revaluation	–	–	1,362	–	–	–	–	–	1,362
Share of profit or loss of associates	–	–	–	–	49	–	117	–	166
Income tax	–	–	–	(467)	(88)	13	–	(904)	(1,446)
Profit for the half year ended 30 June 2015	1,508	2,038	3,251	2,344	318	(33)	151	(1,299)	8,278

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 2016**	Half year ended 30 June 2015
Hong Kong (place of domicile)	**14,767**	13,998
Australia	**4,121**	4,264
Mainland of China	**402**	412
Sweden	**1,480**	1,390
United Kingdom	**535**	143
Other countries	**2**	3
	6,540	6,212
	21,307	20,210

10 Other Comprehensive Income

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

	Half year ended 30 June 2016			Half year ended 30 June 2015		
in HK$ million	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries and associates	**(290)**	**–**	**(290)**	(42)	–	(42)
– Non-controlling interests	**5**	**–**	**5**	(12)	–	(12)
	(285)	**–**	**(285)**	(54)	–	(54)
Surplus on revaluation of self-occupied land and buildings	**84**	**(14)**	**70**	132	(22)	110
Cash flow hedges: net movement in hedging reserve (note 10B)	**170**	**(28)**	**142**	(67)	13	(54)
Other comprehensive income	**(31)**	**(42)**	**(73)**	11	(9)	2

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 2016**	Half year ended 30 June 2015
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	**348**	(160)
Amounts transferred to initial carrying amount of hedged items	**1**	(17)
Amounts transferred to profit or loss:		
– Interest and finance charges (note 4)	**(181)**	103
– Other expenses	**2**	7
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the period	**(57)**	27
– Amounts transferred to initial carrying amount of hedged items	**–**	4
– Amounts transferred to profit or loss	**29**	(18)
	142	(54)

11 Investment Properties

All investment properties of the Group were revalued at 30 June 2016 and 2015 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$48 million (2015: HK$1,362 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 2016, the Group acquired or commissioned assets at a total cost of HK$1,326 million (2015: HK$2,460 million). Assets with a net book value of HK$19 million (2015: HK$20 million) were disposed during the same period, resulting in a net loss on disposal of HK$18 million (2015: HK$18 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$84 million (2015: HK$132 million), which, net of deferred tax provision of HK$14 million (2015: HK$22 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 2016, the Group incurred HK$894 million (2015: HK$967 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$27 million (2015: HK$39 million) of expenditure for asset additions in respect of Shenzhen Metro Longhua Line.

14 Railway Construction in Progress

Movements of railway construction in progress of the Group during the half year ended 30 June 2016 and the year ended 31 December 2015 are as follows:

in HK$ million	Balance at 1 January	Expenditure	Capitalised on commissioning	Balance at 30 June/ 31 December
At 30 June 2016 (Unaudited)				
South Island Line (East) Project	**13,733**	**996**	**–**	**14,729**
Kwun Tong Line Extension Project	**5,331**	**485**	**–**	**5,816**
	19,064	**1,481**	**–**	**20,545**
At 31 December 2015 (Audited)				
Island Line Extension Project	346	678	(1,024)	–
South Island Line (East) Project	12,018	1,715	–	13,733
Kwun Tong Line Extension Project	3,865	1,466	–	5,331
	16,229	3,859	(1,024)	19,064

14 Railway Construction in Progress *(continued)*

A Island Line Extension Project

On 13 July 2009, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the extension of Island Line to the Western District and related services and facilities.

Pursuant to the agreement, the HKSAR Government provided a grant of HK$12.3 billion to the Company in March 2010 (having already made HK$0.4 billion available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism whereby, within 24 months of commercial operations of the extension of Island Line to the Western District, 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 2016, no payment has been made by the Company to the HKSAR Government under the repayment mechanism (year ended 31 December 2015: principal of HK$142 million and interest of HK$44 million). In July 2016, the Company notified the HKSAR Government that the Company would make a further prepayment of principal of HK$48 million and interest of HK$18 million in August 2016.

During the half year ended 30 June 2016, Sai Ying Pun Station's Ki Ling Lane Entrance commenced service on 27 March 2016. As at 30 June 2016, the Company has authorised outstanding commitments on contracts totalling HK$1 million (31 December 2015: HK$25 million) for this project.

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

On 17 May 2011, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the SIL(E).

