MTR

Connections for Growth

Interim Report 2017

Stock Code: 66

2017 Interim Results Performance Highlights

Revenue from Recurrent Businesses

HK$23.2 billion

▲8.7 %

Total Revenue

HK$30.0 billion

▲40.8 %

Operating Profit Before Depreciation, Amortisation and Variable Annual Payment

HK$11.9 billion

▲31.3 %

Profit Attributable to Shareholders of the Company Arising from Underlying Businesses

HK$5.8 billion

▲15.3 %

Total Assets

HK$262.5 billion

▲2.0 % (vs 31 December 2016)

Net Assets

HK$152.7 billion

▲2.1 % (vs 31 December 2016)

Net Debt-to-Equity Ratio

17.7 %

▼2.5 % pts. (vs 31 December 2016)

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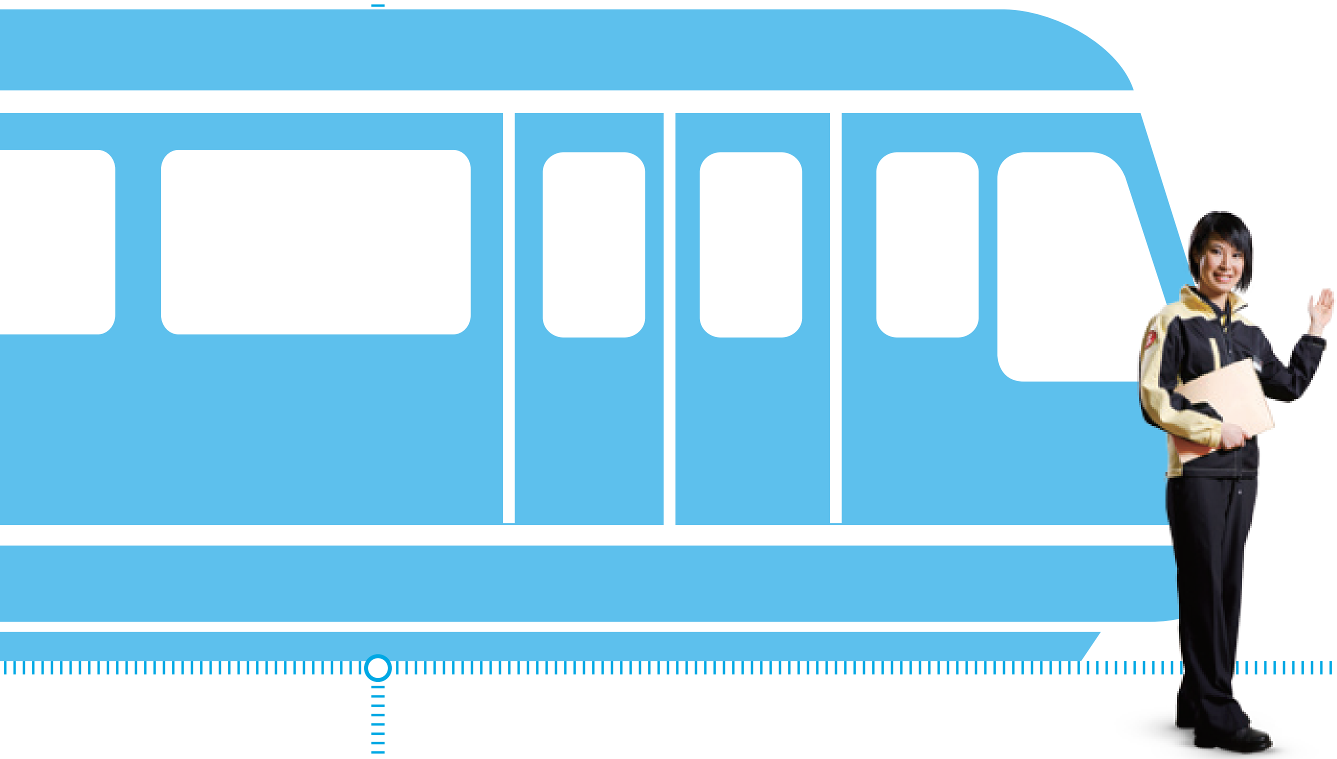


Hong Kong Operating Network with Future Extensions

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
- South Island Line
- Tseung Kwan O Line
- Tsuen Wan Line
- Tung Chung Line
- West Rail Line

Projects in Progress

- Guangzhou-Shenzhen-Hong Kong Express Rail Link
- Shatin to Central Link (Phase I)
- Shatin to Central Link (Phase II)

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

Properties Owned / Developed / Managed by the Corporation

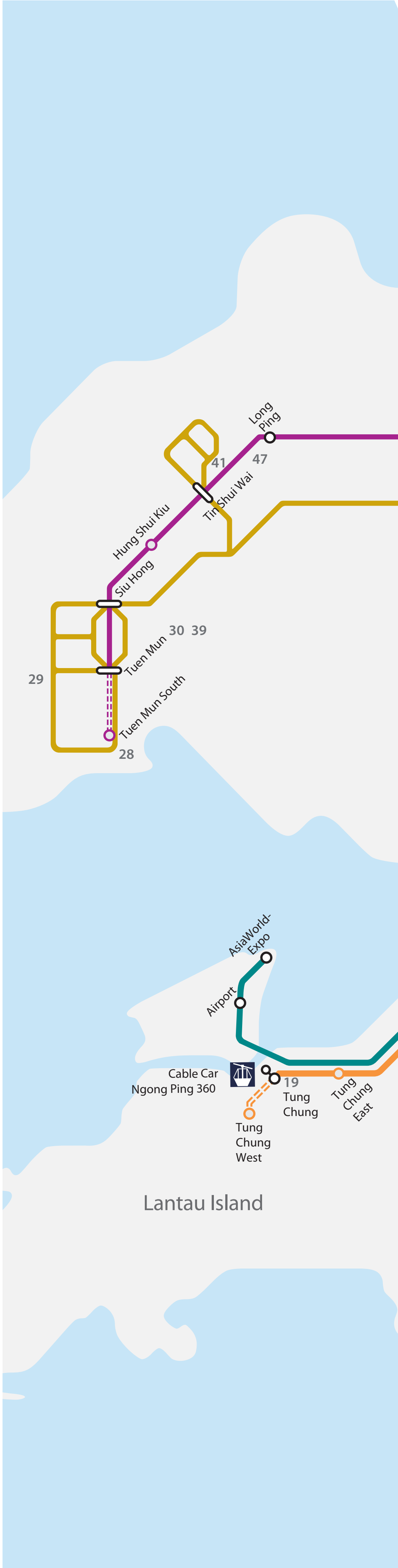
01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Tower
11 Hongway Garden / Infinitus Plaza
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 Packages
44 Ho Man Tin Station Packages

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

39 Century Gateway
45 Ocean Pride / Ocean Supreme / Tsuen Wan West Station (TW5) Cityside / THE PAVILIA BAY / City Point
46 Cullinan West
47 The Spectra / Long Ping Station (South)
48 Yuen Long Station
49 Kam Sheung Road Station Packages
50 Pat Heung Maintenance Centre




Shenzhen
New Territories
Kowloon
Hong Kong Island
Intercity Through Train Route Map
Beijing Line
Shanghai Line
Guangdong Line
Beijing
Shanghai
Zhaoqing*
Guangzhou
Foshan
Dongguan
HONG KONG SAR
* Due to the redevelopment of railway control point at Zhaoqing, services to/from Zhaoqing has been suspended since 16 April 2017 until further notice.
Lo Wu
Lok Ma Chau
Sheung Shui
Kwu Tung
Fanling
Tai Wo
Tai Po Market
University
Fo Tan
Racecourse*
Sha Tin
Tai Wai
Yuen Long
Kam Sheung Road
Tsuen Wan West
Tsuen Wan
Tai Wo Hau
Kwai Hing
Kwai Fong
Mei Foo
Lai King
Tsing Yi
Sunny Bay
Disneyland Resort
Ma On Shan
Wu Kai Sha
Heng On
Tai Shui Hang
Shek Mun
City One
Sha Tin Wai
Che Kung Temple
Hin Keng
Kowloon Tong
Lok Fu
Wong Tai Sin
Diamond Hill
Choi Wan
Choi Hung
Shun Tin
Sau Mau Ping
Po Tat
Po Lam
Hang Hau
Kowloon Bay
Ngau Tau Kok
Kwun Tong
Lam Tin
Yau Tong
Tiu Keng Leng
Tseung Kwan O
LOHAS Park
Lai Chi Kok
Cheung Sha Wan
Sham Shui Po
Shek Kip Mei
Prince Edward
Nam Cheong
Olympic
Mong Kok
Mong Kok East
Kai Tak
To Kwa Wan
Ma Tau Wai
Ho Man Tin
Whampoa
Yau Ma Tei
Jordan
Austin
Kowloon
West Kowloon Terminus
Tsim Sha Tsui
East Tsim Sha Tsui
Hung Hom
Exhibition
Hong Kong
Tamar
Central
Admiralty
Wan Chai
Causeway Bay
Causeway Bay North
Fortress Hill
North Point
Tin Hau
Quarry Bay
Tai Koo
Sai Wan Ho
Shau Kei Wan
Heng Fa Chuen
Chai Wan
Sheung Wan
Sai Ying Pun
HKU
Kennedy Town
Queen Mary Hospital
Cyberport
Wah Fu
Tin Wan
Aberdeen
Wong Chuk Hang
Ocean Park
Lei Tung
South Horizons
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45
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18
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Chairman's Letter

"The Company has made significant progress in realising our vision, which is to make MTR a company admired in Hong Kong as a world-class operator of sustainable rail transport services."

Dear Shareholders and other Stakeholders,

Since I took up my appointment as Chairman in 2016, 18 months have quickly passed. I am delighted to report that, through the "One Team" spirit and dedication of our staff, we have achieved very fruitful results. The Company has made significant progress in realising our vision, which is to make MTR a company admired in Hong Kong as a world-class operator of sustainable rail transport services.

The opening of the extension of the Kwun Tong Line and the South Island Line late last year marked an important milestone, with our rail services now reaching all 18 districts of Hong Kong. The conclusion of the early review of the Fare Adjustment Mechanism ("FAM") with Government in March this year is another important milestone, which is enabling us to make the investments required to meet Hong Kong's future rail transport needs. The two new railway projects already underway, the Hong Kong Section of the Guangzhou-

Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link, continue to make progress. We continue working with Government on its strategy to build new railway lines under the Railway Development Strategy 2014 ("RDS 2014"). Beyond RDS 2014, Government has further proposed additional transport corridors under its long-term vision for development.

The track record and reputation we have built through the safety, efficiency and reliability of our Hong Kong operations have enabled us to expand in the Mainland of China and overseas markets. During the first half of the year, we won two new contracts together with our partners; signing the Concession Agreement relating to the Hangzhou Metro Line 5 ("HZL5") Public-Private-Partnership ("PPP") project and being awarded the seven-year South Western rail franchise in the UK.

Our operational and financial success over many years has been guided by our corporate strategy. To ensure our strategy provides the right approach for the opportunities and challenges that lie ahead both at home and outside of Hong Kong, the Board undertook a review in January this year. The review reaffirmed our three-pronged approach, namely strengthening and growing the Hong Kong business, accelerating growth in our Mainland of China and international businesses, and enhancing our corporate reputation. With this review, we aim to build on what we have already achieved to accelerate our growth, thereby contributing to the long-term sustainability of the Company.

The Company's financial results for the first six months of 2017 were satisfactory. Profit attributable to equity shareholders for the first six months of 2017 from recurrent businesses decreased by 8.0% to HK$4,478 million, largely due to the depreciation and interest expenses relating to the opening of the new lines highlighted above. With the booking of profit from Tiara in Shenzhen, our first Mainland China property development, and sundry sources from Hong Kong, property development profit increased by 561.8% to HK$1,370 million. As a result, profit attributable to shareholders from underlying businesses increased by 15.3% to HK$5,848 million. Including the gain arising from investment property revaluation, net profit attributable to shareholders of the Company increased by 46.1% to HK$7,480 million, representing earnings per share after revaluation of HK$1.27. An interim ordinary dividend of HK$0.25 per share has been declared by the Board.

Our Network

Safety is always our utmost priority, and I am pleased to report that our safety performance was excellent during the first half of 2017. The professionalism of our colleagues in response to the saddening arson incident on the Tsuen Wan Line in February was a testimony to our deeply rooted culture of safety. An Executive Review Panel was set up to investigate the incident, which included two independent experts. The panel concluded that the handling of the incident by our staff and the emergency services had been robust, orderly, speedy and effective. We were also commended for the way we communicated information to passengers and the public both during and after the incident. The panel's report contained a number of initiatives to raise public awareness and to enhance risk management, and these are now being put into action. Despite our overall achievement in maintaining high safety standards, unfortunately, a fatal accident involving a staff member occurred at Tai Wai Station in May. I am saddened by the loss and we are deeply concerned about this incident, which is now undergoing investigation.

Every year we invest heavily in the MTR network to maintain our highly reliable service and to construct new railway lines to meet growing demand. Together, these investments form part of "Rail Gen 2.0", a new era for rail transportation to support Hong Kong's future development. Our teams are working diligently on the two remaining railway construction projects, the Express Rail Link and the Shatin to Central Link. The Express Rail Link is scheduled for completion in the third quarter of 2018, and the Company is in discussions with Government regarding the operating arrangements. We welcome Government's announcement made in July 2017 on the proposed co-location arrangement at the West Kowloon Terminus, which will maximise service convenience for customers and realise the Express Rail Link's full transportation and economic benefits. We will continue to support Government in pushing forward the project for commencement of passenger service. For the Shatin to Central Link, the East West Corridor and the North South Corridor are expected to be completed by mid-2019 and 2021 respectively.

Looking further ahead, RDS 2014 has identified seven new rail projects to be built in phases over a number of years. Government has invited MTR to submit project proposals for five of these projects first. We are now in discussion with Government over the project proposals for the Tuen Mun South Extension and the Northern Link (and Kwu Tung Station), and our project proposal for the East Kowloon Line was submitted to Government in July 2017. Project proposals for the Tung Chung West Extension (and Tung Chung East Station) and the North Island Line will be submitted later in 2018.

Outside of Hong Kong, we carried an average of 5.8 million passengers every weekday in the first half of 2017 and our expansion continues. In the Mainland of China, we signed the Concession Agreement for the HZL5 PPP project with the Hangzhou Municipal Government and Hangzhou Metro Group on 26 June. In Shenzhen, we have recently handed over the sold units of Tiara. We are also positioning ourselves to take advantage of the many alluring opportunities that will come from China's "Belt and Road" Initiative. Further afield, following the award of the South Western rail franchise in the UK, we are now preparing our bid for the Wales and Borders rail franchise and the West Coast Partnership franchise. In the Nordic region, we are exploring possible involvement in additional railway projects; while in Australia, we continue our discussions with local governments on renewal of the Metro Trains Melbourne operation and potential participation in the Sydney Metro City and Southwest project. We are at the same time exploring property development opportunities over and around rail stations in the Mainland of China, the UK and Sweden.

Our Customers

Our customers expect nothing short of a world-class level of service, and the Company has attained this by maintaining our operational performance at 99.9% during the first six months of the year.

Central to maintaining our excellent service standards, and an important part of Rail Gen 2.0, is our asset replacement programme, which will see HK$9.3 billion spent on new, more comfortable trains and enhanced signalling systems. These investments would not be possible without the FAM, which helps to ensure the financial sustainability of the Company and enables the continued provision of safe, reliable and efficient railway services for Hong Kong. The mechanism is open, objective and transparent and our fares compare very favourably with many other metros elsewhere in the world. In March we concluded the early review of the FAM jointly with Government. While there is no change to the FAM formula, different concessions have been launched to benefit all passengers across the board.

World-class operational performance and an affordable fare structure are crucial to our provision of value for money service to our customers. Our 2030 Customer Experience Vision Blueprint provides a framework for us to make continuous improvements in response to our customers' changing needs.

Our People

Our colleagues embrace their work and challenges with professionalism and dedication, and they are the greatest assets of the Company. We fully appreciate the importance of our human capital, and MTR was named as the most attractive employer in Hong Kong at the "Randstad Employer Brand Awards 2017" in April this year.

As a flash back of my past 18 months as the Chairman of the Company, two interactive communication sessions with managers were held in June, during which I shared my thoughts on the importance I have attached to the "3 C's": staying abreast of change, working in collaboration and effective communication.

The depth of our expertise in railways has laid a solid foundation for us to establish the MTR Academy ("MTRA"), which aims to develop professionals for the railway industry on a global basis. MTRA has made encouraging progress since its official opening in November last year. MTRA aspires to become a globally recognised railway management and engineering centre that offers high quality programmes to extend our rail expertise from Hong Kong to "Belt and Road" countries.

Contributions to the Community

MTR's sustainable rail transportation and integrated real estate planning has benefited our communities, and beyond this we embrace and support initiatives that aim to improve their quality of life.

Our corporate vision is to connect and grow communities, and youth continues to be the main focus under the Community Connect platform. We have been working actively to strengthen the life-skills of our younger generations in Hong Kong. Our " 'Train' for Life's Journeys" programme is supporting 180 secondary school students in discovering their passion this summer through mentorship and exposure to real-life work environment. Projects funded under our "Pathways to Employment" programme, developed through an open innovation process, are creating additional options for young people as they consider their career options.

Our "Art in MTR" goes from strength to strength. Along the recently opened South Island Line, the artworks have quickly become landmarks in the Southern District, showcasing the talent of local artists and the community. Working with community partners, we have brought new art and design exhibitions into MTR premises under different themes. The MTR Gallery in Kowloon Station, which showcases the past, present and future of railway services in Hong Kong, has attracted over 9,700 visits since its opening in February 2017.

Year after year, our colleagues show their care for the community by organising volunteering activities under our "More Time Reaching Community" scheme and their contributions to the community were recognised by the "2016 Sing Tao Service Award – Corporate Voluntary Team", awarded in March 2017. As a company, we are supporting non-governmental organisations through offering concessionary rental rates on certain shop spaces along the West Rail Line as well as free advertising spaces in our network.

Last but not least, for the third consecutive year, MTR has been awarded the "10 Years Plus Caring Company Logo" for our commitment to caring for the community, our employees and the environment.

Board Transition

The Board takes a leading role in maintaining the high standards of corporate governance, which is vital to the success of the Company. Mr Ng Leung-sing, after serving the Board for over nine years, retired as an Independent Non-executive Director at our Annual General Meeting on 17 May 2017. I would like to thank Mr Ng again for his valuable contributions to the Board and the Company during his tenure of service. At the same time, I am pleased to welcome Mr Andrew Clifford Winawer Brandler and Mr Johannes Zhou Yuan, who have joined the Board as Independent Non-executive Directors effective 17 May 2017.

There are a few other changes to the Board, and I would also like to welcome Mr Frank Chan Fan (Secretary for Transport and Housing) and Mr James Henry Lau Jr. (Secretary for Financial Services and the Treasury), who joined the Board as Non-executive Directors in July. Taking the opportunity, I would like to thank Professor Anthony Cheung Bing-leung (former Secretary for Transport and Housing) and Professor Chan Ka-keung, Ceajer (former Secretary for Financial Services and the Treasury) for their valuable contributions to the Board and the Company during their terms of service.