As at 30 June 2016, the project cost estimate remained at HK$16.9 billion (before capitalised interest expense of HK$1.1 billion) and although there is a risk that this may be exceeded, the excess (if any) is not expected to be material. The Company continues to monitor and review the project cost estimate.

As at 30 June 2016, the Company has incurred cumulative expenditure of HK$14.7 billion (31 December 2015: HK$13.7 billion) and has authorised outstanding commitments on contracts totalling HK$0.7 billion (31 December 2015: HK$0.9 billion) for this project.

C Kwun Tong Line Extension ("KTE") Project

On 17 May 2011, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the KTE.

As at 30 June 2016, the project cost estimate remained at HK$7.2 billion (before capitalised interest expense of HK$0.4 billion). The Company continues to monitor and review the project cost estimate.

As at 30 June 2016, the Company has incurred cumulative expenditure of HK$5.8 billion (31 December 2015: HK$5.3 billion) and has authorised outstanding commitments on contracts totalling HK$0.1 billion (31 December 2015: HK$0.2 billion) for this project.

15 Other Railway Construction in Progress under Entrustment by the HKSAR Government

A 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 a fee in accordance with an agreed payment schedule (the "Project Management Fee") (subsequent amendments to these arrangements are described below). As at 30 June 2016 and up to the date of this interim report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

15 Other Railway Construction in Progress under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project *(continued)*

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 subject to a cap equal to the Project Management Fee and any other fees that the Company receives under the XRL Entrustment Agreement and certain fees received by the Company under the XRL Preliminary Entrustment Agreement (the "Liability Cap"). Up to the date of this interim report, no claim has been received from the HKSAR Government.

In April 2014, the Company announced that the construction period for the XRL project needed to be extended, with the target opening of the line for passenger service revised to the end of 2017. In July 2014, the Company provided to the HKSAR Government a project cost estimate for the XRL project of HK$71.52 billion, inclusive of future insurance and project management costs.

On 30 June 2015, the Company reported to the HKSAR Government that the Company estimated:

- the XRL being completed in the third quarter of 2018 (including programme contingency of six months) (the "XRL Revised Programme"); and
- the total project cost of HK$85.3 billion (including contingency), based on the XRL Revised Programme.

The Company advised the HKSAR Government that these revised estimates were based on a number of assumptions including timely funding arrangements and require the cooperation of various parties and certain approvals of the HKSAR Government.

On 30 June 2015, the Company announced that it had reported the above to the HKSAR Government and that the board of directors of the Company (the "Board") had authorised the Chairman and Chief Executive Officer of the Company to engage with the HKSAR Government with a view to enabling the XRL to commence operations in accordance with the XRL Revised Programme and to report further to the Board in due course on the outcome thereof.

Since 30 June 2015, the HKSAR Government and its consultants reviewed and discussed with the Company these revised estimates. With adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "Revised Cost Estimate").

On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "XRL Agreement") relating to the further funding and completion of the XRL. The XRL Agreement contains an integrated package of terms (subject to conditions as set out in note 15A(vi)) and provides that:

(i) The HKSAR Government will bear and finance the project cost up to HK$84.42 billion (which includes the original budgeted cost of HK$65 billion plus the agreed increase in the estimated project cost of HK$19.42 billion (the portion of the entrustment cost (up to HK$84.42 billion) that exceeds HK$65 billion being the "Current Cost Overrun"));

(ii) The Company will, if the project exceeds HK$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "Further Cost Overrun") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the XRL Agreement);

(iii) The Company will pay a Special Dividend of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share in cash in each tranche). The first tranche will be paid in cash within a reasonable period after the XRL Agreement become fully unconditional and effective (the first tranche was paid on 13 July 2016) and the second tranche will be paid in cash approximately 12 months thereafter (which is expected to be in the second half of 2017). There will be no scrip alternative;

15 Other Railway Construction in Progress under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project *(continued)*

(iv) The HKSAR Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the XRL Preliminary Entrustment Agreement and XRL Entrustment Agreement ("Entrustment Agreements") (including any question the HKSAR Government may have regarding the validity of the Liability Cap). The Entrustment Agreements contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under the XRL Entrustment Agreement, the Liability Cap is equal to the Project Management Cost and any other fees that the Company receives under XRL Entrustment Agreement and certain fees received by the Company under the Preliminary Entrustment Agreement. Accordingly, the Liability Cap increases from up to HK$4.94 billion to up to HK$6.69 billion as the Project Management Cost is increased in accordance with the XRL Agreement (as it will be equal to the increased Project Management Cost under the XRL Entrustment Agreement of HK$6.34 billion plus the additional fees referred to above). If the arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
- seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government.

(v) Certain amendments are made to the XRL Entrustment Agreement to reflect the arrangements contained in the XRL Agreement, including an increase in Project Management Fee payable to the Company under XRL Entrustment Agreement to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations under XRL Entrustment Agreement in relation to XRL project) and to reflect the XRL Revised Programme;

(vi) The arrangements under the XRL Agreement (including the payment of the Special Dividend) are conditional on:

- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and
- HKSAR Legislative Council approval in respect of the HKSAR Government's additional funding obligations,

being granted prior to the Back Stop Date (being 30 September 2016 or earlier, if a termination of XRL Entrustment Agreement is commenced prior to that date) and will become effective if such conditions are satisfied.

The XRL Agreement (and the Special Dividend) was approved by the Company's independent shareholders at the General Meeting held on 1 February 2016 and became unconditional upon approval by the Legislative Council on 11 March 2016 of the HKSAR Government's additional funding obligations.

The Company has not made any provision in its accounts in respect of:

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe there is any need to revise further the XRL Revised Programme or the Revised Cost Estimate of HK$84.42 billion;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in paragraph (iv) above), given that (a) the Company has not received any notification from Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the XRL Agreement, cannot take place until after commencement of commercial operations on the XRL) (as of 30 June 2016 and up to the date of this interim report); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the XRL Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and

(iii) any possible insufficiency of the Project Management Fee to enable the Company to recover fully its internal costs incurred in performing its obligations in relation to the XRL project, given that the Company estimates that the increased Project Management Fee under XRL Agreement should be sufficient to cover such costs (based on current known circumstances),

and, where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).

During the half year ended 30 June 2016, project management fee of HK$378 million (2015: HK$373 million) was recognised in the consolidated profit and loss account.

15 Other Railway Construction in Progress under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") 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 SCL ("SCL Preliminary Entrustment Agreement"). Pursuant to the SCL Preliminary Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible to fund directly the total cost of such activities.

On 17 May 2011, the Company entered into another entrustment agreement with the HKSAR Government for the financing, construction, procurement of services and equipment and other matters associated with certain enabling works in relation to the SCL ("SCL Advance Works Entrustment Agreement"). Pursuant to the SCL Advance Works Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the agreed works while the HKSAR Government is responsible to bear and pay to the Company all the work costs ("SCL Advance Works Costs").

In August 2015, the Company notified the HKSAR Government that the Company estimated that the cost for the works carried out under the SCL Advance Works Entrustment Agreement will exceed the original estimate of HK$7,350 million in respect thereof by HK$1,274 million (including contingency). In February 2016, the Company notified the HKSAR Government that the estimated exceedance will be adjusted to HK$1,267 million (including contingency).

On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("SCL Entrustment Agreement"). Pursuant to the SCL Entrustment Agreement, the HKSAR Government is responsible to bear all the work costs specified in the SCL Entrustment Agreement including costs to contractors and costs to the Company ("Interface Works Costs") except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The Company is responsible to carry out or procure to the carrying out of the works specified in the SCL Preliminary Entrustment Agreement, the SCL Advance Works Entrustment Agreement and the SCL Entrustment Agreement (together, the "SCL Agreements") for a total project management fee of HK$7,893 million. As at 30 June 2016 and up to the date of this interim report, the Company has received payments of the project management fee from the HKSAR Government in accordance with the original agreed payment schedule.

In May 2014, the Company notified the HKSAR Government of the delays to the completion of the East West Corridor and North South Corridor. The programme for delivery of the Shatin to Central Link has been impacted by a number of key external events. Firstly, on the East West Corridor the time taken in confirming actions to be undertaken relating to archaeological finds at the To Kwa Wan Station site has led to an 11-month delay in this corridor, with the estimated completion now in 2019. Secondly, on the North South Corridor, the anticipated late hand-over of certain critical work sites for construction of the new Exhibition Station due to infrastructure works by other parties, including as a result of the discovery of an unforeseen large metal object on the seabed in the vicinity, together with the additional works incorporated into the underground structure of Exhibition Station to allow flexibility for future construction works above the station, have already caused a six-month delay in that corridor. These issues mean that the estimated completion of the project as a whole is now in 2021. Any further delay in site hand-over will result in an equivalent additional delay to the completion of the North South Corridor.