Mrs Ingrid Yeung Ho Poi-yan, who ceased to hold the post of Commissioner for Transport with effect from 15 July 2017, ceased to be a Non-executive Director of the Company on the same date, and I would again like to thank her for her valuable contributions to the Board and the Company during her term of service.

Lastly, I wish to thank my fellow Directors for their advice and support they have given me, and every one of our staff members for their sterling contributions in making MTR a company admired in Hong Kong. As a strong and united team, and despite the many challenges ahead, we can look to the remainder of the year with confidence.

Professor Frederick Ma Si-hang
Chairman
Hong Kong, 10 August 2017

CEO's Review of Operations and Outlook

"Stable economic conditions in Hong Kong led to further revenue growth in our Hong Kong businesses... Our strategy of expanding in and outside of Hong Kong continued to gain momentum."

Dear Shareholders and other Stakeholders,

Building on the success of previous years, further progress was delivered across all of our businesses in the first six months of 2017. The early review of the Fare Adjustment Mechanism ("FAM"), conducted jointly with Government, was concluded in March 2017, resulting in new arrangements that balance the interests of different stakeholders. These arrangements will benefit all passengers, while ensuring the financial sustainability of the Company to continue to provide safe, reliable and efficient railway services for Hong Kong. Our latest corporate strategy review took place in early 2017 and reaffirmed our three-pronged strategy which has successfully guided the Company over these past years; namely strengthening and growing the Hong Kong business, accelerating growth in our Mainland of China and international businesses, and enhancing our corporate reputation.

Stable economic conditions in Hong Kong led to further revenue growth in our Hong Kong businesses. Patronage of our Hong Kong transport operations increased by 2.5%, in part buoyed by the opening of the extension of the Kwun Tong Line and the new South Island Line towards the end of last year. Our services remained at world-class levels, with train service delivery and passenger journeys on-time in our heavy rail network being maintained at 99.9%. Safety performance was also excellent. Despite a further decline in Hong Kong retail sales, our station commercial and property rental businesses achieved modest revenue growth. An important milestone for MTR's property rental portfolio expansion programme was achieved with the opening of the new retail space on the seventh and eighth floors of Telford Plaza II in July 2017. Hong Kong property development profit for the period came mainly from sundry sources. In our property tendering activities, we awarded our first property package at Wong Chuk Hang Station in February 2017 to a consortium formed by Road King Infrastructure Limited and Ping An Real Estate Company Limited. Acting as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation ("KCRC"), we also awarded the first package at Kam Sheung Road Station to a consortium formed by Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited in May 2017.

Outside of Hong Kong, our rail businesses, which carried an average of 5.8 million passengers every weekday in the first half of 2017, continued to provide good services with high levels of customer satisfaction. In the Mainland of China, we signed the Concession Agreement in June 2017 with the Hangzhou Municipal Government and Hangzhou Metro Group for a Public-Private Partnership ("PPP") project in respect of Hangzhou Metro Line 5 ("HZL5"). In the UK, our 30% owned associate company was awarded the South Western rail franchise, which will run for seven years from August 2017. In our property development business in the Mainland of China, we handed over to buyers the high-rise units at Tiara in Shenzhen and profits were booked accordingly.

Our strategy of expanding in and outside of Hong Kong continued to gain momentum. In Hong Kong, "Rail Gen 2.0", our vision for the next generation of rail travel, encompasses our two remaining rail projects under construction, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link. These projects were 94.3% and 75.1% complete respectively as at 30 June 2017. We have also made progress on the major asset replacements that form part of Rail Gen 2.0, notably the replacement of trains and signalling systems on our existing network. In the future, growth in Hong Kong will be underpinned by Government's strategy of using rail as the backbone of public transportation. In line with this, Government's Railway Development Strategy 2014 ("RDS 2014") to build seven new rail projects is underway with our submission of proposals to Government for the extension of the West Rail Line to Tuen Mun South at the end of 2016 and for the Northern Link (and Kwu Tung Station) in March 2017. The proposal for the East Kowloon Line was submitted in July 2017 and we have also received requests for proposals for the Tung Chung Line extension to Tung Chung West (and Tung Chung East Station) and the North Island Line on Hong Kong Island. Beyond RDS 2014, Government's long-term vision for development, as encapsulated in "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030", has suggested an additional rail corridor, namely the Northwest New Territories – Lantau – Metro Transport Corridor. Apart from rail development in Hong Kong, we continue to explore opportunities to leverage off existing rail facilities to provide additional residential developments. The proposed development atop our Siu Ho Wan depot in Lantau took a further step forward with the Environmental Impact Assessment reports for the development being exhibited for public inspection in July 2017. Outside of Hong Kong, we are in discussions or exploring opportunities regarding new rail contracts in the Mainland of China, the Nordic region, the UK and Australia. We are also exploring integrated transit-oriented development opportunities in a number of our existing markets outside of Hong Kong.

Turning to our financial results, total revenue for the first six months of 2017 increased by 40.8% to HK$30,004 million, with operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment increasing by 2.4% to HK$9,046 million. The significant increase in revenue was due predominately to the accounting of sales proceeds from the Tiara development in Shenzhen. Excluding this, revenue would have increased 8.7%. Excluding the Company's Mainland of China and international subsidiaries, revenue grew by 3.1% and operating profit by 1.9%, with operating margin down by 0.6 percentage point to 56.6%. Recurrent profit attributable to equity shareholders, being net profit before property development profits (from both Hong Kong and the Mainland of China) and investment properties revaluation, decreased by 8.0% to HK$4,478 million, mainly due to higher costs, particularly fixed costs such as depreciation and interest expenses, after the opening of the two new lines in Hong Kong in the last quarter of 2016. Post tax profit from property developments (from both Hong Kong and the Mainland of China) was HK$1,370 million, and was mainly derived from the booking of profit from Tiara in Shenzhen and sundry sources in Hong Kong. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders rose by 15.3% to HK$5,848 million, mainly due to a higher level of property development profits for the period, representing earnings per share of HK$0.99. Gain in revaluation of investment properties was HK$1,632 million, as compared with HK$48 million in the corresponding period of 2016. As a result, net profit attributable to equity shareholders was HK$7,480 million, equivalent to earnings per share of HK$1.27 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 2017. The second and final tranche of the special dividend of HK$2.20 per share relating to the agreement with Government regarding the further funding arrangements for the Express Rail Link ("XRL Agreement") was paid on 12 July 2017, at the same time as payment of the 2016 final ordinary dividend.

Hong Kong Transport Operations

Highlights

- Safety maintained at world-class levels with the number of reportable events reduced by 5.2%
- Maintained world-class 99.9% train service delivery and passenger journeys on-time
- Early review of the FAM concluded with all passengers to benefit
- Patronage growth of 2.5% benefited from the opening of the extension of the Kwun Tong Line and the South Island Line

Financial Performance

The financial performance of the Hong Kong transport operations is summarised as follows:

HK$ million	Half year ended 30 June		
	2017	2016	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**8,957**	8,617	3.9
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**4,173**	4,084	2.2
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**1,320**	1,631	(19.1)
EBITDA Margin (in %)	**46.6%**	47.4%	(0.8)% pt.
EBIT Margin (in %)	**14.7%**	18.9%	(4.2)% pts.

Total revenue of Hong Kong Transport Operations increased by 3.9% to HK$8,957 million, benefiting from the growth in patronage and the adjustment to fares under the FAM. EBITDA increased at a lower rate of 2.2% to HK$4,173 million, mainly due to increased staff costs and train trips. However, the opening of the two new lines in the last quarter of 2016 increased the depreciation and amortisation charges significantly, hence EBIT decreased by 19.1% to HK$1,320 million.

Safety

Safety is paramount for MTR and in the first six months of 2017 our performance in this area was excellent. There were 5.2% fewer reportable events on the Hong Kong heavy rail network and light rail network during the period.

As noted in our 2016 Annual Report, the effectiveness of our "safety first" culture was demonstrated by our response to an arson attack on one of our trains on 10 February 2017, with our staff acting quickly to evacuate the train and station, and working with the emergency services to minimise injuries and damage.

An investigation by an Executive Review Panel concluded that the handling of the incident by MTR staff and emergency services was robust, orderly, speedy and effective. The panel also considered that the dissemination of information to passengers and the public was adequate and effective throughout and after the incident. Following the investigation, we submitted a report to Government on 25 April 2017 which contains a number of initiatives to raise public awareness and further enhance risk management. Initiatives to promote safety during the first half of 2017 included programmes to strengthen customers' awareness about fire safety and improve their knowledge of station evacuation procedures, using videos and posters. More portable fire extinguishers were also installed in stations.

Although safety performance was excellent overall, a staff fatality occurred on 23 May 2017. One of our maintenance technicians was found in the early morning lying on the tracks at a reception track near Tai Wai Depot, and was later certified dead at the scene. We again express our deepest condolences to the deceased's family, and are providing whatever care and assistance is required. We are co-operating with the police and Government departments to assist in their investigation into the incident and we have also launched our own internal investigation.

Patronage and Revenue

Fare revenue from our Hong Kong transport operations is summarised below:

HK$ million	Half year ended 30 June 2017	2016	Inc./(Dec.) %
Fare Revenue			
Domestic Service	**6,349**	6,051	4.9
Cross-boundary Service	**1,608**	1,586	1.4
Airport Express	**503**	486	3.5
Light Rail and Bus	**353**	346	2.0
Intercity	**65**	68	(4.4)
Total Fare Revenue	**8,878**	8,537	4.0

Our patronage benefited from the opening of the two new railway lines, as well as a slight recovery in tourist arrivals. Total patronage for all of our rail and bus passenger services increased moderately by 2.5% to 975.4 million in the first six months of 2017.

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, Ma On Shan and South Island lines), total patronage reached 798.3 million, a 3.1% increase for the period. The Cross-boundary Service to Lo Wu and Lok Ma Chau recorded a 1.0% decrease in patronage to 54.8 million, mainly as a result of strong competition from other modes of transport at Lok Ma Chau. Patronage on the Airport Express increased by 2.7% to 8.0 million, supported by an increase in air passenger traffic.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong for the first six months of 2017 increased by 3.0% to 5.67 million. The Domestic Service, which accounts for the majority of this patronage, saw a 3.6% rise to 4.70 million.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong in the first five months of 2017 was 48.8%, compared to 48.3% in the corresponding period of 2016. Within this total, the share of cross-harbour traffic was 69.3%, compared to 68.6%. Competition from other modes of transport saw our share of the Cross-boundary business for the first five months of 2017 decrease from 51.4% to 50.2%, and our market share to and from the airport declined from 21.4% to 21.3%.

Operations Performance in the first half of 2017

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, South Island 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, South Island 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, South Island Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.8%**
– Airport Express	98.0%	99.0%	**100.0%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥ 5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	650,000	**5,648,770**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	650,000	**9,045,549**
Ticket reliability: smart ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	9,500	**66,403**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island 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%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.8%**
– Light Rail	N/A	99.0%	**99.8%**
Ticket machine reliability*			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island 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%	**99.8%**
– West Rail Line	97.0%	99.0%	**99.5%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island 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, South Island 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, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.7%**
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	92.0%	**99.9%**
Cleanliness			
– Train compartment: cleaned daily	N/A	99.0%	**99.9%**
– Train exterior: washed every two 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 six 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.*

Fare Adjustments, Promotions and Concessions

Fare revenue growth was supported by adjustments to fares, as well as patronage increase. In accordance with the FAM, an overall 2.65% adjustment to applicable fares was implemented on 26 June 2016. Simultaneously, we announced our 2016/2017 fare promotions package, bringing savings of more than HK$500 million to customers between June 2016 and June 2017. This package was in addition to our ongoing fare concessions and promotions, such as those offered to the elderly and students, which amounted to over HK$2.5 billion in 2016.

On 21 March 2017, we announced that MTR and Government had concluded the early review of the FAM with revised arrangements designed to benefit all passengers, whilst ensuring the financial sustainability of the Company. During the review process, we listened to the opinions of different stakeholders, including passengers and shareholders. Two important pillars of the FAM remain unchanged, namely the FAM formula itself and the "direct-drive" nature of the application of the formula. However, three key new features are being introduced that benefit passengers directly:

- Special adjustment for six years. The calculated fare adjustment rate will be reduced by 0.6 percentage point each year from 2017/18 to 2022/23 through a special annual adjustment outside of the FAM formula. For 2017/18, the overall fare adjustment rate will be further reduced by 10%
- Rebate linked directly to business profit. A 3% rebate will be offered for each Octopus trip for at least six months each year from 2017/18 to 2022/23. This will be done by topping up where necessary the concession amount set aside in accordance with an enhanced Profitability-Linked Arrangement and Service Performance-Linked Arrangement
- Interchange discounts for Green Minibus ("GMB") passengers. A new discount of HK$0.3 for interchange between MTR and all 500-plus GMB routes will be offered to Octopus users, subject to further discussion and agreement with the GMB operators. Discounts on existing routes remain unchanged

The next scheduled review of the FAM will be carried out in 2022/23.

After applying the FAM formula, the special annual adjustment of 0.6 percentage point and the one-off 10% discount, the calculated Overall Fare Adjustment Rate for 2017/18 comes to +1.49%. This is within the range of ±1.5%, under which, according to the FAM, the adjustment rate will be rolled over to the following year (2018/19). Hence, there will be no adjustment of MTR fares in 2017/18.

As part of the FAM review, to benefit MTR passengers, starting from 18 June 2017 a 3% rebate is being offered for every Octopus trip for six months up to 17 December 2017. In addition to the rebate, frequent MTR travellers commuting on medium to long distance journeys to the urban area and across the harbour can continue to enjoy fare savings by using five types of "Monthly Pass Extra" and MTR City Saver. Furthermore, the validity of the MTR City Saver will be extended from 30 days to 40 days starting from 1 July 2017, counted from the day of first use. The "Early Bird Discount Promotion" Programme has also been extended for one year up to 31 May 2018.

Fares on the Airport Express were raised by an average of 9.6% commencing 18 June 2017. This is the first adjustment to fares on the line since its opening in 1998.

Service Performance

Train service delivery and passenger journeys on-time in our heavy rail network in the first six months of 2017 remained at a world-class level of 99.9%, which is above the targets in our Operating Agreement, as well as our own more demanding Customer Service Pledges. During the period, more than 1,040,000 train trips were made on our heavy rail network and more than 540,000 train trips were made on our light rail network. In the period there were six delays on the heavy rail network and one delay on the light rail network, each lasting 31 minutes or more that were caused by factors within our control. Our team is continuing efforts to reduce both the number of delays and the impact of the delays.

We won a number of awards for our services during the first six months of 2017. These included "East Week Magazine's "Hong Kong Service Awards 2017 – Public Transportation Category Award" for the 13th consecutive year, "Sing Tao Service Awards 2016 – Category Award of Public Transportation" for the 11th consecutive year and "Next Magazine's Top Service Awards 2017 – Public Transportation Category" for the 18th time in 19 years.

Investing in Network Improvements

Rail Gen 2.0

Announced in 2016, Rail Gen 2.0 is a major programme to enhance the experience of travelling on MTR in the context of an extended "next generation" of railway services for Hong Kong. It comprises new rail projects, major upgrades and replacements to the existing rail network and an enhanced customer experience. Major upgrades and replacements of infrastructure and facilities include new trains and light rail vehicles, replacement of signalling systems and chiller systems, and major interfacing works at stations. Further information on the new rail projects under construction can be found under the section headed "Hong Kong Network Expansion".

Major Upgrades and Replacements on the Existing Network

We are spending HK$6 billion on 93 new, more comfortable 8-car trains to replace those on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. Car body production started in February 2017 and the trains will be delivered between 2018 and 2023.

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 total cost of HK$3.3 billion. The Tsuen Wan Line is being re-signalled first, and installation of new signalling equipment along the trackside and in indoor equipment rooms is substantially complete. Testing is underway using trains equipped with the new system. The Tsuen Wan Line re-signalling is targeted for completion towards the end of 2018 or early 2019, to be followed by the Island Line.

We are replacing 30 light rail vehicles and purchasing ten additional vehicles to meet increasing demand. The HK$745 million procurement contract in respect of the 40 vehicles was awarded in July 2016, and the first batch of vehicles are expected to be ready for passenger service in 2019.

Contracts for the replacement of 154 chillers across the network were awarded in March 2017. In the first phase of the project, chillers at seven stations and two depots will be replaced. The new chillers are scheduled for delivery to sites in December 2017, and installation works will then commence for expected completion in the second quarter of 2018. This will be followed by the replacement of chillers in our other stations and depots.

Under the Shatin to Central Link project, the existing 28 7-car trains on the West Rail Line are being converted to 8-car trains to enhance existing train services and to serve the future East West Corridor of the new line. By 30 June 2017, 17 such 8-car trains had entered service and all are targeted to be in service by mid-2018. The existing 15 4-car trains on the Ma On Shan Line are also being replaced by 8-car trains. As of 30 June 2017, five new and converted 8-car trains had been put into service.

Major modifications have taken place at Hung Hom Station, which will serve as one of the interchange stations for the Shatin to Central Link. Following extensive modifications, the northern and southern concourses were both put back into operation by February 2017. The installation of new lifts and escalators to connect the concourses with the new platforms for the Shatin to Central Link services commenced in March 2017.

Steady progress has been achieved in retrofitting Automatic Platform Gates on the Ma On Shan Line. As of 30 June 2017, 67% of the work was complete, and we anticipate substantial completion by the end of 2017.

Enhancing Customer Experience

We have developed a 2030 Customer Experience Vision Blueprint to define customers' desirable travel experience in light of changes, which includes deploying digitisation to improve customer experience and adding age-friendly facilities. The digitisation initiatives focus on providing more real-time and location-based information and services through our MTR Mobile app. These include in station navigation, train alighting reminders and a self-service enquiry Chatbot service for customers. Our age-friendly facilities focus on improvements in four areas including accessibility, mobility, toilet provision and information provision to cater for the needs of the growing aging population.

Responding to Our Customers

Our passengers are enjoying more frequent and convenient train services, especially on Fridays and at weekends. This follows a new round of train service enhancements that commenced in February 2017, with 148 extra weekly train trips added to the Kwun Tong, Tsuen Wan and Island lines.

We continue to make stations more accessible. A new entrance at Yuen Long Station, connecting it with a neighbouring residential development and shopping mall via a footbridge opened in May 2017. During the first half of 2017, 11 station escalators were refurbished.

Service improvements also continue to be made in response to the changing needs of our customers. Initiatives launched during the first half of 2017 include a free mobile device charging service at "i-Centres" located in 13 stations and additional "Free Wi-Fi" hotspots at Lo Wu and Lok Ma Chau stations. In view of the growing popularity of breastfeeding, we plan to introduce breastfeeding-friendly facilities in the staff rest area of 20 interchange stations towards the end of 2017.

The popular 12-month long "Happy Birthday • Happy Journey" programme concluded on 31 March 2017. Hong Kong Identity Card holders whose birthdays fell on the lucky day drawn each month were eligible to redeem a birthday pack containing a specially designed free one-day pass for unlimited domestic rides on MTR, a HK$50 MTR Malls Gift Voucher and merchant coupons.

Hong Kong Station Commercial Businesses

Highlights

- Positive rental reversions in our station shops
- Re-opened seven shops, in addition to the 31 new shops in stations along the two new lines opened last year

Financial Performance

In the first half of 2017, the financial performance of the Hong Kong station commercial businesses was stable.