Taking into account the continuing difficulties and challenges, including those described above, the Company considers it is likely that the cost estimate for the SCL will need to be revised upwards significantly to include the additional HK$4,100 million that was previously reported as a result of the archaeological finds in the To Kwa Wan area, the late handover of construction sites at Exhibition Station, the previously unbudgeted foundation works for top-side development at Exhibition Station and other factors such as lower availability of labour in Hong Kong's construction sector. The Company has advised Government that it will therefore conduct a detailed review of the project cost estimate for the project as a whole. Given the complexity of the project works, the continuing uncertainties associated with some of the issues highlighted above and the fact that the North South Corridor is currently only 34.8% complete, this review will only be completed in the second half of 2017 after which the Company will formally report the findings to the HKSAR Government.

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements and, under each SCL 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 relevant SCL Agreement. Under the SCL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. Up to the date of this interim report, no claim has been received from the HKSAR Government.

Given (i) the SCL Agreements, provide that the HKSAR Government shall bear and finance the full amount of the relevant costs to the extent described above; and (ii) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company in relation to any SCL Agreement (as of 30 June 2016 and up to the date of this interim report), the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any) arising from the matters described above.

During the half year ended 30 June 2016, project management fee of HK$450 million (2015: HK$407 million) was recognised in the consolidated profit and loss account. Additionally, during the half year ended 30 June 2016, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK$649 million (2015: HK$603 million). As at 30 June 2016, the amount of the SCL Advance Works Costs and the Interface Works Costs which remained to be paid to the Company by the HKSAR Government was HK$889 million (31 December 2015: HK$984 million).

16 Property Development in Progress

Movements of property development in progress of the Group during the half year ended 30 June 2016 and the year ended 31 December 2015 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 2016 (Unaudited)						
Airport Railway Property Projects	**–**	**1**	**(1)**	**–**	**–**	**–**
Tseung Kwan O Extension Property Projects	**3,643**	**62**	**–**	**–**	**–**	**3,705**
East Rail Line/Light Rail Property Projects	**8,928**	**62**	**–**	**–**	**–**	**8,990**
South Island Line (East) Property Project	**1,061**	**19**	**–**	**–**	**–**	**1,080**
Kwun Tong Line Extension Property Project	**414**	**27**	**–**	**–**	**–**	**441**
Shenzhen Property Project	**3,937**	**170**	**–**	**–**	**(87)**	**4,020**
	17,983	**341**	**(1)**	**–**	**(87)**	**18,236**
At 31 December 2015 (Audited)						
Airport Railway Property Projects	–	4	(4)	–	–	–
Tseung Kwan O Extension Property Projects	1,240	2,981	(3)	(575)	–	3,643
East Rail Line/Light Rail Property Projects	1,316	7,612	–	–	–	8,928
South Island Line (East) Property Project	1,045	16	–	–	–	1,061
Kwun Tong Line Extension Property Project	361	53	–	–	–	414
Shenzhen Property Project	3,528	569	–	–	(160)	3,937
	7,490	11,235	(7)	(575)	(160)	17,983

17 Acquisition of a Subsidiary

The Group acquired the remaining 50% of the shares and voting interests in Tunnelbanan Teknik Stockholm AB ("TBT") and obtained control of TBT on 15 February 2016. The consideration of the acquisition is SEK195 million (approximately HK$180 million) in cash to be paid in annual instalments from 2016 to 2024. As a result of the acquisition, goodwill of HK$61 million was recognised. There was no gain or loss arising from the acquisition.

TBT was renamed MTR Tech AB subsequent to the completion of the acquisition.

18 Properties Held for Sale

in HK$ million	**At 30 June 2016 (Unaudited)**	At 31 December 2015 (Audited)
Properties held for sale		
– at cost	**614**	625
– at net realisable value	**472**	514
	1,086	1,139

Properties held for sale at net realisable value as at 30 June 2016 are stated net of provision of HK$101 million (31 December 2015: HK$44 million) made in order to state these properties at the lower of their cost and estimated net realisable value.