	Half year ended 30 June		
HK$ million	**2017**	2016	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**1,935**	1,841	5.1
Advertising Revenue	**479**	498	(3.8)
Telecommunication Income	**315**	274	15.0
Other Station Commercial Income	**59**	82	(28.0)
Total Revenue	**2,788**	2,695	3.5
EBITDA	**2,549**	2,442	4.4
EBIT	**2,202**	2,121	3.8
EBITDA Margin (in %)	**91.4%**	90.6%	0.8% pt.
EBIT Margin (in %)	**79.0%**	78.7%	0.3% pt.

Despite the soft retail environment, station retail revenue for the period increased 5.1% to HK$1,935 million. This reflects an increase in the number of shops following the opening of the extension of the Kwun Tong Line and the South Island Line, continuous trade mix refinements, positive rental reversions and increases in rents in accordance with lease contracts for the Duty Free Shops at Lo Wu and Hung Hom stations.

As at 30 June 2017, there were 1,399 station shops, occupying 57,300 square metres of retail space, an increase of seven shops and 149 square metres compared with 31 December 2016. The increase was mainly due to the re-opening of shops at Nam Cheong, Tin Shui Wai, Tsing Yi and Tsuen Wan West stations which were previously closed for renovation.

Renovation works continue at Hung Hom, Kowloon and Tai Po Market stations. To strengthen the "Style to Go" brand positioning of MTR Shops, a new thematic campaign featuring two local artists was launched in first half of 2017. During the period, six new brands were introduced and featured in posters across the network.

Advertising revenue in the first half of 2017 decreased by 3.8% to HK$479 million as the Hong Kong advertising market contracted further. The number of advertising units in stations and trains reached 46,608 by 30 June 2017. To improve our competitiveness, new 65" high-definition LCD digital panels were installed during the period at Hong Kong Station, as well as new giant light box panels at Hong Kong and Lo Wu stations.

Revenue from telecommunications in the first six months of 2017 grew by 15.0% to HK$315 million. The increase was mainly the result of incremental revenue from the newly opened extension of the Kwun Tong Line and the South Island Line, as well as from contract renewals. The first phase of the installation of a new mobile phone network offering increased data capacity and more 4G services was completed at the concourses of seven stations and one tunnel section during the period. The upgrade of Wi-Fi equipment at 84 stations to enhance Wi-Fi service was completed in April 2017.

Hong Kong Property and Other Businesses

Highlights

- Awarded Wong Chuk Hang Station Package One. Acting as agent for KCRC, awarded Kam Sheung Road Station Package One
- Telford Plaza II seventh and eighth floors opened in July
- Rental revenue increased 3.5% but rental reversion recorded a 2.2% drop in our shopping malls in Hong Kong in the first half of 2017

The Hong Kong residential market remained strong on the back of robust demand, despite the introduction of further Government cooling measures and tighter mortgage lending rules. The primary market saw a good recovery as interest rates remained low and developers offered competitive financing schemes. The secondary market also performed well, with the Mass Centa-City Leading Index ending the period at 161.68, having started the year at 146.16. Secondary transactions recovered to levels seen prior to the introduction of the 15% stamp duty in November 2016, while prices were underpinned by muted supply.

In the commercial sector, Grade-A offices in Central continued to perform well during the first half of 2017. The rent was underpinned by demand from Mainland financial institutions, as well as Mainland and other multinational companies. However, the retail segment continued to feel the impact of lower tourist spending and increased competition from internet-based commerce. The provisional estimate of the total value of retail sales in Hong Kong fell by 0.6% in the first six months of 2017, compared with the same period of 2016.

Property Rental and Management Businesses in Hong Kong

Financial Performance

The financial performance of our Hong Kong property rental and property management businesses is summarised as follows:

	Half year ended 30 June		
HK$ million	2017	2016	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**2,296**	2,218	3.5
Revenue from Property Management	**136**	141	(3.5)
Total Revenue	**2,432**	2,359	3.1
EBITDA	**2,088**	1,998	4.5
EBIT	**2,080**	1,989	4.6
EBITDA Margin (in %)	**85.9%**	84.7%	1.2% pts.
EBIT Margin (in %)	**85.5%**	84.3%	1.2% pts.

Property rental revenue saw a 3.5% increase in the period mainly due to rental increases in accordance with existing lease agreements. However, rental reversion in the first six months of 2017 in our shopping mall portfolio in Hong Kong recorded a 2.2% drop. As at 30 June 2017, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre office building remained close to 100% let.

In response to the changing demographics of the eastern side of Hong Kong Island, we are revamping the East Wing of Paradise Mall. In September 2016, a new sports and "well-being" zone was opened on the first floor. In view of the very positive market response to this initiative, the zone will be extended to the second floor of the East Wing. The relevant works are underway, with opening targeted for the final quarter of 2017.

As at 30 June 2017, the Company's attributable share of investment properties in Hong Kong was 212,507 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. In July 2017, we opened the converted retail space on the seventh and eighth floors of Telford Plaza II, adding 3,400 square meters of gross floor area ("GFA") to our retail portfolio.

During the first six months of 2017, MTR's property businesses won a number of awards in areas ranging from customer service, to accessibility and the environment. These included a "Certificate of Excellence (Retail Team of the Year)" from the Royal Institute of Chartered Surveyors, and inclusion in the "HKET – Top 10 My Favourite Shopping Mall Awards 2016-2017".

Over the next five years or so our investment properties portfolio in Hong Kong will expand significantly. In addition to the seventh and eighth floors of Telford Plaza II, we will add another 117,220 square metres GFA to our retail portfolio, increasing attributable GFA by approximately 40%. For the Maritime Square extension, structural work is complete and statutory inspection is in progress. Over 90% of the space has been leased out and we target for progressive opening of new shops starting in the fourth quarter of 2017. Foundation and superstructure works for the new LOHAS Park shopping centre and Tai Wai shopping centre are in progress, and their opening is targeted for the second half of 2020 and 2022 respectively.

Hong Kong property management revenue in the first six months of 2017 decreased by 3.5% to HK$136 million, mainly due to lower Octopus access system project income. As at 30 June 2017, 96,066 residential units and over 758,000 square metres of commercial space were managed by MTR.

Property Development in Hong Kong

Profit from Hong Kong property development in the first half of 2017 was modest at HK$622 million, and was derived from sundry sources, such as agency fee income from West Rail property developments (including Cullinan West, Ocean Pride, THE PAVILIA BAY and The Spectra), the sale of inventory units, as well as further profit bookings arising from the finalisation of development accounts in respect of certain property development projects.

For West Rail projects, acting as agent for the relevant subsidiaries of KCRC, we launched a number of presales during the period. THE PAVILIA BAY (the Tsuen Wan West

Property Development Packages Completed during the period and Awarded

Location	Developers	Type	Gross floor area *(sq. m.)*	Tender award date	Expected completion date
Ho Man Tin Station					
Package 1	Goldin Financial Holdings Limited	Residential	69,000	December 2016	2022
LOHAS Park Station					
Package 4	Sun Hung Kai Properties Limited	Residential	122,302	April 2014	2019
Package 5	Wheelock and Company Limited	Residential	102,336	November 2014	2019
Package 6	Nan Fung Group Holdings Limited	Residential	136,970	January 2015	2021
Package 7	Wheelock and Company Limited	Residential Retail Kindergarten	70,260 44,500 1,160	June 2015	2022
Package 8	Cheung Kong Property Holdings Limited	Residential	97,000	October 2015	2021
Package 9	Wheelock and Company Limited	Residential Kindergarten	104,110 810	December 2015	2022
Package 10	Nan Fung Group Holdings Limited	Residential	75,400	March 2016	2022
Tai Wai Station					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	October 2014	2022
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	February 2015	2021
Wong Chuk Hang Station					
Package 1	Road King Infrastructure Limited and Ping An Real Estate Company Limited	Residential	53,600	February 2017	2022
Kam Sheung Road Station#					
Package 1	Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited	Residential	114,896	May 2017	2025
Long Ping Station#					
The Spectra	K. Wah International Holdings Limited and Sino Land Company Limited	Residential	48,675	October 2012	2017
Long Ping (South)	Chinachem Group	Residential	41,990	June 2013	2019
Nam Cheong Station#					
Cullinan West	Sun Hung Kai Properties Limited	Residential Retail Kindergarten	214,700 26,660 1,000	October 2011	By phases from 2017 – 2019
Tsuen Wan West Station#					
TW5 Cityside	Chinachem Group	Residential Retail	66,114 11,210	January 2012	2018
Ocean Pride and Ocean Supreme	Cheung Kong Property Holdings Limited	Residential Retail Kindergarten	167,100 40,000 550	August 2012	2018
THE PAVILIA BAY	New World Development Co. Ltd. and Vanke Property (Overseas) Limited	Residential	62,711	January 2013	2017
Yuen Long Station#					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	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	2017 – 2021	2022 – 2026
Wong Chuk Hang Station	Residential Retail	303,900 47,000		
Ho Man Tin Station	Residential	59,400		

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.*

Station (TW6) site) was launched in January 2017, with about 97% of 983 units sold up to the end of July 2017. In March 2017, Cullinan West at Nam Cheong Station was launched, with about 92% of 1,050 units sold up to the end of July 2017, while May and July 2017 saw the launches of Ocean Pride and Ocean Supreme (the Tsuen Wan West Station (TW5) Bayside site), with about 98% of 970 units and 50% of 1,436 units sold respectively up to the end of July 2017. Pre-sales also continued at The Spectra (the Long Ping Station (North) site), with about 96% of 912 units sold up to the end of July 2017.

In our property tendering activities, Wong Chuk Hang Station Package One was awarded to a consortium formed by Road King Infrastructure Limited and Ping An Real Estate Company Limited in February 2017. As agent for the relevant subsidiary of KCRC, in May 2017 we awarded Kam Sheung Road Station Package One to a consortium formed by Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited.

Over the past three and a half years or so, 11 MTR property development packages have been tendered out and are now in various stages of planning and construction. They will provide about 18,000 residential units, with a total GFA of over 1.1 million square metres, when completed over the next three to five years.

We continue to examine opportunities to develop property along our railway lines. Above our depot in Siu Ho Wan on Lantau Island around 14,000 residential units could be built, given the necessary zoning and other statutory approvals. MTR has completed the Environmental Impact Assessment and the reports were submitted to the Environmental Protection Department in May 2017 for approval. The Environmental Impact Assessment reports were exhibited for public inspection in July 2017. The statutory planning procedures are expected to commence later in the year. The rezoning process for a second site, the Yau Tong Ventilation Building, was completed in April 2017. The road gazetting procedure commenced in May 2017 and is expected to be complete in October 2017. At this preliminary stage there can be no assurance that either project would be commercially viable.

Other Businesses

The Ngong Ping Cable Car was closed between 9 January and 4 June 2017 for rope replacement works. During the rope replacement, the associated theme village remained open to the public. Cable Car service resumed on 5 June 2017. Affected by the works, revenue at the Ngong Ping Cable Car and associated theme village ("Ngong Ping 360") decreased by 75.0% in the first six months of 2017 to HK$47 million. Visitor numbers for the period fell by 83% to about 140,000. In June 2017, Ngong Ping 360 was recognised by USA Today as one of "The World's 10 best cable cars". Ngong Ping 360 is the only cable car in Asia to have gained this status three times, following similar awards from CNN.com in the US in 2015 and The Daily Telegraph in the UK in 2014.

The Company's share of net profit from Octopus Holdings Limited in the first half of 2017 decreased by 39.3% to HK$88 million. As at 30 June 2017, more than 9,000 service providers in Hong Kong were accepting Octopus for payment. Total cards and other stored-value Octopus products in circulation reached 33.7 million. Average daily transaction volumes and value reached 14.3 million and HK$188.4 million respectively.

New measures for the newly issued On-Loan Adult Octopus were announced in June 2017 and will become effective starting from 1 October 2017. The "convenience limit" for newly issued On-Loan Octopus will be increased from HK$35 to HK$50 to enhance customer convenience, while an "Inactive Octopus Administrative Fee" applicable to newly issued On-Loan Adult Octopus will be introduced to encourage regular use.

We continue to leverage our experience as one of the world's leading railway operators to offer consultancy services to clients in and outside of Hong Kong. Revenue from our consultancy business in the first half of 2017 increased by 106.0% to HK$171 million, mainly due to the contributions from our contract to provide management and technical assistance to the Macau light rail project, which is progressing smoothly.

Hong Kong Network Expansion

Highlights

- Express Rail Link – 94.3% complete. Target completion remains in the third quarter of 2018
- Shatin to Central Link – 75.1% complete. Target completion remains mid-2019 for the East West Corridor and 2021 for the North South Corridor
- RDS 2014: three proposals submitted to Government; two more in progress

With the opening of the extension of the Kwun Tong Line and the South Island Line, our Hong Kong rail network has expanded from 220.9 km to 230.9 km. Over the coming years, the two remaining new railway projects under construction, namely the Express Rail Link and Shatin to Central Link, will add another 43 km route length to the overall Hong Kong rail network.

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 approximately 400,000 square metre (usable floor area) West Kowloon Terminus ("the Terminus"), one of the largest underground high-speed rail stations in the world.

As at 30 June 2017, the project was 94.3% complete overall, with civil works at the Terminus 91% complete and all tracks in tunnels laid and overhead lines substantially energised. Installation of the tracks and overhead lines for ten tracks in the Terminus was also substantially complete. Statutory inspection of the southern portion of the Terminus by the Fire Services Department commenced in May 2017. The signalling and communication systems of the Hong Kong and Mainland sections were connected on 5 July 2017. The third high-speed train was delivered in July 2017 to Hong Kong from the factory in Qingdao via the high-speed rail network. This was the first time delivery had been undertaken by rail and is a milestone for the project. Since then, two more trains have been delivered by rail. Installation of the glass panels for the iconic roof of the Station Entrance Building is scheduled for completion in the third quarter of 2017.

The target opening date of the Express Rail Link remains the third quarter of 2018. We are in discussion with Government regarding the future operation and maintenance of the line.

The Company's project management responsibilities are set out in two Entrustment Agreements with Government. The Entrustment Agreements cover, among other things, preliminary and detailed design, site investigation, 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 the Legislative Council of the HKSAR ("LegCo") on 11 March 2016 of Government's additional funding obligations.

Shatin to Central Link

The ten-station 17-km Shatin to Central Link connects existing railway lines to form an East West Corridor (Tai Wai to Hung Hom) and a North South Corridor (Hung Hom to Admiralty) with six interchange stations, creating vital new links across Hong Kong. Overall, the project was about 75.1% complete by 30 June 2017, with the East West Corridor and North South Corridor being 89.1% and 54.6% complete respectively.

For the East West Corridor, track laying works had been completed and station structure works were substantially complete as of 30 June 2017. Steady progress is being made on the electrical and mechanical ("E&M") works at these stations.

For the North South Corridor, three out of four tunnel drives between Causeway Bay, Exhibition Station and Admiralty Station had been completed by the end of the first half of the year. Following the completion of the piling works at the Hung Hom marine cofferdam and underwater trench dredging works in Victoria Harbour, the first two of the 11 immersed tubes of the cross-harbour rail tunnel were installed on the seabed in the vicinity of Causeway Bay Typhoon Shelter in July 2017.

Good progress has been made on tunnel excavation in the North South Corridor and construction work for the diaphragm walls of Exhibition Station is progressing. Due to space limitation in Wan Chai North, temporary traffic management schemes are being implemented at different stages along Convention Avenue, Fleming Road and Expo Drive to create additional works areas. Exhibition Station, which has been affected by the late site handover, incomplete entrusted works by other parties and unforeseen ground conditions, was about 40% complete at the end of June 2017.

Admiralty Station will become a major interchange hub for the Shatin to Central Link, Island, Tsuen Wan and South Island lines. Upon commissioning of the South Island Line in late December 2016, the works site for the future Shatin to Central Link platforms and concourse at Admiralty Station was handed over to the Shatin to Central Link project team. Civil and building services works on these platforms and concourse areas commenced in January 2017. The excavation of the overrun tunnel for the North South Corridor at Admiralty Station was completed in June 2017, signifying the completion of all tunnel blasting works for the Shatin to Central Link.

As part of the North South Corridor, the existing East Rail Line will be re-signalled. The phased testing of the new signalling systems with East Rail Line trains began in October 2016 during non-service hours and we target the works to be completed towards the end of 2018 or in early 2019.

Despite reasonable construction progress, and as reported a number of times previously, the programme for delivery of the Shatin to Central Link has been impacted by certain key external events. For the East West Corridor, the discovery of archaeological relics in the To Kwa Wan area has led to an 11-month delay. However, with hard work by the teams involved and the successful implementation of a number of delay recovery measures, the length of the delay has been reduced and the estimated completion of this corridor is now in mid-2019. For the North South Corridor, we had previously reported a six-month delay due to a number of external factors, including the anticipated late handover by a third party of construction sites for the new Exhibition Station. As a result of incomplete entrusted works handed over by a third party contractor at another site at Wan Chai North, the completion of this corridor has been further delayed by an additional three months (to a total expected delay of nine months). However, the North South Corridor is still targeted to be completed in 2021.

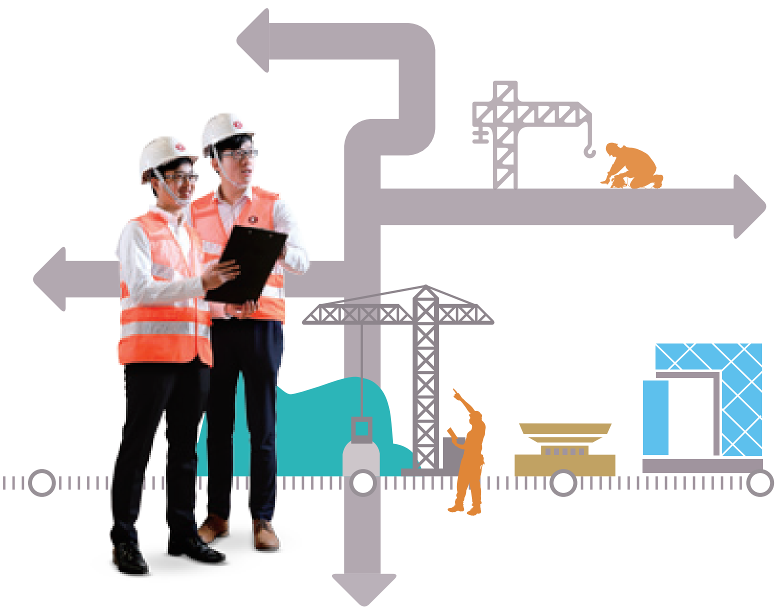
For both the East West Corridor and the North South Corridor, our project teams continue to work diligently to explore and implement measures to improve progress and recover delays caused by external events and third parties.

The funding for construction of the Shatin to Central Link is set out in two Entrustment Agreements with Government. The Entrustment Agreement for Advance Works Relating to the Shatin to Central Link ("SCL Advance Works Entrustment Agreement") relates to advance works for the line predominately undertaken at Admiralty and Ho Man Tin stations. The subsequent agreement, the Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link ("SCL Entrustment Agreement") relates to funding for the construction and commissioning of the Shatin to Central Link.

In December 2016, the Company completed its review for the project cost estimate of the works under the SCL Advance Works Entrustment Agreement and notified Government of the Company's revised estimate for the entrustment cost. In January

2017, Government submitted the application for additional funding to the Public Works Subcommittee of LegCo. The additional funding was approved by the Finance Committee of LegCo in June 2017.

For the SCL Entrustment Agreement, taking into account the continuing difficulties and challenges, including those described above, the Company considers that the cost estimate for the SCL Entrustment Agreement will need to be revised upwards significantly to take account of (i) the additional HK$4,100 million that was previously reported as a result of the archaeological finds in the To Kwa Wan area, (ii) the late handover of construction sites at Exhibition Station, (iii) the previously unbudgeted foundation works for top-side development at Exhibition Station, (iv) another site which was handed over with incomplete entrusted works by a third party contractor at Wan Chai North, and (v) other factors such as lower availability of labour experienced in Hong Kong's construction sector. The Company has advised Government that it will therefore conduct a detailed review of the project cost estimate relating to the SCL Entrustment Agreement.



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 54.6% complete, this review will be completed later this year, after which the Company will formally report the findings to Government.

New Railway Projects Under Discussion

Beyond the two remaining Rail Gen 2.0 new rail projects under construction, Government has identified seven additional rail projects to be implemented under RDS 2014. Government has invited us to submit project proposals for five of these projects, namely the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station), the East Kowloon Line, the Tung Chung West Extension (and Tung Chung East Station) and the North Island Line.

After submission of the proposal at the end of last year, discussion with Government on the Tuen Mun South Extension is now underway. The project proposal for the Northern Link (and Kwu Tung Station), which will connect the West Rail Line and the Lok Ma Chau Spur Line of the East Rail Line, was submitted in March 2017, and the project proposal for the East Kowloon Line was submitted in July 2017. The engineering consultancy for the technical study for the proposed Tung Chung West Extension (and Tung Chung East Station) has commenced. We target to submit this proposal, followed thereafter by the proposal for the North Island Line, in 2018.

In the fourth quarter of 2016, Government released the consultation document "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030", which updates the territorial development strategy promulgated in 2007. The document supports the expansion of the public transport network, with rail as the backbone, and two additional transport corridors are proposed. These are the "Northwest New Territories – Lantau – Metro Transport Corridor" in Hong Kong West and the "North–South Transport Corridor" connecting the north-eastern New Territories with Kowloon. The former has the potential to be a major rail corridor in the longer term.

Mainland of China and International Businesses

Highlights

- Our 30% associate First-MTR was awarded the South Western rail franchise in the UK
- Concession Agreement signed for the HZL5 PPP project

Financial Performance

The financial performance of the Mainland of China and international businesses is summarised below:

	Half year ended 30 June		
HK$ million	2017	2016	Inc./(Dec.) %
Mainland of China Businesses			
Railway, Property Rental and Property Management subsidiaries			
Total Revenue	**379**	398	(4.8)
EBITDA	**76**	93	(18.3)
EBIT	**72**	89	(19.1)
Property Development subsidiary			
Total Revenue	**6,844**	–	N/A
EBITDA	**2,186**	(27)	N/A
EBIT	**2,186**	(27)	N/A
Share of profit of associates	**94**	112	(16.1)
International Businesses			
Railway subsidiaries			
Total Revenue	**7,545**	6,128	23.1
EBITDA	**350**	286	22.4
EBIT	**288**	231	24.7
Share of (loss)/profit of associates	**(2)**	40	N/A
Total EBITDA	**2,612**	352	642.0
Total EBIT	**2,546**	293	768.9
Total EBITDA Margin (in %)	**17.7%**	5.4%	12.3% pts.
Total EBIT Margin (in %)	**17.2%**	4.5%	12.7% pts.
EBIT from Mainland of China and International Railway, Property Rental and Management Subsidiaries net of non-controlling interest plus share of profit from railway associates (before interest and tax)	**639**	599	6.7
Number of passengers carried by our railway subsidiaries and associates outside of Hong Kong (in million)	**908**	884	2.7

In the Mainland of China businesses, the operating profit from our railway, property rental and property management subsidiaries decreased, mainly due to higher operating expenses at Shenzhen Metro Line 4 ("SZL4"). With the hand-over of high-rise and podium units in Tiara in Shenzhen, the sales proceeds and related costs were booked in the first half of 2017. The decrease of share of profit of associates was mainly due to the expenses of Beijing Metro Line 16 ("BJL16"), which commenced service in December 2016. In our International businesses, the increase in operating profit from our railway related subsidiaries was mainly due to the incremental contribution from our new franchise, MTR Pendeltågen AB in Sweden, which we took over in December 2016. The decrease in share of profit of associates was mainly due to the end of the concession for London Overground Rail Operations Ltd. ("LOROL") in November 2016, as well as the start-up costs of First MTR South Western Trains Limited.

Railway Businesses in the Mainland of China

Beijing

In Beijing, our 49% associate Beijing MTR Corporation Limited ("BJMTR") operates four lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14") and the Northern Section of BJL16.

On-time performance in the first six months of 2017 averaged 99.9% across the four lines. For the period, the combined ridership of BJL4 and the Daxing Line was about 218 million passenger trips and average weekday patronage was more than 1.3 million, increases of 3% and 4% respectively over the same period last year.

The first three phases of BJL14 are now in service, with the opening of the station at Chaoyang Park in December 2016. The three phases of BJL14 recorded a combined 105 million passenger trips and average weekday patronage of about 662,000 in the first six months of 2017.

BJL16 is a PPP project and operation of the first phase, the 19.6 km Northern Section, began on 31 December 2016. In the first six months of 2017 it recorded 11 million passenger trips and average weekday patronage of about 67,000. Full line operation, which will mark the start of the service concession, is targeted after 2018.

Shenzhen

SZL4, operated by MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), achieved satisfactory operational performance during the first half of 2017. Patronage rose by 3% to about 98.5 million for the period, with average weekday patronage reaching 550,000. On-time performance remained at a very high level of 99.9% for the period.

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 businesses in Beijing and Hangzhou, MTR(SZ) does not benefit from a shadow fare subsidy mechanism. We understand that discussions continue within the Shenzhen Municipal Government regarding fare adjustments. If appropriate fare adjustments are not implemented soon, the long-term financial viability of SZL4 is expected to be impacted.

Our consultancy company in Shenzhen entered into a project management agreement to supervise the construction of the Northern Extension of SZL4, which will be financed by the Shenzhen Municipal Government. Works are generally progressing on schedule.

Hangzhou

Our 49% associate in Hangzhou, Hangzhou MTR Corporation Limited, operates Hangzhou Metro Line 1. Patronage on this line continues to grow and in the first half of 2017 saw an 11% increase to 107.1 million, with average weekday patronage running at 591,000. Operational performance was high, with on-time train performance at 99.9% for the period.

The Concession Agreement for HZL5, another PPP project, was signed by the Company with the Hangzhou Municipal Government and Hangzhou Metro Group on 26 June 2017. The 51.5 km HZL5 is an underground metro line running from Xiangzhanglu Station in Xiaoshan District to Kejidao Station in Yuhang District, with a total of 38 stations. It is expected to enter service around the end of 2019.

The construction of the HZL5 project is divided into Part A and Part B. Part A relates to the line's civil construction and Part B covers E&M systems. Hangzhou Metro Group is responsible for the investment in, and construction of, Part A. We and Hangzhou Metro Group are finalising the details for forming a joint-venture company ("JV Company") to undertake the investment in, and construction of, Part B, as well as the operations and maintenance of HZL5 for 25 years after commencement of passenger service. The JV Company will invest approximately RMB 10.9 billion for the Part B portion of HZL5. This investment will be financed by the JV Company through a combination of non-recourse borrowings from banks (currently estimated at around 60%

of the total investment) and equity capital from shareholders (40% of the total investment). Although the shareholding of the JV Company is being finalised, MTR's equity investment is expected not to exceed RMB2.62 billion.

Property Businesses in the Mainland of China

Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1 saw the previously sold high-rise residential units, which form the vast majority of the development, handed over to buyers in June 2017. The project has a total developable GFA of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA), which is scheduled to open in late 2018, subject to government approval. Profits were booked in the first half of the year upon the handover of the sold units.

In 2016, we signed a Cooperation Framework Agreement with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and BJMTR to conduct joint preliminary studies on the integrated development of selected existing station and depot sites along BJL4 and the Daxing Line. Studies have commenced, with a focus on an above-depot development. We also signed a Memorandum of Understanding ("MoU") with BIIC in January 2017 to extend the strategic co-operation to other, predominantly rail-related property development projects in Beijing in addition to investment in, construction and operation of other railway projects.

In Tianjin, our 49% owned associate, Tianjin TJ-Metro MTR Construction Company Limited ("TJMTR"), is involved in the development of the Beiyunhe Station project on Tianjin Metro Line 6. The project includes composite development of retail, office and residential properties.

In March 2017, a framework agreement was signed with a subsidiary of Beijing Capital Land for the disposal of our 49% interest in TJMTR, and the conditional future acquisition of a shopping centre to be developed on the Beiyunhe Station site. Relevant government approval was obtained for the disposal of our 49% interest in July 2017.

We are in active discussions with local governments and metro operators in Guangdong Province to explore rail and property development opportunities around stations and depots to leverage our experience and track record in Shenzhen and Hong Kong.

Significant revenue and profit increases were recorded for our property development businesses in the Mainland of China due to development bookings related to Tiara. However, revenue from our property rental and property management businesses in the Mainland of China decreased by 8.3% to HK$66 million in the first half of 2017, as compared with the corresponding period of last year, mainly due to the cessation of the property management service provided to the North Star Paseo Mall in February 2017. The Company also manages self-developed and other third party properties in the Mainland of China which, as at 30 June 2017, had a total GFA of 390,000 square metres. Our shopping mall in Beijing, Ginza Mall, is undergoing a partial revamp and was 99% occupied (excluding the revamp area) as at 30 June 2017.

European Railway Businesses

United Kingdom

MTR Corporation (Crossrail) Limited, operating under the "TfL Rail" brand-name, is providing the initial phase of Crossrail services devolved from the previous Greater Anglia franchise covering 14 stations. The operational performance on the line has been maintained at a high level, and in June 2017, the first of 66 new trains came into operation. Crossrail will be renamed the "Elizabeth Line" when the tunnel section through central London is completed and becomes operational, targeted for late 2018. When the fully integrated line is in service in 2019, it will serve 40 stations with a route length of 118 km.

Also in the UK, as a minority 30% shareholder, we partnered with FirstGroup plc to submit a bid in 2016 for the South Western rail franchise. The bid was successful, with the tender awarded to our associate, First MTR South Western Trains Limited, in March 2017. Preparations are in progress for the take-over of the franchise later in August 2017.

We have, in addition, pre-qualified to bid for the Wales and Borders rail franchise. At the invitation of the Welsh Government we are engaged in the Competitive Dialogue phase of the process, with the formal tender expected in the second half of 2017. We have also partnered with Guangshen Railway Company Limited, an associated company of China Railway Corporation and have been shortlisted to bid for the West Coast Partnership franchise in the UK. The franchisee will be responsible for operating railway services on the West Coast Main Line from April 2019, and will design and operate the initial high speed services between London and Birmingham on the new High Speed Two.

We are also exploring property development opportunities over and around rail stations in the UK to leverage off MTR's "rail plus property" capability.

Nordic Region

MTR is now the largest rail operator in Sweden in terms of passenger volume, with three key businesses; Stockholm Metro, MTR Express and Stockholm commuter rail ("Stockholms pendeltåg").

The operational performance of the Stockholm metro in the first six months of 2017 was steady. Ridership for the period was estimated at 179 million and average weekday patronage at 1.3 million. MTR Tech AB, which carries out rolling stock maintenance for the Stockholm metro, also performed satisfactorily and was awarded the contract for a mid-life upgrade programme for part of the metro fleet.

The MTR Express service between Stockholm and Gothenburg has continued to deliver best-in-class operational and customer service performance, once again making it the best rail operator in the Swedish Quality Index 2017. Weekly departures have been increased to 100 per week since December 2016 to strengthen our service offering and cater for expected demand.

Our wholly-owned subsidiary MTR Pendeltågen AB began operating the Stockholms pendeltåg service in December 2016 under a concession that runs for ten years, with an option to extend for four more years. This concession includes the maintenance of rolling stock undertaken by Emtrain AB, a 50% owned associate with EuroMaint Rail AB. Stockholms pendeltåg serves the greater Stockholm area, with 53 stations and a total route length of 241 km. The operating performance and patronage in the first six months of 2017 were satisfactory, with record high customer satisfaction levels achieved.

Our bid for the Skåne county commuter rail ("Pågatåg") concession which was submitted in December 2016, was unsuccessful; however, MTR received the best quality scoring out of all the seven bidders.

With the upcoming privatisation of a number of Norwegian rail services, we are actively pursuing rail operating concession opportunities in Norway.

We are also looking into property development opportunities over and around rail stations in Sweden. We were shortlisted in June 2017 by the local government of Upplands Väsby to proceed further with negotiations regarding our possible participation in a redevelopment project around one of the Pendeltågen stations. The result is expected to be announced in 2018.

Australian Railway Businesses

In Melbourne, the performance of our 60% owned subsidiary Metro Trains Melbourne Pty. Ltd. ("MTM"), which operates the Melbourne metro network, was steady in the first six months of 2017. This concession ends in November 2017, and in December last year MTM submitted a proposal to the Government of Victoria to extend the concession for an additional seven years, with a three years extension option. The result should be known by September 2017.

In Sydney, MTR is a member of a consortium which is responsible for the design, construction and financing, as well as the future operations and maintenance of the Sydney Metro Northwest ("SMNW") PPP project. All design work for the SMNW PPP project has been substantially completed. Construction works for the depot and stations, as well as pre-operational planning for the project are progressing as planned. The first train is expected to be delivered to Sydney in September 2017.

Sydney Metro City and Southwest ("SMCSW") is a 30-km extension of SMNW. Construction of the early works by Transport for New South Wales ("TfNSW") commenced in 2017 and the line is targeted to open in 2024. MTR is exploring potential participation in the SMCSW project. MTR / Northwest Rapid Transit Consortium / Plenary Origination Pty Ltd. ("NRT Parties") submitted a non-binding initial proposal to TfNSW in March 2017 for their evaluation of the NRT Parties' potential participation in the SMCSW project. TfNSW's evaluation of the initial proposal is ongoing.

Financial Review

Profit and Loss

In the first half of 2017, the Group recorded a substantial 40.8% increase in revenue to HK$30,004 million, reflecting mainly the contributions from Tiara, the operation of the Stockholms pendeltåg service by MTR Pendeltågen AB since December 2016 and the growth in passenger volume from the new lines in Hong Kong.

Operating profit from recurrent businesses (being operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment) increased by 2.4% to HK$9,046 million. The increase was mainly due to the increase in fare revenue in Hong Kong, and rental income growth of our shopping malls, station shops and Duty Free Shops in Hong Kong. The increase was partly offset by higher costs of our Hong Kong Transport Operations mainly due to increased staff costs and train trips, as well as lower revenue from Ngong Ping 360 due to the service suspension of the Ngong Ping Cable Car from 9 January 2017 to 4 June 2017 to carry out rope replacement. Operating margin from recurrent businesses decreased by 2.4 percentage points to 39.1%, mainly due to the continuing investment into our Mainland of China and international businesses and the service suspension of Ngong Ping Cable Car. Excluding the Company's Mainland of China and international subsidiaries, operating margin from recurrent businesses decreased by 0.6 percentage point to 56.6%.

Hong Kong property development profit was HK$622 million, derived from sundry income sources such as the agency fee income from the West Rail property developments (including Cullinan West, Ocean Pride, THE PAVILIA BAY and The Spectra) and sales of inventory units, as well as further surplus proceeds arising from the finalisation of development costs in respect of certain property development sites.

Operating profit from our Mainland of China property development was HK$2,186 million, derived predominantly from profit recognition of the high-rise units handed over at Tiara which comprised the vast majority of the development.

Depreciation and amortisation charges increased by 19.0% to HK$2,390 million, mainly due to the opening of the extension of the Kwun Tong Line and the South Island Line in the last quarter of 2016. Variable annual payment to KCRC increased by 5.5% to HK$915 million as the incremental revenue was charged at the top progressive rate of 35%.

After taking into account Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment, operating profit before interest and tax therefore increased by 38.9% to HK$8,549 million.

Interest and finance charges were HK$403 million, representing an increase of 50.4% over the same period in 2016 due to interest cost relating to the extension of the Kwun Tong Line and the South Island Line which, when the lines opened at the end of 2016, can no longer be capitalised. Investment property revaluation gain amounted to HK$1,632 million. Our share of profit from Octopus Holdings Limited decreased by 39.3% to HK$88 million. Our share of profit from other associates was HK$92 million, a decrease of 39.5% as compared with the same period in 2016. The decrease was primarily due to lower contributions from LOROL as the concession ended in November 2016.

Net profit attributable to shareholders, after deducting income tax of HK$2,425 million and profits shared by non-controlling interests of HK$53 million, increased by 46.1% to HK$7,480 million in the first half of 2017. Earnings per share therefore increased by 46.0% from HK$0.87 to HK$1.27. Excluding investment property revaluation, which is a non-cash accounting adjustment, the underlying profit attributable to shareholders increased by 15.3% to HK$5,848 million, with underlying earnings per share of HK$0.99. Within this total, our recurrent profit decreased by 8.0% to HK$4,478 million, while post-tax property development profits increased from HK$207 million to HK$1,370 million.

Statement of Financial Position

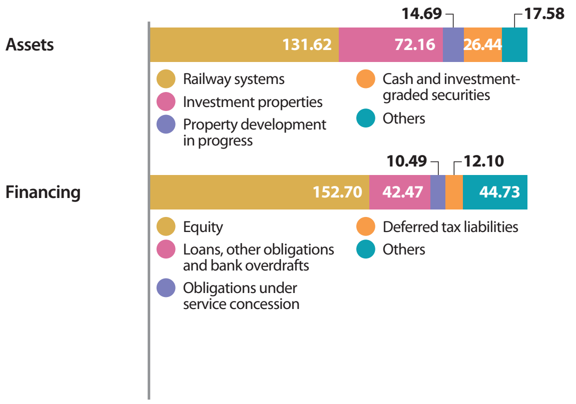
Our financial position remains strong. The Group's net assets increased by HK$3,139 million from HK$149,556 million as at 31 December 2016 to HK$152,695 million as at 30 June 2017.

Total assets increased by HK$5,151 million to HK$262,491 million, mainly due to the increase in cash balances in preparation for dividend payments in July 2017 and the increase in fixed assets arising from renewal and upgrade works for our existing Hong Kong railway network and revaluation gain on investment properties. The increase was partly offset by the decrease in property development in progress upon profit recognition of Tiara. Total liabilities increased by HK$2,012 million to HK$109,796 million. This was mainly due to the accrual for 2016 final ordinary dividend and the increase in total borrowings. The increase in total liabilities was partly offset by the decrease in creditors and accrued charges as a result of the sales proceeds of Tiara previously received and accounted for as creditors now being recognised in the profit and loss account. The Group's net debt-to-equity ratio decreased from 20.2% at 31 December 2016 to 17.7% at 30 June 2017.