19 Derivative Financial Assets and Liabilities

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

	At 30 June 2016 (Unaudited)		At 31 December 2015 (Audited)	
in HK$ million	Notional amount	Fair value	Notional amount	Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– fair value hedges	**1,358**	**3**	–	–
– cash flow hedges	**156**	**1**	–	–
– not qualified for hedge accounting	**146**	**5**	60	–
Cross currency swaps				
– fair value hedges	**2,326**	**27**	2,326	10
– cash flow hedges	**976**	**45**	277	16
Interest rate swaps				
– fair value hedges	**2,050**	**51**	1,400	55
	7,012	**132**	4,063	81
Derivative Financial Liabilities				
Foreign exchange forwards				
– fair value hedges	**2,367**	**3**	3,491	11
– cash flow hedges	**91**	**4**	313	21
– not qualified for hedge accounting	**3**	**–**	180	5
Cross currency swaps				
– fair value hedges	**1,194**	**127**	1,193	133
– cash flow hedges	**2,670**	**275**	2,437	623
Interest rate swaps				
– fair value hedges	**1,552**	**5**	2,200	17
– cash flow hedges	**1,600**	**61**	600	17
– not qualified for hedge accounting	**100**	**9**	100	3
	9,577	**484**	10,514	830
Total	**16,589**		14,577	

20 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. Fare revenue from MTR Express is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month.

(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. Concession revenue for MTR Crossrail is collected once every 4 weeks.

(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.

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

The ageing of debtors is analysed as follows:

in HK$ million	**At 30 June 2016 (Unaudited)**	At 31 December 2015 (Audited)
Amounts not yet due	**2,245**	3,816
Overdue by 30 days	**123**	388
Overdue by 60 days	**56**	53
Overdue by 90 days	**59**	8
Overdue by more than 90 days	**22**	18
Total debtors	**2,505**	4,283
Deposits and payments in advance	**1,171**	852
	3,676	5,135

Included in the amounts not yet due as at 30 June 2016 was HK$474 million (31 December 2015: HK$2,197 million) in respect of property development.

21 Material Related Party Transactions

The FSI of the HKSAR Government, which holds approximately 75.4% 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), *Related Party Disclosures*, and are identified separately in this interim financial report.

As at 30 June 2016, 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 2016 (Unaudited)**	At 31 December 2015 (Audited)
Amounts due from:		
– HKSAR Government	**1,495**	1,462
– KCRC	**11**	10
– associates	**155**	164
	1,661	1,636
Amounts due to:		
– HKSAR Government	**23,171**	25
– KCRC	**1,308**	1,714
– an associate	**123**	119
	24,602	1,858

As at 30 June 2016, the amount due from the HKSAR Government mainly 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 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 2016 related to the special dividend payable under the XRL Agreement (note 7), the 2015 final dividend payable (note 7) as well as land administrative fees in relation to railway extensions.

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 the accrued portion of fixed annual payment and variable annual payment arising from the Rail Merger.

The amount due from associates as at 30 June 2016 included mainly receivables in relation to the daily Octopus card transactions with Octopus Cards Limited, and the outstanding balances of loans to Tianjin TJ – Metro Construction Company Limited as well as staff secondment and other support services fees receivable from Beijing MTR Corporation Limited ("BJMTR"). The amount due to an associate as at 30 June 2016 related to the amount payable for the equity contribution to NRT Pty. Limited ("NRT").

21 Material Related Party Transactions *(continued)*

During the half year ended 30 June 2016, besides the revenue recognised in respect of the project management activities for the HKSAR Government (note 15), cash dividends paid or payable to the FSI of the HKSAR Government by the Group amounted to HK$23,104 million (2015: HK$3,548 million).

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 2015.

During the half year ended 30 June 2016, the Group had the following transactions with its associates, namely Octopus Holdings Limited and its subsidiaries ("Octopus Group"), BJMTR, London Overground Rail Operations Ltd ("LOROL") and NRT:

in HK$ million	**Half year ended 30 June 2016**	Half year ended 30 June 2015
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	**72**	68
– 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	**19**	17
BJMTR		
– Fees received or receivable in respect of staff secondment, information technology and other support services provided to BJMTR	**23**	20
LOROL		
– Fees received or receivable in respect of staff secondment and consultancy services provided to LOROL	**14**	11
NRT		
– Fees received or receivable in respect of the design and delivery of electrical and mechanical systems and rolling stock services provided to NRT	**281**	169

22 Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

in HK$ million	**At 30 June 2016 (Unaudited)**	At 31 December 2015 (Audited)
Due within 30 days or on demand	**3,902**	4,098
Due after 30 days but within 60 days	**2,403**	3,493
Due after 60 days but within 90 days	**1,229**	1,035
Due after 90 days	**11,703**	8,279
	19,237	16,905
Rental and other refundable deposits	**2,888**	2,818
Accrued employee benefits	**3,397**	3,137
Dividends payable to other equity shareholders (note 7)	**7,543**	–
	33,065	22,860

23 Loans and Other Obligations

Notes issued by the Group during the half year ended 30 June 2016 and 2015 comprise:

in HK$ million	**Half year ended 30 June 2016** Principal amount	**Half year ended 30 June 2016** Net consideration received	Half year ended 30 June 2015 Principal amount	Half year ended 30 June 2015 Net consideration received
Debt issuance programme notes	**2,982**	**2,944**	500	487

During the half year ended 30 June 2016, notes of HK$2,050 million and USD80 million (or HK$621 million) (2015: HK$500 million) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited, while notes of USD40 million (or HK$311 million) were issued by the Company (2015: nil). 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 2016, the Group did not redeem any of its listed and unlisted debt securities (2015: HK$500 million of unlisted debt securities).

24 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2016 and the year ended 31 December 2015 are as follows:

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
At 30 June 2016 (Unaudited)						
Balance as at 1 January 2016	**11,024**	**574**	**(372)**	**(43)**	**(65)**	**11,118**
Charged to consolidated profit and loss account	**76**	**–**	**2**	**–**	**–**	**78**
Charged to reserves	**–**	**14**	**–**	**28**	**–**	**42**
Exchange difference	**–**	**–**	**9**	**–**	**1**	**10**
Balance as at 30 June 2016	**11,100**	**588**	**(361)**	**(15)**	**(64)**	**11,248**
At 31 December 2015 (Audited)						
Balance as at 1 January 2015	10,592	520	(139)	(15)	(31)	10,927
Charged/(credited) to consolidated profit and loss account	435	–	(120)	–	(36)	279
Charged/(credited) to reserves	–	54	(114)	(28)	–	(88)
Exchange difference	(3)	–	1	–	2	–
Balance as at 31 December 2015	11,024	574	(372)	(43)	(65)	11,118

B Deferred tax assets and liabilities recognised on the consolidated statement of financial position are as follows:

in HK$ million	**At 30 June 2016 (Unaudited)**	At 31 December 2015 (Audited)
Net deferred tax assets	**(80)**	(91)
Net deferred tax liabilities	**11,328**	11,209
	11,248	11,118

25 Share Capital and Shares Held for Share Incentive Scheme

A Share Capital

	At 30 June 2016 (Unaudited)		At 31 December 2015 (Audited)	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**5,858,228,236**	**46,317**	5,826,534,347	45,280
Shares issued in respect of scrip dividend of 2014 final dividend	**–**	**–**	6,468,200	242
Shares issued in respect of scrip dividend of 2015 interim dividend	**–**	**–**	4,191,789	145
Vesting of shares of Share Incentive Scheme	**–**	**2**	–	–
Shares issued under share option schemes	**22,982,000**	**750**	21,033,900	650
At 30 June/31 December	**5,881,210,236**	**47,069**	5,858,228,236	46,317

B New shares issued and fully paid up during the half year ended 30 June 2016 comprise:

	Number of shares	Weighted average exercise price HK$
Employee share options exercised:		
– 2007 Share Option Scheme	**22,982,000**	**29.15**

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

	Half year ended 30 June 2016	Half year ended 30 June 2015
	2007 Share Option Scheme	2007 Share Option Scheme
Outstanding at 1 January	**55,034,500**	76,785,400
Exercised during the period	**(22,982,000)**	(15,108,200)
Forfeited during the period	**(264,500)**	(388,500)
Outstanding at 30 June	**31,788,000**	61,288,700
Exercisable at 30 June	**25,642,000**	41,652,700

D During the half year ended 30 June 2016, the Company awarded Performance Shares and Restricted Shares under the Company's 2014 Share Incentive Scheme to certain eligible employees of the Company. A total of 187,200 Performance Shares and 2,401,150 Restricted Shares were awarded and accepted by the grantees on 8 April 2016. The fair value of these awarded shares was HK$38.65 per share.