Simplified Consolidated Statement of Financial Position

(As at 30 June 2017)

(HK$ billion)

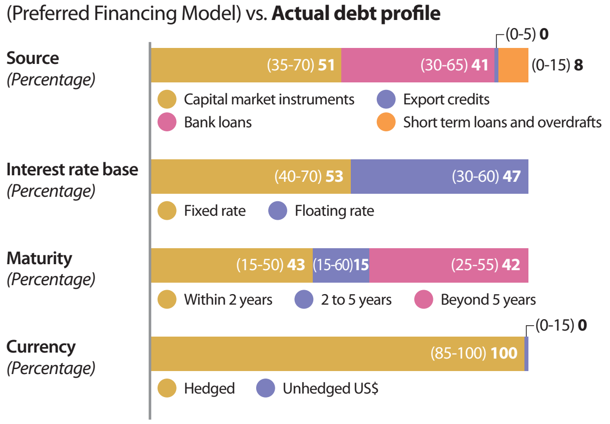


Preferred Financing Model and Debt Profile

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

(As at 30 June 2017)

(Preferred Financing Model) vs. **Actual debt profile**



Cash Flow

Net cash generated from operating activities was HK$8,964 million in the first half of 2017. Receipts from property developments were HK$452 million, a decrease of HK$4,610 million compared to the same period in 2016, mainly due to substantial cash receipts in 2016 from the Tiara development. Including other cash receipts of HK$195 million primarily from the proceeds of share issuance under our share option scheme, net cash receipts amounted to HK$9,611 million in the first half of 2017.

Total capital expenditure was HK$4,080 million. This comprised HK$2,310 million for the purchase of assets for our Hong Kong existing railways and related operations, HK$801 million for the settlement of payables relating to the Hong Kong railway extension projects, HK$676 million for investment in Hong Kong property related businesses and HK$293 million for investment in Mainland of China and overseas subsidiaries. Total capital expenditure was lower than the same period in 2016 by HK$1,177 million due to higher capital expenditure in 2016 for our Hong Kong railway extension projects.

The Group also paid HK$1,787 million in variable annual payment to KCRC in accordance with the Service Concession Agreement with KCRC. Taking into account other payments, total cash outflow amounted to HK$6,292 million in the first half of 2017.

Therefore, net cash inflow before financing amounted to HK$3,319 million. Including the cash inflow from net borrowings of HK$2,097 million and the effect of exchange rate changes on cash position in foreign currencies, the Group's cash balance increased by HK$5,718 million to HK$26,008 million at 30 June 2017.

Financing Activities

The US Federal Reserve raised the federal funds target rate by 25 basis points in March and another 25 basis points in June 2017 on the back of steady economic recovery. Despite these hikes, long-term interest rates fell after their rapid rise following the US presidential election last year, with 10-year and 30-year US treasury yields dropping from 2.44% and 3.07% at the beginning of the year to 2.30% and 2.83% respectively as at 30 June 2017. With ample liquidity, Hong Kong dollar interest rates fell even more, with the 10-year swap rate dropping from 2.63% to 2.05%.

Taking advantage of the attractive interest rate environment, the Group issued a number of Hong Kong dollar, Australian dollar and US dollar fixed rate notes totalling HK$4 billion with maturities ranging from 5 – 30 years through private placements. Amongst these was the Group's debut issuance of a 10-year AU$115 million Green medium term note ("MTN"), the first-ever such privately placed offshore green MTN issuance in Asia. The exposure to Australian dollars under the Green MTN was fully swapped into Hong Kong dollars with a cross currency swap.

During the first half of 2017, the weighted average cost of borrowing of the Group decreased from 3.1% p.a. to 2.5% p.a. compared with the same period last year. The lower weighted average cost of borrowing was mainly due to a higher mix in the Company's borrowings of floating rate loans which carried lower interest rates than fixed rate borrowings.

Moody's downgraded the credit rating of the Company from Aa1 to Aa2 in May following the same rating action on Hong Kong SAR Government. The Company's credit rating assigned by Standard and Poor's remained at AAA, on par with the Hong Kong SAR Government.

Human Resources

The Company, together with its subsidiaries, employed 17,748 people in Hong Kong and 10,305 people outside of Hong Kong as at 30 June 2017. Our associates employed an additional 10,182 people in and outside of Hong Kong.

People are our most valuable asset and we strive to support the development of our talent in line with the growth of our business. We foster their talents and unlock their potential by providing comprehensive training and development programmes covering customer services, operational and management skills. We also offer opportunities for personal growth and career development. In the first half of 2017, we provided an average of 3.4 training days for each employee in Hong Kong. We value the views of our colleagues, and conducted more than 4,000 staff communication sessions during the period, including those setting out the results of our first global Staff Engagement Survey, which was launched in November 2016. The survey demonstrated that we have an engaged management team around the globe and that staff engagement in Hong Kong remains high.

Our workforce is stable, with the staff turnover rate in Hong Kong remaining low at 3.6% during the first six months of 2017. In the period, we received several awards recognising our human resources practices and our commitment to inspiring, engaging and developing our people. At the "Randstad Employer Brand Awards 2017", MTR was named as the most attractive employer in Hong Kong, marking the fifth year in a row we have been included among the top five and the second time we have achieved first place. The Company was also honoured with five awards – Silver Awards for "Best Career Website" and "Best Recruitment Evaluation Technique", Bronze Awards for "Best Graduate Recruitment Programme", "Best On-boarding Experience" and "In-House Recruitment Team of the Year" – at the "Asia Recruitment Awards 2017" organised by Human Resources Magazine, for our achievements in talent acquisition and management.

In support of our business growth outside of Hong Kong, a robust manpower resourcing strategy has been formulated for our Mainland of China and international businesses. Proactive manpower planning is also in place to cater for the needs of our global businesses.

We have also been collaborating closely with our Mainland of China and international hubs in driving global talent mobility and development. A growing number of candidates in our leadership pipeline in Hong Kong are being assigned to business locations such as Beijing, Hangzhou, Shenzhen, the UK, Sweden and Australia. We will continue to explore opportunities for our international talent to work in our headquarters or other hubs in support of our corporate people development plan.

MTR Academy

The MTR Academy ("MTRA") was officially opened in November 2016. It aims to become a globally recognised railway management and engineering centre that offers high quality programmes that extend our rail expertise from Hong Kong to the Mainland of China, as well as "Belt and Road" countries.

MTRA has signed MoUs with several tertiary institutions in Hong Kong and overseas, collaborating in the development of joint programmes. It also provides professional support for organisations in various countries. Of particular significance is the MoU with MRT Jakarta, which is seeking support for its development of Indonesia's first mass transit system. MTRA also offers accredited programmes and short courses to nurture the next generation of railway professionals for the community. Since the establishment of MTRA in November 2016, over 600 participants from Hong Kong and overseas have been attending these programmes and short courses.

Outlook

The outlook for the global economy remains uncertain. Although economic growth has picked up in 2017, political and economic challenges remain, with the prospect of further US interest rate hikes in the second half of the year. The outlook for Hong Kong's economy remains cautious, despite a slight recovery in tourist arrivals and a more moderate decline in retail sales since the start of the year.

Our Hong Kong transport business is defensive by nature, and the full year of operation of the extension of the Kwun Tong Line and the South Island Line will continue to contribute to passenger volume. However, the opening of these two lines will significantly increase depreciation and interest expenses, negatively impacting reported profit. Rental reversions at our station retail and property rental businesses will depend upon market conditions, while our advertising business is more susceptible to the economic environment. After the opening of the seventh and eighth floors of retail space in Telford Plaza II, we target for progressive opening of new shops in our new mall extension in Maritime Square starting in the fourth quarter of 2017, adding to our shopping centre portfolio.

Profit from Hong Kong property development will continue to be modest in the final six months of the year, as there are no new MTR developments scheduled to receive Occupation Permit and hence profit booking. Recently there have been further increases in land supply from both the Government and, particularly, the private sector through lease modifications. Therefore in light of these market changes, over the next six months, subject to market conditions, we aim to tender out one development package, which will be our second package at Wong Chuk Hang Station.

The 2017 financial performance of our businesses outside Hong Kong will be supported by a full year contribution from the Stockholms pendeltåg, as well as an initial contribution from the new South Western rail franchise in the UK starting in August 2017. In Australia, the results of the extension of the existing MTM concession are expected to be announced by September 2017.

Finally, I wish to thank all my colleagues at MTR for their hard work, dedication and professionalism in pursuit of our common vision. They embody the spirit of the Company and are truly the heroes of MTR.

Lincoln Leong Kwok-kuen
Chief Executive Officer
Hong Kong, 10 August 2017

Key Figures

	Half year ended 30 June		
	2017	2016	Inc./(Dec.) %
Financial highlights *(in HK$ million)*			
Revenue			
– Hong Kong transport operations	**8,957**	8,617	3.9
– Hong Kong station commercial businesses	**2,788**	2,695	3.5
– Hong Kong property rental and management businesses	**2,432**	2,359	3.1
– Mainland of China and international railway, property rental and management subsidiaries	**7,924**	6,526	21.4
– Mainland of China property development subsidiary	**6,844**	–	N/A
– Other businesses	**1,059**	1,110	(4.6)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	**11,232**	8,810	27.5
Profit on Hong Kong property development	**622**	219	184.0
Operating profit before depreciation, amortisation and variable annual payment	**11,854**	9,029	31.3
Profit attributable to shareholders of the Company arising from underlying businesses	**5,848**	5,073	15.3
Total assets	**262,491**	257,340^	2.0
Loans, other obligations and bank overdrafts	**42,469**	39,939^	6.3
Obligations under service concession	**10,485**	10,507^	(0.2)
Total equity attributable to shareholders of the Company	**152,581**	149,461^	2.1
Financial ratios			
Operating margin *(in %)*	**37.4**	41.3	(3.9%) pts.
Operating margin (excluding Mainland of China and international subsidiaries) *(in %)*	**56.6**	57.2	(0.6%) pt.
Net debt-to-equity ratio* *(in %)*	**17.7#**	20.2^	(2.5%) pts.
Interest cover *(times)*	**18.4**	14.6	3.8 times
Share information			
Basic earnings per share *(in HK$)*	**1.27**	0.87	46.0
Basic earnings per share arising from underlying businesses *(in HK$)*	**0.99**	0.86	15.1
Ordinary dividend per share *(in HK$)*	**0.25**	0.25	–
Share price at 30 June *(in HK$)*	**43.95**	39.20	12.1
Market capitalisation at 30 June *(in HK$ million)*	**259,921**	230,543	12.7
Operations highlights			
Total passenger boardings in Hong Kong *(million)*			
– Domestic Service	**798.3**	774.5	3.1
– Cross-boundary Service	**54.8**	55.4	(1.0)
– Airport Express	**8.0**	7.8	2.7
– Light Rail and Bus	**112.5**	112.5	–
Average number of passengers *(thousand)*			
– Domestic Service *(weekday)*	**4,700**	4,537	3.6
– Cross-boundary Service *(daily)*	**303.0**	304.5	(0.5)
– Airport Express *(daily)*	**44.2**	42.8	3.3
– Light Rail and Bus *(weekday)*	**642.6**	638.5	0.7
Fare revenue per passenger *(in HK$)*			
– Domestic Service	**7.95**	7.81	1.8
– Cross-boundary Service	**29.32**	28.63	2.4
– Airport Express	**62.87**	62.29	0.9
– Light Rail and Bus	**3.14**	3.08	1.9
Proportion of franchised public transport boardings (January to May) *(in %)*	**48.8**	48.3	0.5% pt.

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

^ *Figures as at 31 December 2016*

If the HK$2.20 per share of the second tranche of special dividend payable totalling HK$13 billion as at 30 June 2017 had been paid as at 30 June 2017, the Group's net debt-to-equity ratio as at 30 June 2017 would have increased from 17.7% to 26.2%.

Corporate Governance and Other Information

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 10 August 2017)

		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
James Henry Lau Jr (Secretary for Financial Services and the Treasury, "S for FS&T")			M	M			
Secretary for Transport and Housing ("S for T&H") (Frank Chan Fan)			M	M			
Permanent Secretary for Development (Works) (Hon Chi-keung)					M	M	
Commissioner for Transport ("C for T")		M				M	
Independent Non-executive Directors							
Andrew Clifford Winawer Brandler		M				M	
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	
Abraham Shek Lai-him			C		M		
Benjamin Tang Kwok-bun				M		M	
Dr Allan Wong Chi-yun			M		C		
Johannes Zhou Yuan		M				M	
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 continues to seek to identify and formalise best practices for adoption by the Company.

Corporate Governance Code Compliance

During the six month period ended 30 June 2017, 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 (the "Code") 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 is reviewed and updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements. Following a comprehensive rewrite of the Code in 2015, a regular review of the content is underway and the revised Code will be released to all staff by the end of 2017. 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 as part of the staff induction programme. The Code is also uploaded onto the Company's website (www.mtr.com.hk).

In addition, the Code serves as a guideline to establish 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 (the "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 month period ended 30 June 2017.

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) (the "SFO")) of the Company, have also been requested to comply with the provisions of the Model Code.

Changes during the period from 1 January 2017 to 10 August 2017 (date of this Report)

Changes in Composition of the Board and Board Committees, and changes in Alternate Directors

					Board Committees				
	Effective Date	Independent Non-executive Director	Non-executive Director	Alternate Director	Audit Committee	Nominations Committee	Remuneration Committee	Risk Committee	Corporate Responsibility Committee
New Appointments									
Andrew Clifford Winawer Brandler	17 May 2017*	√			√			√	
Johannes Zhou Yuan	17 May 2017*	√			√			√	
Lucia Li Li Ka-lai *(Change of Board Committee Membership)*	17 May 2017*								√
Dr Allan Wong Chi-yun *(Change of Board Committee Membership)*	17 May 2017*					√			
S for T&H (Frank Chan Fan) *(Change of post holder)*	1 July 2017		√			√	√		
James Henry Lau Jr (S for FS&T)	4 July 2017		√			√	√		
Andrew Lai Chi-wah (Deputy Secretary for Financial Services and the Treasury (Treasury)2) (Alternate to James Henry Lau Jr (S for FS&T))	10 July 2017			√					
Cessation of Appointments									
Ng Leung-sing *(Retirement)*	17 May 2017*	√				√		√	
Lucia Li Li Ka-lai *(Change of Board Committee Membership)*	17 May 2017*							√	
Dr Allan Wong Chi-yun *(Change of Board Committee Membership)*	17 May 2017*				√				
S for T&H (Professor Anthony Cheung Bing-leung) *(Change of post holder)*	1 July 2017		√			√	√		
Professor Chan Ka-keung, Ceajer *(Resignation)*	4 July 2017		√			√	√		
C for T (Ingrid Yeung Ho Poi-yan) *(Change of post holder)*	15 July 2017		√		√			√	
Under Secretary for Transport and Housing (Yau Shing-mu) (Alternate to the office of the S for T&H (Professor Anthony Cheung Bing-leung)) *(Change of post holder)*	1 July 2017			√					
Andrew Lai Chi-wah (Alternate to Professor Chan Ka-keung, Ceajer) *(Consequential termination following resignation of Professor Chan Ka-keung, Ceajer)*	4 July 2017			√					
Deputy Secretary for Transport and Housing (Transport) (Andy Chan Shui-fu) (Alternate to the office of the S for T&H (Frank Chan Fan)) *(Change of post holder)*	3 August 2017			√					

* *After conclusion of the Company's Annual General Meeting held on 17 May 2017 (the "2017 AGM").*

Changes in Information

Changes in information of Directors required to be disclosed pursuant to the Listing Rules are set out below:

(i) Changes in Biographical Details

Name of Director	Name of Organisation and Position Held	Nature and Effective Date of Change
Members of the Board		
Non-executive Directors		
Professor Frederick Ma Si-hang	The Hong Kong Polytechnic University • Professor of Finance Practice of the Institute of Advanced Executive Education	Cessation (26 January 2017)
	The Education University of Hong Kong • Council Chairman	Appointment (25 April 2017)
Professor Chan Ka-keung, Ceajer (Resigned on 4 July 2017)	The Government of the Hong Kong Special Administrative Region (the "HKSAR Government") • Secretary for Financial Services and the Treasury Airport Authority Hong Kong • Member of the Board Mandatory Provident Fund Schemes Authority (Hong Kong) • Board of Director West Kowloon Cultural District Authority (Hong Kong) • Member of the Board Kowloon-Canton Railway Corporation • Chairman Financial Services Development Council, Hong Kong • Ex-official Member Hongkong International Theme Parks Limited • Director	Cessation (1 July 2017)
Independent Non-executive Directors		
Pamela Chan Wong Shui	Hong Kong Baptist University • Deputy Chairman of the Council and the Court	Cessation (1 January 2017)
Lucia Li Li Ka-lai	Communications Authority (Hong Kong) • Member	Cessation (1 April 2017)
Ng Leung-sing (Retired on 17 May 2017)	Chiyu Banking Corporation • Vice Chairman	Cessation (27 March 2017)
Abraham Shek Lai-him	Independent Commission Against Corruption (Hong Kong) • Member of the Advisory Committee on Corruption	Appointment (1 January 2017)
	TUS International Limited • Independent Non-executive Director	Cessation (6 January 2017)
	Goldin Financial Holdings Limited • Independent Non-executive Director	Appointment (9 January 2017)
	ITC Corporation Limited • Independent Non-executive Director	Cessation (28 March 2017)
Benjamin Tang Kwok-bun	Communications Authority (Hong Kong) • Member	Appointment (1 April 2017)
Members of the Executive Directorate		
Dr Jacob Kam Chak-pui	International Association of Public Transport (UITP) • Chairman of the Regional and Suburban Railways Assembly	Appointment (May 2017)
Margaret Cheng Wai-ching	Education Bureau of the HKSAR Government • Member of the Standing Committee on Language Education and Research	Appointment (1 July 2017)
Morris Cheung Siu-wa	International Association of Public Transport (UITP) • Chairman of the Asia Pacific Division	Cessation (May 2017)
Gillian Elizabeth Meller	Standing Committee on Company Law Reform (Hong Kong) • Member	Appointment (1 February 2017)
Dr Philco Wong Nai-keung	The Hong Kong Institution of Engineers • Senior Vice President	Appointment (28 June 2017)
Jeny Yeung Mei-chun	Innovation and Technology Commission of the HKSAR Government • Member of the Advisory Committee on Publicity and Public Education in Innovation and Technology	Cessation (1 July 2017)

Full biographical details of the Directors are available on the Company's website (www.mtr.com.hk).

(ii) Changes in Directors' Fees

On the recommendation of the Remuneration Committee, the Board reviewed and adjusted the remuneration framework for Non-executive Directors and the fees payable for their membership (including chairmanship) of the various Board Committees of the Company. The new remuneration framework (see table below) took effect on 1 January 2017, and the total fees payable are within the annual cap as permitted under Article 100 of the Company's Articles of Association that had been approved by the shareholders of the Company at the Annual General Meeting in 2014:

Remuneration Framework for Non–executive Directors (effective 1 January 2017)	Fees Payable (per annum) (HK$)
Board	
– Chairman	1,500,000
– Other Member	300,000
Audit Committee and Capital Works Committee	
– Chairman	150,000
– Other Member	90,000
Risk Committee, Remuneration Committee, Nominations Committee, and Corporate Responsibility Committee	
– Chairman	110,000
– Other Member	60,000

Accordingly, assuming there is no further change in Board Committee membership or chairmanship, the annual fees payable to the Non-executive Directors of the Company with effect from 1 January 2017 will be as follows:

Non-executive Directors	Adjusted Annual Fees (HK$)
Professor Frederick Ma Si-hang	1,730,000
Andrew Clifford Winawer Brandler	450,000 (Note 1)
Pamela Chan Wong Shui	420,000
Dr Dorothy Chan Yuen Tak-fai	500,000
Vincent Cheng Hoi-chuen	420,000
Anthony Chow Wing-kin	450,000
Dr Eddy Fong Ching	510,000
James Kwan Yuk-choi	450,000
Lau Ping-cheung, Kaizer	450,000
Lucia Li Li Ka-lai	450,000
Alasdair George Morrison	500,000
Ng Leung-sing	420,000 (Note 2)
Abraham Shek Lai-him	500,000
Benjamin Tang Kwok-bun	420,000
Dr Allan Wong Chi-yun	510,000 (Note 3)
Johannes Zhou Yuan	450,000 (Note 1)
Professor Chan Ka-keung, Ceajer	420,000 (Note 4)
Secretary for Transport and Housing	420,000 (Note 5)
Permanent Secretary for Development (Works)	450,000 (Note 5)
Commissioner for Transport	450,000 (Note 5)

Notes

1. *Mr Andrew Brandler and Mr Johannes Zhou were appointed as Members of the Board on 17 May 2017 and the actual fees receivable by them for the year ending 31 December 2017 will be calculated on a pro rata basis.*
2. *Mr Ng Leung-sing retired after the conclusion of the Company's Annual General Meeting held on 17 May 2017 and the actual fees receivable by him for the year ending 31 December 2017 will be calculated on a pro rata basis.*
3. *Dr Allan Wong changed from being a member of the Audit Committee to being a member of the Nominations Committee with effect from 17 May 2017. Accordingly, the annual fee receivable by him changed from HK$540,000 to HK$510,000 with effect from the same date. The actual fees receivable by him for the year ending 31 December 2017 will be calculated on a pro rata basis accordingly.*
4. *The director's fees in respect of Professor Chan Ka-keung, Ceajer, the then Secretary for Financial Services and the Treasury ("S for FS&T") of the HKSAR Government, were received by the HKSAR Government rather than by Professor Chan personally. Professor Chan ceased to be a Member of the Board and Mr James Henry Lau Jr, the new S for FS&T, has been appointed as a new Member of the Board with effect from 4 July 2017. The same arrangement will apply in relation to the director's fees payable to Mr Lau.*
5. *The director's fees in respect of the offices of the Secretary for Transport and Housing, the Permanent Secretary for Development (Works) and the Commissioner for Transport, each of whom was appointed as a Member of the Board by the Chief Executive of the HKSAR pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong), are received by the HKSAR Government rather than by the holders of the offices concerned.*

Induction Programme, Training and Continuous Professional Development

On appointment, each new Member of the Board (including Government nominated Directors), Alternate Director and Member of the Executive Directorate is given a comprehensive, formal and tailored induction programme on the key areas of business operations and practices of the Company, as well as the general and specific duties of directors under general law (common law and legislation) and the Listing Rules.

A tailor-made training programme covering the roles of a director from the strategic, planning and management perspectives, as well as the essence of corporate governance and the trends in these areas, has been or will be arranged for Mr Andrew Clifford Winawer Brandler, Mr Johannes Zhou Yuan, Mr James Henry Lau Jr and his Alternate Director and for the new Government nominated Director.

A familiarization programme to understand the key areas of the Company's business and operations has been or will also be provided to the above new Members of the Board and Alternate Director.

To assist Members of the Board and the Executive Directorate in continuing their professional development, the Company Secretary recommends them to attend relevant seminars and courses at the cost of the Company.

Save for the above, materials on the subject of corporate governance are also provided to Members of the Board and the Executive Directorate from time to time to keep them abreast of latest developments on this front.

Board Meetings

The Board held five meetings (including three Regular Meetings and two Special Meetings) during the six month period ended 30 June 2017.

Regular Meetings

At each of these Regular Meetings, the Board reviewed and discussed matters relating to the Company's different businesses and financial performance. In addition, other key matters discussed at these Regular Meetings included:

- Corporate Governance matters, including:
  - Receipt of Directors' Manual updates;
  - Review of Directors' fees for Non-executive Directors;
  - Review of the structure, size and composition of the Board;
  - Review of the Board's corporate governance functions;
  - Review of Enterprise Risk Management Annual Report 2016;
  - Review of the effectiveness of the Company's risk management and internal control systems;
  - Assessment of the independence of the Independent Non-executive Directors;
  - Receipt of the proceedings of various Board Committees' meetings;
  - Receipt of shareholder analysis and investors' feedback;
  - Approval of Sustainability Report 2016; and
  - Receipt of Corporate Safety Governance Annual Report 2016;
- 2017 AGM:
  - Recommendation for re-election of retiring Members of the Board; and
  - Recommendation for the nomination of two new Board Members;
- Operations:
  - Receipt of 2016 train service performance;
  - Receipt of updates on signalling replacement projects;
  - Receipt of updates on major incidents;
  - Receipt of updates on by-law review exercise; and
  - Approval of contracts awarded relating to replacement of equipment at the Company's stations and depots;

- Projects:
  - Approval of a contract award relating to a railway project;
  - Receipt of updates on the proposals under the Railway Development Strategy 2014; and
  - Receipt of updates on Government's Hong Kong 2030+ and Lok Ma Chau Loop;
- Receipt of updates on the Mainland China business and business development; and
- Financial:
  - Approval of 2016 Annual Report and Accounts.

Special Meetings

A number of matters were covered in the Special Meetings, including:

- Approval of the tender award of the Wong Chuk Hang Station Package One Property Development;
- Review of the Fare Adjustment Mechanism (the "FAM");
- Review of the principles for revising the Company's fares under the FAM;
- Approval of fare revision for Airport Express; and
- Approval of a tender submission for an overseas franchise.

Communication With Shareholders

Annual General Meeting

The Company's 2017 AGM was held on 17 May 2017. The Chairman continued his practice of proposing separate resolutions for each substantially separate matter.

A total of 12 resolutions were passed at the 2017 AGM (with resolution no. 3 comprising five separate resolutions), each supported by over 93% of the votes cast. The full text of the resolutions is set out in the 2017 AGM Circular (which comprised Notice of the 2017 AGM) dated 10 April 2017.

All resolutions at the 2017 AGM were passed by way of a poll, and the poll results were posted on the websites of both the Company (www.mtr.com.hk) and The Stock Exchange of Hong Kong Limited (the "HKSE") on the same day.

For the benefit of the Company's shareholders who did not attend the 2017 AGM, the whole proceedings were webcast 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 both the websites of the Company (www.mtr.com.hk) and the HKSE. During the six month period ended 30 June 2017, 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 2017, 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▲
Professor Frederick Ma Si-hang	–	270,000 (Note 1)	270,000 (Note 1)	–	–	–	270,000	0.00457
Lincoln Leong Kwok-kuen	1,221,748	–	–	23,000 (Note 2)	–	382,202	1,626,950	0.02751
Pamela Chan Wong Shui	9,002	1,675 (Note 3)	–	–	–	–	10,677	0.00018
Vincent Cheng Hoi-chuen	1,675	1,675 (Note 4)	–	–	–	–	3,350	0.00006
Lucia Li Li Ka-lai	–	1,614 (Note 5)	2,215 (Note 5)	–	–	–	3,829	0.00006
Ingrid Yeung Ho Poi-yan	1,116	–	–	–	–	–	1,116	0.00002
Mak Shing-cheung	558	8,058 (Note 6)	–	–	–	–	8,616	0.00015
Dr Jacob Kam Chak-pui	183,668	–	–	–	–	101,367	285,035	0.00482
Margaret Cheng Wai-ching	–	–	–	–	–	118,778	118,778	0.00201
Morris Cheung Siu-wa	49,822	–	–	–	–	52,717	102,539	0.00173
Dr Peter Ronald Ewen	–	–	–	–	–	50,750	50,750	0.00086
Herbert Hui Leung-wah	50	2,233 (Note 7)	–	–	–	45,600	47,883	0.00081
Adi Lau Tin-shing	27,233	–	–	–	26,000	63,768	117,001	0.00198
Gillian Elizabeth Meller	17,226	–	–	–	–	90,984	108,210	0.00183
Linda So Ka-pik	5,466	–	–	–	–	70,284	75,750	0.00128
David Tang Chi-fai	98,932	–	–	–	–	92,967	191,899	0.00324
Dr Philco Wong Nai-keung	21,694	–	–	–	55,000	98,868	175,562	0.00297
Jeny Yeung Mei-chun	575,583	–	–	–	–	94,317	669,900	0.01133

Notes

1 *The 270,000 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 1,675 shares were held by Mrs Pamela Chan Wong Shui's spouse.*
4 *The 1,675 shares were held by Mr Vincent Cheng Hoi-chuen's spouse.*
5 *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.*
6 *The 8,058 shares were held by Mr Mak Shing-cheung's spouse.*
7 *The 2,233 shares were held by Mr Herbert Hui Leung-wah's spouse.*
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 41 to 42
* *Interests as beneficial owner*
† *Interests of spouse or child under 18 as beneficial owner*
▲ *The Company's total number of voting shares in issue as at 30 June 2017 was 5,914,026,065*

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

A as at 30 June 2017, 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 month period ended 30 June 2017, 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 2017 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	74.98%#

The FSI's shareholding in the Company was 75.26% as at 10 August 2017 (being the approval date of this Report)

▲ *The Company's total number of voting shares in issue as at 30 June 2017 was 5,914,026,065*

The Company has been informed by the Hong Kong Monetary Authority that, as at 30 June 2017, approximately 0.38% of the ordinary shares of the Company in issue (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

Pursuant to section 337 of the SFO, the Company has maintained a register recording the shareholding information provided by persons in response to the Company's requests pursuant to section 329 of the SFO.

Save as disclosed above and in the sections headed "Directors' Interests in Shares and Underlying Shares of the Company" and "Substantial Shareholders' Interests", as at 30 June 2017, the Company has not been notified of any other persons who had any interests or short positions in the shares or underlying shares of the Company which would be required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

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 month period ended 30 June 2017 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 2017	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2017	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Adi Lau Tin-shing	6/5/2013	78,000	26/4/2014 – 26/4/2020	78,000	–	–	78,000	31.40	–	46.40
	30/5/2014	80,000	23/5/2015 – 23/5/2021	80,000	26,000	–	54,000	28.65	26,000	46.40
Dr Philco Wong Nai-keung	30/5/2014	83,000	23/5/2015 – 23/5/2021	55,000	27,000	–	–	28.65	55,000	–
Other eligible employees	21/7/2010	270,000	28/6/2011 – 28/6/2017	45,000	–	–	45,000	27.73	–	45.10
	17/12/2010	4,907,000	16/12/2011 – 16/12/2017	594,000	–	–	316,000	28.84	278,000	44.54
	18/12/2010	673,000	16/12/2011 – 16/12/2017	225,500	–	–	120,000	28.84	105,500	45.90
	20/12/2010	4,789,500	16/12/2011 – 16/12/2017	552,500	–	–	354,500	28.84	198,000	44.61
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	485,000	–	–	238,000	28.84	247,000	44.20
	22/12/2010	975,000	16/12/2011 – 16/12/2017	308,000	–	–	245,000	28.84	63,000	45.29
	23/12/2010	189,000	16/12/2011 – 16/12/2017	33,000	–	–	33,000	28.84	–	47.03
	30/3/2012	15,868,500	23/3/2013 – 23/3/2019	3,362,000	–	–	1,371,500	27.48	1,990,500	45.03
	6/5/2013	20,331,500	26/4/2014 – 26/4/2020	7,104,000	–	–	2,568,000	31.40	4,536,000	45.36
	1/11/2013	188,500	25/10/2014 – 25/10/2020	24,500	–	–	24,500	29.87	–	45.45
	30/5/2014	19,812,500	23/5/2015 – 23/5/2021	12,658,500	5,745,500	67,500	3,288,500	28.65	9,302,500	44.65

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 share options granted were subject to a vesting schedule in tranches of one-third each per annum starting from the first anniversary of the date of offer of the options (the "Offer Anniversary") and became fully vested on the third Offer Anniversary.*

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 the ordinary shares of the Company held as part of the funds of the trust to acquire the 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% 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 month period ended 30 June 2017, a total of 2,357,400 Award Shares (2016: 2,588,350 Award Shares) were awarded under the 2014 Share Incentive Scheme. As at 30 June 2017, a total of 6,321,463 Award Shares (2016: 5,650,829 Award Shares) were neither vested, lapsed nor had been forfeited, representing 0.11% of the issued ordinary shares of the Company (2016: 0.1%) as at the Effective Date.

The particulars of the Award Shares granted are as follows:

Executive Directorate and eligible employees	Date of award	Types of Award Shares granted		Award Shares outstanding as at 1 January 2017	Award Shares vested during the period	Award Shares lapsed and/or forfeited during the period	Award Shares outstanding as at 30 June 2017
		Restricted Shares	Performance Shares				
Lincoln Leong Kwok-kuen	27/4/2015	60,200	255,000	295,134	20,066	–	275,068
	8/4/2016	64,850	–	64,850	21,616	–	43,234
	10/4/2017	63,900	–	–	–	–	63,900
Dr Jacob Kam Chak-pui	27/4/2015	22,050	57,600	72,300	7,350	–	64,950
	8/4/2016	21,550	–	21,550	7,183	–	14,367
	10/4/2017	22,050	–	–	–	–	22,050
Margaret Cheng Wai-ching	19/8/2016	71,428	–	71,428	–	–	71,428
	10/4/2017	16,950	30,400	–	–	–	47,350
Morris Cheung Siu-wa	27/4/2015	–	28,800	28,800	–	–	28,800
	8/4/2016	14,950	–	14,950	4,983	–	9,967
	10/4/2017	13,950	–	–	–	–	13,950
Dr Peter Ronald Ewen	8/4/2016	–	35,700	35,700	–	–	35,700
	10/4/2017	15,050	–	–	–	–	15,050
Herbert Hui Leung-wah	10/4/2017	15,200	30,400	–	–	–	45,600
Adi Lau Tin-shing	27/4/2015	8,600	12,550	18,284	2,866	–	15,418
	8/4/2016	8,400	–	8,400	2,800	–	5,600
	10/4/2017	17,700	25,050	–	–	–	42,750
Gillian Elizabeth Meller	27/4/2015	16,950	57,600	68,900	5,650	–	63,250
	8/4/2016	17,300	–	17,300	5,766	–	11,534
	10/4/2017	16,200	–	–	–	–	16,200
Linda So Ka-pik	8/4/2016	16,400	44,050	60,450	5,466	–	54,984
	10/4/2017	15,300	–	–	–	–	15,300
David Tang Chi-fai	27/4/2015	18,450	57,600	69,900	6,150	–	63,750
	8/4/2016	17,950	–	17,950	5,983	–	11,967
	10/4/2017	17,250	–	–	–	–	17,250
Dr Philco Wong Nai-keung	27/4/2015	21,700	57,600	72,067	7,233	–	64,834
	8/4/2016	21,200	–	21,200	7,066	–	14,134
	10/4/2017	19,900	–	–	–	–	19,900
Jeny Yeung Mei-chun	27/4/2015	19,350	57,600	70,500	6,450	–	64,050
	8/4/2016	18,850	–	18,850	6,283	–	12,567
	10/4/2017	17,700	–	–	–	–	17,700
Other eligible employees	27/4/2015	2,172,750	1,051,650	2,239,386	650,122	24,528	1,564,736
	8/4/2016	2,199,700	107,450	2,236,700	710,870	45,605	1,480,225
	10/4/2017	1,994,050	26,350	–	2,166	4,334	2,013,900

Purchase, Sale or Redemption of Listed Securities

The Company's wholly owned subsidiary redeemed its US$550 million bonds at par on 12 April 2017. The bonds were listed on the HKSE prior to the redemption. Save as disclosed above, the Group did not purchase, sell or redeem any of the Group's listed securities during the six month period ended 30 June 2017. The Trustee of the 2014 Share Incentive Scheme did not purchase any ordinary shares of the Company on the HKSE during the same period.

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

As at 30 June 2017, the Group had borrowings of HK$35,369 million (2016: HK$20,513 million) with maturities ranging from 2017 to 2055 and undrawn committed banking facilities of HK$12,100 million (2016: HK$31,700 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 28 August 2017 to 30 August 2017 (both dates inclusive), during which period no transfer of shares in the Company could be effected. In order to qualify for the 2017 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. (Hong Kong time) on 25 August 2017. The 2017 interim dividend, with a scrip dividend option (except for shareholders with registered addresses in New Zealand or the United States of America or any of its territories or possessions), is expected to be distributed on 13 October 2017 to shareholders whose names appeared on the Register of Members of the Company as at the close of business on 30 August 2017.

Consolidated Profit and Loss Account

in HK$ million	Note	Half year ended 30 June 2017 (Unaudited)	Half year ended 30 June 2016 (Unaudited)
Revenue from Hong Kong transport operations		**8,957**	8,617
Revenue from Hong Kong station commercial businesses		**2,788**	2,695
Revenue from Hong Kong property rental and management businesses		**2,432**	2,359
Revenue from Mainland of China and international railway, property rental and management subsidiaries	2	**7,924**	6,526
Revenue from other businesses		**1,059**	1,110
		23,160	21,307
Revenue from Mainland of China property development subsidiary	2	**6,844**	–
		30,004	21,307
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses		**(2,530)**	(2,360)
– Energy and utilities		**(705)**	(700)
– Operational rent and rates		**(119)**	(99)
– Stores and spares consumed		**(252)**	(229)
– Maintenance and related works		**(665)**	(621)
– Railway support services		**(136)**	(136)
– General and administration expenses		**(223)**	(253)
– Other expenses		**(154)**	(135)
		(4,784)	(4,533)
Expenses relating to Hong Kong station commercial businesses		**(239)**	(253)
Expenses relating to Hong Kong property rental and management businesses		**(344)**	(361)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	2	**(7,498)**	(6,147)
Expenses relating to other businesses		**(1,090)**	(1,046)
Project study and business development expenses		**(159)**	(130)
		(14,114)	(12,470)
Expenses relating to Mainland of China property development subsidiary	2	**(4,658)**	(27)
Operating expenses before depreciation, amortisation and variable annual payment		**(18,772)**	(12,497)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment			
– Arising from recurrent businesses		**9,046**	8,837
– Arising from Mainland of China property development		**2,186**	(27)
		11,232	8,810
Profit on Hong Kong property development	3	**622**	219
Operating profit before depreciation, amortisation and variable annual payment		**11,854**	9,029
Depreciation and amortisation		**(2,390)**	(2,008)
Variable annual payment		**(915)**	(867)
Operating profit before interest and finance charges		**8,549**	6,154
Interest and finance charges	4	**(403)**	(268)
Investment property revaluation	11	**1,632**	48
Share of profit or loss of associates	5	**180**	297
Profit before taxation		**9,958**	6,231
Income tax	6	**(2,425)**	(1,037)
Profit for the period		**7,533**	5,194
Attributable to:			
– Shareholders of the Company		**7,480**	5,121
– Non-controlling interests		**53**	73
Profit for the period		**7,533**	5,194
Profit for the period attributable to shareholders of the Company:			
– Arising from recurrent businesses		**4,478**	4,866
– Arising from property development		**1,370**	207
– Arising from underlying businesses		**5,848**	5,073
– Arising from investment property revaluation		**1,632**	48
		7,480	5,121
Earnings per share:	8		
– Basic		**HK$1.27**	HK$0.87
– Diluted		**HK$1.26**	HK$0.87

The notes on pages 49 to 67 form part of this interim financial report. Details of dividends payable to shareholders of the Company are set out in note 7.