E During the half year ended 30 June 2016, the Trustee of the 2014 Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the 2014 Share Incentive Scheme, purchased on Hong Kong Stock Exchange a total of 2,588,350 shares (2015: 4,029,200 shares) of the Company for a total consideration of approximately HK$99 million (2015: HK$150 million.)

F During the half year ended 30 June 2016, 769,115 shares were transferred to the awardees under 2014 Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$28 million. During the half year ended 30 June 2016, HK$2 million was credited to share capital in respect of vesting of shares whose fair values at the grant date were higher than the costs of the vested shares. During the half year ended 30 June 2016, 100,006 award shares were forfeited.

26 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

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 2016 (Unaudited)**	**Fair value measurements as at 30 June 2016**	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**9**	**–**	**9**
– Cross currency swaps	**72**	**–**	**72**
– Interest rate swaps	**51**	**–**	**51**
	132	**–**	**132**
Investments in securities	**351**	**351**	**–**
	483	**351**	**132**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**7**	**–**	**7**
– Cross currency swaps	**402**	**–**	**402**
– Interest rate swaps	**75**	**–**	**75**
	484	**–**	**484**

in HK$ million	Fair value at 31 December 2015 (Audited)	Fair value measurements as at 31 December 2015	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Cross currency swaps	26	–	26
– Interest rate swaps	55	–	55
	81	–	81
Investments in securities	336	336	–
	417	336	81
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	37	–	37
– Cross currency swaps	756	–	756
– Interest rate swaps	37	–	37
	830	–	830

Notes to the Unaudited Interim Financial Report

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

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

There are no Level 3 measurements of financial instruments. During the half year ended 30 June 2016 and the year ended 31 December 2015, 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.

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 end of the reporting period. Closing exchange rates at the end of the reporting period 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 2016 and 31 December 2015 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

	At 30 June 2016 (Unaudited)		At 31 December 2015 (Audited)	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**17,272**	**19,681**	14,096	15,410
Other obligations	**968**	**1,058**	921	1,172

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 end of the reporting period. Closing exchange rates at the end of the reporting period were used to convert value in foreign currency to local currency.

27 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 2016 (Unaudited)**	Half year ended 30 June 2015 (Unaudited)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	**8,810**	8,346
Adjustments for:		
– Decrease in provision for obsolete stock	**(5)**	(1)
– Loss on disposal of fixed assets	**26**	23
– Amortisation of deferred income from transfers of assets from customers	**(13)**	(14)
– (Increase)/decrease in fair value of derivative instruments	**(90)**	35
– Unrealised (gain)/loss on revaluation of investment in securities	**(3)**	3
– Employee share-based payment expenses	**54**	32
– Exchange loss	**54**	9
Operating profit before working capital changes	**8,833**	8,433
Decrease/(increase) in debtors, deposits and payments in advance	**182**	(347)
Increase in stores and spares	**(169)**	(92)
Increase in creditors and accrued charges	**525**	1,438
Cash generated from operations	**9,371**	9,432

28 Capital Commitments

A Outstanding capital commitments as at 30 June 2016 not provided for in the accounts were as follows:

in HK$ million	Hong Kong transport, 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 2016 (Unaudited)					
Authorised but not yet contracted for	**7,404**	**–**	**2,484**	**16**	**9,904**
Authorised and contracted for	**14,677**	**865**	**6,512**	**104**	**22,158**
	22,081	**865**	**8,996**	**120**	**32,062**
At 31 December 2015 (Audited)					
Authorised but not yet contracted for	7,051	–	2,455	2	9,508
Authorised and contracted for	14,270	1,080	5,462	253	21,065
	21,321	1,080	7,917	255	30,573

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

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 30 June 2016 (Unaudited)				
Authorised but not yet contracted for	**3,744**	**558**	**3,102**	**7,404**
Authorised and contracted for	**10,453**	**99**	**4,125**	**14,677**
	14,197	**657**	**7,227**	**22,081**
At 31 December 2015 (Audited)				
Authorised but not yet contracted for	3,728	499	2,824	7,051
Authorised and contracted for	10,179	156	3,935	14,270
	13,907	655	6,759	21,321

29 Approval of Interim Financial Report

The interim financial report was approved by the Board on 9 August 2016.

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 43 to 67 which comprises the consolidated statement of financial position of MTR Corporation Limited as of 30 June 2016 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 2016 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
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Central, Hong Kong
9 August 2016

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