Consolidated Statement of Comprehensive Income

in HK$ million	Note	Half year ended 30 June 2017 (Unaudited)	Half year ended 30 June 2016 (Unaudited)
Profit for the period		**7,533**	5,194
Other comprehensive income for the period (after taxation and reclassification adjustments):			
Items that will not be reclassified to profit or loss:			
– Surplus on revaluation of self-occupied land and buildings		**85**	70
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of overseas subsidiaries and associates		**423**	(290)
– non-controlling interests		**20**	5
– Cash flow hedges: net movement in hedging reserve		**(314)**	142
		129	(143)
	10	**214**	(73)
Total comprehensive income for the period		**7,747**	5,121
Attributable to:			
– Shareholders of the Company		**7,674**	5,043
– Non-controlling interests		**73**	78
Total comprehensive income for the period		**7,747**	5,121

The notes on pages 49 to 67 form part of this interim financial report.

Consolidated Statement of Financial Position

in HK$ million	Note	At 30 June 2017 (Unaudited)	At 31 December 2016 (Audited)
Assets			
Fixed assets			
– Investment properties	11	**72,156**	70,060
– Other property, plant and equipment	12	**102,807**	103,613
– Service concession assets	13	**28,809**	28,269
		203,772	201,942
Property management rights		**26**	27
Goodwill		**62**	57
Property development in progress	16	**14,687**	17,484
Deferred expenditure		**608**	463
Interests in associates		**6,138**	7,015
Deferred tax assets	24	**68**	25
Investments in securities		**436**	370
Assets held for sale	17	**1,269**	–
Properties held for sale	18	**1,451**	1,394
Derivative financial assets	19	**91**	183
Stores and spares		**1,556**	1,484
Debtors, deposits and payments in advance	20	**3,919**	4,073
Amounts due from related parties	21	**2,400**	2,171
Tax recoverable		**–**	362
Cash, bank balances and deposits		**26,008**	20,290
		262,491	257,340
Liabilities			
Bank overdrafts		**42**	–
Short-term loans		**3,127**	1,350
Creditors and accrued charges	22	**25,141**	30,896
Current taxation		**1,984**	123
Contract retentions		**950**	1,012
Amounts due to related parties	21	**14,927**	11,783
Loans and other obligations	23	**39,300**	38,589
Obligations under service concession		**10,485**	10,507
Derivative financial liabilities	19	**577**	569
Loan from holders of non-controlling interests		**117**	109
Deferred income		**1,042**	721
Deferred tax liabilities	24	**12,104**	12,125
		109,796	107,784
Net assets		**152,695**	149,556
Capital and reserves			
Share capital	25	**48,212**	47,929
Shares held for Share Incentive Scheme	25	**(171)**	(227)
Other reserves		**104,540**	101,759
Total equity attributable to shareholders of the Company		**152,581**	149,461
Non-controlling interests		**114**	95
Total equity		**152,695**	149,556

The notes on pages 49 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 shareholders of the Company	Non-controlling interests	Total equity
30 June 2017 (Unaudited)											
Balance as at 1 January 2017		47,929	(227)	3,043	150	182	(1,008)	99,392	149,461	95	149,556
Changes in equity for the half year ended 30 June 2017:											
– Profit for the period		–	–	–	–	–	–	7,480	7,480	53	7,533
– Other comprehensive income for the period		–	–	85	(314)	–	423	–	194	20	214
– Total comprehensive income for the period		–	–	85	(314)	–	423	7,480	7,674	73	7,747
– Special dividend	7	–	–	–	–	–	–	(20)	(20)	–	(20)
– 2016 final ordinary dividend	7	–	–	–	–	–	–	(4,848)	(4,848)	–	(4,848)
– Vesting of award shares of Share Incentive Scheme	25F	1	56	–	–	(57)	–	–	–	–	–
– Award shares of Share Incentive Scheme forfeited	25F	–	–	–	–	(4)	–	1	(3)	–	(3)
– Ordinary dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	(54)	(54)
– Employee share-based payments		–	–	–	–	61	–	–	61	–	61
– Employee share options exercised	25C	282	–	–	–	(26)	–	–	256	–	256
Balance as at 30 June 2017		48,212	(171)	3,128	(164)	156	(585)	102,005	152,581	114	152,695
31 December 2016 (Audited)											
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 ordinary 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	–	–	–
– Ordinary 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
Changes in equity for the half year ended 31 December 2016:											
– Profit for the period		–	–	–	–	–	–	5,133	5,133	21	5,154
– Other comprehensive income for the period		–	–	61	233	–	(566)	123	(149)	(12)	(161)
– Total comprehensive income for the period		–	–	61	233	–	(566)	5,256	4,984	9	4,993
– Special dividend	7	–	–	–	–	–	–	(18)	(18)	–	(18)
– 2015 final ordinary dividend	7	–	–	–	–	–	–	5	5	–	5
– Shares issued in respect of scrip dividend of 2015 final ordinary dividend		566	(5)	–	–	–	–	–	561	–	561
– 2016 interim ordinary dividend	7	–	–	–	–	–	–	(1,473)	(1,473)	–	(1,473)
– Shares issued in respect of scrip dividend of 2016 interim ordinary dividend		101	(2)	–	–	–	–	–	99	–	99
– Vesting of award shares of Share Incentive Scheme		(1)	2	–	–	(1)	–	–	–	–	–
– Award shares of Share Incentive Scheme forfeited		–	–	–	–	(5)	–	1	(4)	–	(4)
– Ordinary dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	(77)	(77)
– Employee share-based payments		–	–	–	–	56	–	–	56	–	56
– Employee share options exercised		194	–	–	–	(19)	–	–	175	–	175
Balance as at 31 December 2016		47,929	(227)	3,043	150	182	(1,008)	99,392	149,461	95	149,556

The notes on pages 49 to 67 form part of this interim financial report.

Consolidated Cash Flow Statement

in HK$ million	Note	Half year ended 30 June 2017 (Unaudited)		Half year ended 30 June 2016 (Unaudited)	
Cash flows from operating activities					
Cash generated from operations	27	**8,592**		9,458	
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		**588**		625	
Current tax paid					
– Hong Kong Profits Tax paid		**(5)**		(394)	
– Mainland of China and overseas tax paid		**(211)**		(195)	
Net cash generated from operating activities			**8,964**		9,494
Cash flows from investing activities					
Capital expenditure					
– Purchase of assets for Hong Kong transport and related operations		**(2,310)**		(2,128)	
– Shenzhen Metro Longhua Line Project and related operations		**(45)**		(24)	
– Island Line Extension Project		**(82)**		(252)	
– South Island Line (East) Project		**(506)**		(1,091)	
– Kwun Tong Line Extension Project		**(213)**		(711)	
– Shenzhen Longhua Line Depot property development		**(190)**		(643)	
– Hong Kong property development		**(212)**		(191)	
– Investment property projects and fitting out work		**(464)**		(192)	
– Other capital projects		**(58)**		(25)	
Variable annual payment		**(1,787)**		(1,649)	
Receipts in respect of Hong Kong property development		**378**		2,006	
Receipts in respect of Shenzhen Longhua Line Depot property development		**74**		3,056	
Increase in bank deposits with more than three months to maturity when placed or pledged		**(1,451)**		(1,291)	
Purchase of investments in securities		**(118)**		(51)	
Proceeds from sale or redemption of investments in securities		**53**		39	
Proceeds from disposal of fixed assets		**4**		2	
Acquisition of a subsidiary, net of cash acquired		**–**		44	
Investments in associates		**–**		(1,260)	
Net cash used in investing activities			**(6,927)**		(4,361)
Cash flows from financing activities					
Proceeds from shares issued under share option schemes		**256**		670	
Purchase of shares for Share Incentive Scheme		**–**		(99)	
Drawdown of loans		**11,677**		7,407	
Proceeds from issuance of capital market instruments		**3,913**		2,944	
Repayment of loans		**(8,350)**		(4,147)	
Repayment of capital market instruments		**(5,185)**		–	
Interest paid		**(438)**		(301)	
Interest received		**84**		152	
Finance charges paid		**(17)**		(18)	
Dividends paid to holders of non-controlling interests		**(54)**		(31)	
Net cash generated from financing activities			**1,886**		6,577
Net increase in cash and cash equivalents			**3,923**		11,710
Cash and cash equivalents at 1 January			**7,037**		6,227
Effect of exchange rate changes			**302**		(87)
Cash and cash equivalents at 30 June			**11,262**		17,850
Analysis of the balances of cash and cash equivalents					
Cash, bank balances and deposits on the consolidated statement of financial position			**26,008**		25,182
Bank deposits with more than three months to maturity when placed or pledged			**(14,704)**		(7,332)
Bank overdrafts			**(42)**		–
Cash and cash equivalents in the consolidated cash flow statement			**11,262**		17,850

The notes on pages 49 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 2016 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 2016 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 2016 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 2016 annual accounts.

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 2017		Half year ended 30 June 2016	
in HK$ million	Revenue	Expenses	Revenue	Expenses
Railway-related subsidiaries outside of Hong Kong				
– Melbourne Train	**4,177**	**3,968**	3,819	3,579
– MTR Nordic*	**2,350**	**2,239**	1,480	1,468
– London Crossrail	**542**	**510**	527	493
– Shenzhen Metro Longhua Line	**313**	**249**	326	248
– Sydney Metro Northwest	**476**	**478**	302	302
	7,858	**7,444**	6,454	6,090
Property rental and management businesses in Mainland of China	**66**	**54**	72	57
	7,924	**7,498**	6,526	6,147
Property development in Mainland of China	**6,844**	**4,658**	–	27
Total Mainland of China and international subsidiaries	**14,768**	**12,156**	6,526	6,174

* MTR Nordic comprises the Stockholm Metro, MTR Tech, MTR Express and Stockholm Commuter Rail ("Stockholms pendeltåg") operations in Sweden.

3 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK$ million	Half year ended 30 June 2017	Half year ended 30 June 2016
Share of surplus from property development	**359**	159
Income from receipt of properties for investment purpose	**–**	83
Agency fee and other income from West Rail property development	**286**	19
Other overhead costs net of miscellaneous income	**(23)**	(42)
	622	219

4 Interest and Finance Charges

Interest and finance charges comprise:

in HK$ million	Half year ended 30 June 2017		Half year ended 30 June 2016	
Interest expenses	**830**		693	
Finance charges	**31**		26	
Exchange loss	**164**		181	
		1,025		900
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(64)**		(80)
Derivative financial instruments:				
– Fair value hedges	**(7)**		3	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**6**		8	
– transferred from hedging reserve to offset exchange loss	**(196)**		(189)	
– Derivatives not qualified for hedge accounting	**1**		6	
		(196)		(172)
Interest expenses capitalised		**(177)**		(271)
		588		377
Interest income in respect of deposits with banks		**(185)**		(109)
		403		268

5 Share of Profit or Loss of Associates

Share of profit or loss of associates comprises:

in HK$ million	Half year ended 30 June 2017	Half year ended 30 June 2016
Share of profit or loss before taxation	**287**	371
Share of income tax expenses	**(107)**	(74)
	180	297

6 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	Half year ended 30 June 2017	Half year ended 30 June 2016
Current tax		
– Hong Kong Profits Tax	**944**	862
– Mainland of China and overseas tax	**1,523**	152
	2,467	1,014
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(24)**	(55)
	2,443	959
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**(5)**	–
– depreciation allowances in excess of related depreciation	**(1)**	76
– provisions and others	**(12)**	2
	(18)	78
	2,425	1,037

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2017 is calculated at 16.5% (2016: 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.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant Mainland of China tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions. During the half year ended 30 June 2017, Land Appreciation Tax of HK$758 million (2016: nil) was charged to profit or loss.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2016: 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 shareholders of the Company comprise:

in HK$ million	Half year ended 30 June 2017	Half year ended 30 June 2016
Ordinary dividends payable attributable to the period		
– Interim ordinary dividend declared after the reporting period of HK$0.25 (2016: HK$0.25) per share	**1,501**	1,470
Ordinary dividends paid attributable to the previous year		
– Final ordinary dividend of HK$0.82 (2015: HK$0.81) per share approved and payable/paid during the period	**4,848**	4,763

The Company has recognised 2016 final ordinary dividend payable of HK$3,636 million to the Financial Secretary Incorporated (the "FSI") of the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") and HK$1,212 million to other 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 2017.

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; and

(ii) 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).

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 the second tranche was paid on 12 July 2017. There was no scrip alternative for the special dividend. Details are set out in note 15A.

In addition, the Company has recognised the second tranche of special dividend payable of HK$9,756 million to the FSI of the HKSAR Government and HK$3,243 million to other 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 2017.

8 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the half year ended 30 June 2017 of HK$7,480 million (2016: HK$5,121 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 2017	Half year ended 30 June 2016
Issued ordinary shares at 1 January	**5,905,290,065**	5,858,228,236
Effect of share options exercised	**3,099,360**	8,212,267
Less: Shares held for Share Incentive Scheme	**(5,361,987)**	(4,470,469)
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 30 June	**5,903,027,438**	5,861,970,034

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the half year ended 30 June 2017 of HK$7,480 million (2016: HK$5,121 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 scheme and Share Incentive Scheme, which is calculated as follows:

	Half year ended 30 June 2017	Half year ended 30 June 2016
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 30 June	**5,903,027,438**	5,861,970,034
Effect of dilutive potential shares under the share option scheme	**7,031,502**	9,868,911
Effect of shares awarded under Share Incentive Scheme	**5,690,330**	4,373,362
Weighted average number of shares (diluted) at 30 June	**5,915,749,270**	5,876,212,307

C Both basic and diluted earnings per share would have been HK$0.99 (2016: HK$0.86) if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$5,848 million (2016: HK$5,073 million).

9 Segmental Information

The Group's businesses consist of (i) recurrent businesses (comprising Hong Kong transport operations, Hong Kong station commercial businesses, Hong Kong property rental and management businesses, Mainland of China and international railway, property rental and management businesses and other businesses) and (ii) property development businesses (together with recurrent businesses referred to as underlying businesses).

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) Mainland of China and international railway, property rental and management businesses: 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:

					Mainland of China and international affiliates				
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 railway, property rental and management businesses	Mainland of China property development	Other businesses	Un-allocated amount	Total
Half year ended 30 June 2017									
Revenue	**8,957**	**2,788**	**2,432**	**–**	**7,924**	**6,844**	**1,059**	**–**	**30,004**
Operating expenses	**(4,784)**	**(239)**	**(344)**	**–**	**(7,498)**	**(4,658)**	**(1,090)**	**–**	**(18,613)**
Project study and business development expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(159)**	**(159)**
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	**4,173**	**2,549**	**2,088**	**–**	**426**	**2,186**	**(31)**	**(159)**	**11,232**
Profit on Hong Kong property development	**–**	**–**	**–**	**622**	**–**	**–**	**–**	**–**	**622**
Operating profit before depreciation, amortisation and variable annual payment	**4,173**	**2,549**	**2,088**	**622**	**426**	**2,186**	**(31)**	**(159)**	**11,854**
Depreciation and amortisation	**(2,208)**	**(79)**	**(6)**	**–**	**(66)**	**–**	**(31)**	**–**	**(2,390)**
Variable annual payment	**(645)**	**(268)**	**(2)**	**–**	**–**	**–**	**–**	**–**	**(915)**
Operating profit before interest and finance charges	**1,320**	**2,202**	**2,080**	**622**	**360**	**2,186**	**(62)**	**(159)**	**8,549**
Interest and finance charges	**–**	**–**	**–**	**–**	**(11)**	**68**	**–**	**(460)**	**(403)**
Investment property revaluation	**–**	**–**	**1,632**	**–**	**–**	**–**	**–**	**–**	**1,632**
Share of profit or loss of associates	**–**	**–**	**–**	**–**	**93**	**(1)**	**88**	**–**	**180**
Income tax	**–**	**–**	**–**	**(103)**	**(46)**	**(1,402)**	**–**	**(874)**	**(2,425)**
Profit for the half year ended 30 June 2017	**1,320**	**2,202**	**3,712**	**519**	**396**	**851**	**26**	**(1,493)**	**7,533**
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

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 2017	Half year ended 30 June 2016
Hong Kong (place of domicile)	**15,121**	14,767
Australia	**4,654**	4,121
Mainland of China	**7,240**	402
Sweden	**2,350**	1,480
United Kingdom	**546**	535
Other countries	**93**	2
	14,883	6,540
	30,004	21,307

10 Other Comprehensive Income

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

in HK$ million	Half year ended 30 June 2017			Half year ended 30 June 2016		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before-tax amount	Tax expense	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries and associates	**423**	**–**	**423**	(290)	–	(290)
– Non-controlling interests	**20**	**–**	**20**	5	–	5
	443	**–**	**443**	(285)	–	(285)
Surplus on revaluation of self-occupied land and buildings	**102**	**(17)**	**85**	84	(14)	70
Cash flow hedges: net movement in hedging reserve (note 10B)	**(375)**	**61**	**(314)**	170	(28)	142
Other comprehensive income	**170**	**44**	**214**	(31)	(42)	(73)

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 2017	Half year ended 30 June 2016
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	**(191)**	348
Amounts transferred to initial carrying amount of hedged items	**1**	1
Amounts transferred to profit or loss:		
– Interest and finance charges (note 4)	**(190)**	(181)
– Other expenses	**5**	2
Deferred tax on the above items	**61**	(28)
	(314)	142

11 Investment Properties

All investment properties of the Group were revalued 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 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$1,632 million for the half year ended 30 June 2017 (2016: HK$48 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 2017, the Group acquired or commissioned assets at a total cost of HK$1,023 million (2016: HK$1,326 million). Assets with a net book value of HK$17 million (2016: HK$19 million) were disposed during the same period, resulting in a net loss on disposal of HK$14 million (2016: 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$102 million (2016: HK$84 million), which, net of deferred tax provision of HK$17 million (2016: HK$14 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 2017, the Group incurred HK$1,064 million (2016: HK$894 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 the service concession arrangement in the Rail Merger and HK$9 million (2016: HK$27 million) of expenditure for asset additions in respect of Shenzhen Metro Longhua Line.

14 Railway Construction in Progress

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 i.e. December 2016 (based on commencement of commercial operation on 28 December 2014), 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). Under a supplemental agreement signed in December 2016, the Company and the HKSAR Government agreed to extend the timeframe for the repayment mechanism to not later than 30 June 2018. During the half year ended 30 June 2017, no payment has been made by the Company to the HKSAR Government under the repayment mechanism (year ended 31 December 2016: principal of HK$48 million and interest of HK$18 million).

As at 30 June 2017, the Company has no authorised outstanding commitments on contracts (31 December 2016: nil) 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 2017, the project cost estimate remained at HK$17.2 billion (before capitalised interest expense of HK$1.0 billion).

As at 30 June 2017, the Company has authorised outstanding commitments on contracts totalling HK$0.3 billion (31 December 2016: HK$0.4 billion) for this project.

14 Railway Construction in Progress *(continued)*

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 2017, the project cost estimate remained at HK$6.9 billion (before capitalised interest expense of HK$0.3 billion).

As at 30 June 2017, the Company has authorised outstanding commitments on contracts totalling HK$8 million (31 December 2016: HK$4 million) 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

(a) XRL Preliminary Entrustment Agreement: 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.

(b) XRL Entrustment Agreement: 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 2017 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.

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.

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.

As a result of 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").

(c) XRL Agreement: 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(c)(vi) below) 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 in cash 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 was paid on 13 July 2016 and the second tranche was paid on 12 July 2017;

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) were 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.

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.

(d) 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 note 15A(c)(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 2017 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).

(e) During the half year ended 30 June 2017, project management fee of HK$368 million (2016: HK$378 million) was recognised in the consolidated profit and loss account.

B Shatin to Central Link ("SCL") Project

(a) SCL Preliminary Entrustment Agreement: 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.

(b) SCL Advance Works Entrustment Agreement: 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").

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

B Shatin to Central Link ("SCL") Project *(continued)*

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). In December 2016, the Company completed its review for the project cost estimate of the works under the SCL Advance Works Entrustment Agreement and notified the HKSAR Government of the Company's revised estimate for the entrustment cost for such works of HK$8,617.1 million. In January 2017, the HKSAR Government submitted the application for additional funding to the Legislative Council Public Works Subcommittee. The additional funding was approved by Legislative Council Finance Committee in June 2017.

(c) SCL Entrustment Agreement: 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 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 2017 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 certain key external events. For the East West Corridor, the discovery of archaeological relics in the To Kwa Wan area has led to an 11-month delay. However, with the successful implementation of a number of delay recovery measures, the length of the delay has been reduced and the estimated completion of this corridor is now in mid-2019. For the North South Corridor, the Company had previously reported a six-month delay due to a number of external factors including the anticipated late handover by a third party of construction sites for the new Exhibition Station. As a result of incomplete entrusted works handed over by a third party contractor at another site at Wan Chai North, the completion of this corridor has been further delayed by an additional three months (to a total expected delay of nine months). However, the North South Corridor is still targeted to be completed in 2021.

For the SCL Entrustment Agreement, taking into account the continuing difficulties and challenges, including those described above, the Company considers that the cost estimate for the SCL Entrustment Agreement will need to be revised upwards significantly to take account of (i) the additional HK$4,100 million that was previously reported as a result of the archaeological finds in the To Kwa Wan area, (ii) the late handover of construction sites at Exhibition Station, (iii) the previously unbudgeted foundation works for top-side development at Exhibition Station, (iv) another site which was handed over with incomplete entrusted works by a third party contractor at Wan Chai North, and (v) other factors such as lower availability of labour experienced in Hong Kong's construction sector. The Company has advised the HKSAR Government that it will therefore conduct a detailed review of the project cost estimate relating to the SCL Entrustment Agreement.

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 54.6% complete, this review will be completed later this year, 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.

(d) 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 2017 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.

(e) During the half year ended 30 June 2017, project management fee of HK$457 million (2016: HK$450 million) was recognised in the consolidated profit and loss account.

Additionally, during the half year ended 30 June 2017, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK$596 million (2016: HK$649 million). As at 30 June 2017, 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$1,312 million (31 December 2016: HK$1,359 million).

16 Property Development in Progress

Movements of property development in progress of the Group during the half year ended 30 June 2017 and the year ended 31 December 2016 are as follows:

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to properties held for sale	Transfer out to profit or loss	Exchange differences	Balance at 30 June/ 31 December
At 30 June 2017 (Unaudited)							
Airport Railway Property Projects	**–**	**2**	**(2)**	**–**	**–**	**–**	**–**
Tseung Kwan O Extension Property Projects	**3,795**	**94**	**–**	**–**	**–**	**–**	**3,889**
East Rail Line/Light Rail Property Projects	**9,079**	**96**	**–**	**–**	**–**	**–**	**9,175**
South Island Line (East) Property Project	**1,142**	**14**	**–**	**–**	**–**	**–**	**1,156**
Kwun Tong Line Extension Property Project	**463**	**4**	**–**	**–**	**–**	**–**	**467**
Shenzhen Property Project	**3,005**	**272**	**–**	**(178)**	**(3,194)**	**95**	**–**
	17,484	**482**	**(2)**	**(178)**	**(3,194)**	**95**	**14,687**
At 31 December 2016 (Audited)							
Airport Railway Property Projects	–	2	(2)	–	–	–	–
Tseung Kwan O Extension Property Projects	3,643	152	–	–	–	–	3,795
East Rail Line/Light Rail Property Projects	8,928	151	–	–	–	–	9,079
South Island Line (East) Property Project	1,061	81	–	–	–	–	1,142
Kwun Tong Line Extension Property Project	414	49	–	–	–	–	463
Shenzhen Property Project	3,937	525	–	(409)	(791)	(257)	3,005
	17,983	960	(2)	(409)	(791)	(257)	17,484

17 Assets Held for Sale

In August 2013, Tianjin TJ – Metro MTR Construction Company Limited ("Tianjin TJ – Metro MTR"), a company formed by the Company's subsidiary, MTR Property (Tianjin) No.1 Company Limited ("MTR TJ No.1") (49%), and Tianjin Metro (Group) Company Limited (51%), won the bidding for the land use right for a site at Beiyunhe Station on Tianjin Metro Line 6 at a price of RMB2,075 million. Tianjin TJ – Metro MTR was set up on 15 July 2013 with a registered capital of RMB1,800 million, of which 49% is borne by MTR TJ No.1. In January 2014, Tianjin TJ – Metro MTR Construction Company Limited increased its registered capital to RMB2,273 million and MTR TJ No.1 had made a further equity contribution of RMB232 million (HK$294 million) to the associate.

On 23 March 2017, MTR TJ No.1 entered into a Framework Agreement comprising, inter alia, a Share Transfer Agreement, with Tianjin Xingtai Jihong Real Estate Co., Ltd. ("TJXJRE"), a wholly-owned subsidiary of Beijing Capital Land Ltd., for the disposal of MTR TJ No.1's 49% equity interest in Tianjin TJ – Metro MTR at a consideration of RMB1.3 billion; and MTR TJ No.1's conditional future acquisition of a shopping centre with a total area of approximately 91,000 square meters to be developed on the same site at a consideration of RMB1.3 billion subject to the agreement of Tianjin TJ – Metro MTR. The conditions of the Share Transfer Agreement were fulfilled and the disposal of MTR TJ No.1's 49% interest was completed on 10 July 2017. As at 30 June 2017, the Group's interest in Tianjin TJ – Metro MTR was presented as assets held for sale on the consolidated statement of financial position with its result reported under the Mainland of China property development segment. A performance bond in the amount of RMB1.6 billion issued by a Hong Kong licensed bank has been provided by TJXJRE to MTR TJ No.1 to guarantee its obligations under the Framework Agreement.

18 Properties Held for Sale

in HK$ million	At 30 June 2017 (Unaudited)	At 31 December 2016 (Audited)
Properties held for sale		
– at cost	**1,176**	1,068
– at net realisable value	**275**	326
	1,451	1,394

Properties held for sale at net realisable value as at 30 June 2017 are stated net of provision of HK$41 million (31 December 2016: HK$47 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 2017 (Unaudited)		At 31 December 2016 (Audited)	
in HK$ million	Notional amount	Fair value	Notional amount	Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– fair value hedges	–	–	1,317	1
– cash flow hedges	200	6	–	–
– not qualified for hedge accounting	195	6	–	–
Cross currency swaps				
– fair value hedges	464	2	2,326	17
– cash flow hedges	450	33	4,699	81
Interest rate swaps				
– fair value hedges	600	21	600	27
– cash flow hedges	1,250	23	1,350	57
	3,159	91	10,292	183
Derivative Financial Liabilities				
Foreign exchange forwards				
– fair value hedges	–	–	2,174	3
– cash flow hedges	37	4	324	15
– net investment hedges	2,047	23	–	–
– not qualified for hedge accounting	1,660	4	197	11
Cross currency swaps				
– fair value hedges	698	14	1,194	137
– cash flow hedges	9,636	507	2,670	366
– net investment hedges	64	6	–	–
Interest rate swaps				
– fair value hedges	650	10	2,701	32
– cash flow hedges	700	9	600	5
	15,492	577	9,860	569
Total	18,651		20,152	

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 from operations 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.

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

(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.

The ageing of debtors is analysed as follows:

in HK$ million	At 30 June 2017 (Unaudited)	At 31 December 2016 (Audited)
Amounts not yet due	**2,804**	2,362
Overdue by 30 days	**138**	430
Overdue by 60 days	**37**	52
Overdue by 90 days	**34**	16
Overdue by more than 90 days	**31**	42
Total debtors	**3,044**	2,902
Deposits and payments in advance	**875**	1,171
	3,919	4,073

Included in the amounts not yet due as at 30 June 2017 was HK$842 million (31 December 2016: HK$666 million) in respect of Hong Kong and Mainland of China property developments.

21 Material Related Party Transactions

The FSI of the HKSAR Government, which holds approximately 75.0% of the Company's issued share capital on trust for the HKSAR Government as at 30 June 2017, 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 2017, 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 2017 (Unaudited)	At 31 December 2016 (Audited)
Amounts due from:		
– HKSAR Government	**2,296**	2,092
– KCRC	**6**	15
– associates	**98**	64
	2,400	2,171
Amounts due to:		
– HKSAR Government	**13,430**	9,798
– KCRC	**1,356**	1,852
– an associate	**141**	133
	14,927	11,783

As at 30 June 2017, 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 2017 related to the second tranche of special dividend payable under the XRL Agreement (note 7) amounting to HK$9,756 million, the 2016 final ordinary dividend payable (note 7) amounting to HK$3,636 million as well as land administrative fees in relation to railway extensions. The second tranche of special dividend and the 2016 final ordinary dividend were paid to the FSI of the HKSAR Government on 12 July 2017.

21 Material Related Party Transactions *(continued)*

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 2017 included mainly receivables in relation to the daily Octopus card transactions with Octopus Cards Limited, and the outstanding balances of loans to Emtrain AB 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 2017 related to the amount payable for the equity contribution to NRT Pty. Limited ("NRT").

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 2016.

During the half year ended 30 June 2017, the Group had the following transactions with its associates, namely Octopus Holdings Limited and its subsidiaries ("Octopus Group"), BJMTR and NRT:

in HK$ million	Half year ended 30 June 2017	Half year ended 30 June 2016
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	**74**	72
– 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	**20**	19
BJMTR		
– Fees received or receivable in respect of staff secondment, information technology and other support services provided to BJMTR	**21**	23
NRT		
– Fees received or receivable in respect of the design and delivery of electrical and mechanical systems and rolling stock services provided to NRT	**510**	281

22 Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

in HK$ million	At 30 June 2017 (Unaudited)	At 31 December 2016 (Audited)
Due within 30 days or on demand	**6,146**	5,000
Due after 30 days but within 60 days	**1,211**	4,147
Due after 60 days but within 90 days	**1,441**	1,272
Due after 90 days	**4,993**	10,494
	13,791	20,913
Rental and other refundable deposits	**3,849**	3,779
Accrued employee benefits	**3,046**	2,982
Dividends payable to other shareholders (note 7)	**4,455**	3,222
	25,141	30,896

23 Loans and Other Obligations

Notes issued by the Group during the half year ended 30 June 2017 and 2016 comprise:

in HK$ million	Half year ended 30 June 2017		Half year ended 30 June 2016	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	**3,954**	**3,913**	2,982	2,944

During the half year ended 30 June 2017, notes of HK$2,400 million and AUD145 million (or HK$852 million) (2016: HK$2,050 million and USD80 million (or HK$621 million)) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited, while notes of USD90 million (or HK$702 million) were issued by the Company (2016: USD40 million (or HK$311 million)). The notes issued by the subsidiary are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The notes issued by the Company and 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 2017, the Group redeemed USD550 million (or HK$4,268 million) of its listed securities (2016: nil), and HK$500 million and AUD50 million (or HK$417 million) of its unlisted debt securities (2016: nil).

24 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2017 and the year ended 31 December 2016 are as follows:

in HK$ million	Deferred tax arising from					
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
At 30 June 2017 (Unaudited)						
Balance as at 1 January 2017	**11,795**	**599**	**(314)**	**32**	**(12)**	**12,100**
Credited to consolidated profit and loss account	**(1)**	**–**	**(12)**	**–**	**(5)**	**(18)**
Charged/(credited) to reserves	**–**	**17**	**–**	**(61)**	**–**	**(44)**
Exchange difference	**1**	**–**	**(3)**	**–**	**–**	**(2)**
Balance as at 30 June 2017	**11,795**	**616**	**(329)**	**(29)**	**(17)**	**12,036**
At 31 December 2016 (Audited)						
Balance as at 1 January 2016	11,024	574	(372)	(43)	(65)	11,118
Charged to consolidated profit and loss account	771	–	33	–	49	853
Charged to reserves	–	25	26	75	–	126
Exchange difference	–	–	(1)	–	4	3
Balance as at 31 December 2016	11,795	599	(314)	32	(12)	12,100

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

in HK$ million	At 30 June 2017 (Unaudited)	At 31 December 2016 (Audited)
Net deferred tax assets	**(68)**	(25)
Net deferred tax liabilities	**12,104**	12,125
	12,036	12,100

25 Share Capital and Shares Held for Share Incentive Scheme

A Share Capital

	At 30 June 2017 (Unaudited)		At 31 December 2016 (Audited)	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**5,905,290,065**	**47,929**	5,858,228,236	46,317
Shares issued in respect of scrip dividend of 2015 final ordinary dividend	**–**	**–**	15,683,803	566
Shares issued in respect of scrip dividend of 2016 interim ordinary dividend	**–**	**–**	2,382,026	101
Vesting of shares of Share Incentive Scheme	**–**	**1**	–	1
Shares issued under share option schemes	**8,736,000**	**282**	28,996,000	944
At 30 June/31 December	**5,914,026,065**	**48,212**	5,905,290,065	47,929

B New shares issued and fully paid up during the half year ended 30 June 2017 comprise:

	Number of shares	Weighted average exercise price HK$
Employee share options exercised:		
– 2007 Share Option Scheme	**8,736,000**	**29.33**

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

	Half year ended 30 June 2017	Half year ended 30 June 2016
	2007 Share Option Scheme	2007 Share Option Scheme
Outstanding at 1 January	**25,605,000**	55,034,500
Exercised during the period	**(8,736,000)**	(22,982,000)
Forfeited during the period	**(67,500)**	(264,500)
Outstanding at 30 June	**16,801,500**	31,788,000
Exercisable at 30 June	**16,801,500**	25,642,000

D During the half year ended 30 June 2017, 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 112,200 Performance Shares (2016: 187,200) and 2,245,200 Restricted Shares (2016: 2,401,150) were awarded and accepted by the grantees on 10 April 2017 (2016: 8 April 2016). The fair value of these awarded shares was HK$44.45 per share (2016: HK$38.65 per share).

E During the half year ended 30 June 2017, the Trustee of the 2014 Share Incentive Scheme did not purchase any ordinary shares of the Company on the Hong Kong Stock Exchange.

F During the half year ended 30 June 2017, 1,486,069 shares (2016: 769,115) were transferred to the awardees under 2014 Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$56 million (2016: HK$28 million). During the half year ended 30 June 2017, HK$1 million (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 2017, 74,467 award shares (2016: 100,006) 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

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

A Financial Assets and Liabilities Carried at Fair Value

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

in HK$ million	Fair value at 30 June 2017 (Unaudited)	Fair value measurements as at 30 June 2017 Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**12**	**–**	**12**
– Cross currency swaps	**35**	**–**	**35**
– Interest rate swaps	**44**	**–**	**44**
	91	**–**	**91**
Investments in securities	**436**	**436**	**–**
	527	**436**	**91**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**31**	**–**	**31**
– Cross currency swaps	**527**	**–**	**527**
– Interest rate swaps	**19**	**–**	**19**
	577	**–**	**577**

in HK$ million	Fair value at 31 December 2016 (Audited)	Fair value measurements as at 31 December 2016 Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	1	–	1
– Cross currency swaps	98	–	98
– Interest rate swaps	84	–	84
	183	–	183
Investments in securities	370	370	–
	553	370	183
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	29	–	29
– Cross currency swaps	503	–	503
– Interest rate swaps	37	–	37
	569	–	569

There are no Level 3 measurements of financial instruments. During the half year ended 30 June 2017 and the year ended 31 December 2016, 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 and the cross currency basis curves of the respective currency pairs 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.

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

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 2017 and 31 December 2016 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

	At 30 June 2017 (Unaudited)		At 31 December 2016 (Audited)	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**19,732**	**22,251**	20,677	22,194
Other obligations	**936**	**1,173**	894	1,127

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 arising from recurrent businesses to cash generated from operations is as follows:

in HK$ million	Half year ended 30 June 2017 (Unaudited)	Half year ended 30 June 2016 (Unaudited)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment arising from recurrent businesses	**9,046**	8,837
Adjustments for:		
– Loss on disposal of fixed assets	**24**	26
– Amortisation of deferred income from transfers of assets from customers	**(10)**	(13)
– Decrease/(increase) in fair value of derivative instruments	**98**	(90)
– Unrealised gain on revaluation of investment in securities	**(1)**	(3)
– Employee share-based payment expenses	**61**	54
– Exchange loss	**21**	49
Operating profit before working capital changes	**9,239**	8,860
(Increase)/decrease in debtors, deposits and payments in advance	**(51)**	182
Increase in stores and spares	**(48)**	(169)
(Decrease)/increase in creditors and accrued charges	**(548)**	585
Cash generated from operations	**8,592**	9,458

28 Capital Commitments

A Outstanding capital commitments as at 30 June 2017 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 2017 (Unaudited)					
Authorised but not yet contracted for	**6,792**	**–**	**2,004**	**–**	**8,796**
Authorised and contracted for	**14,633**	**345**	**5,628**	**60**	**20,666**
	21,425	**345**	**7,632**	**60**	**29,462**
At 31 December 2016 (Audited)					
Authorised but not yet contracted for	7,654	–	2,323	10	9,987
Authorised and contracted for	14,339	370	6,198	74	20,981
	21,993	370	8,521	84	30,968

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 2017 (Unaudited)				
Authorised but not yet contracted for	**3,200**	**695**	**2,897**	**6,792**
Authorised and contracted for	**10,228**	**82**	**4,323**	**14,633**
	13,428	**777**	**7,220**	**21,425**
At 31 December 2016 (Audited)				
Authorised but not yet contracted for	3,543	659	3,452	7,654
Authorised and contracted for	9,958	71	4,310	14,339
	13,501	730	7,762	21,993

C Capital Commitment in respect of Hangzhou Metro Line 5

On 26 June 2017, the Group signed a concession agreement with the Hangzhou Municipal Government and Hangzhou Metro Group for the Hangzhou Metro Line 5 public-private-partnership project. The Group will be working together with Hangzhou Metro Group to form a joint venture company to invest in and operate the Hangzhou Metro Line 5 for 25 years after the commencement of passenger service. Under the concession agreement, the Group is responsible to contribute up to RMB2,616 million into the joint venture company's registered capital.

29 Approval of Interim Financial Report

The interim financial report was approved by the Board on 10 August 2017.

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 44 to 67 which comprises the consolidated statement of financial position of MTR Corporation Limited as of 30 June 2017 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 2017 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
10 August 2017

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SHAREHOLDER SERVICES

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