



# Connecting Communities

Interim Report 2019

Stock Code: 66

# 2019 INTERIM RESULTS

## PERFORMANCE HIGHLIGHTS

Total Revenue



HK\$ 28.3 billion  
▲ 7.2%

Operating Profit from  
Recurrent Businesses



HK\$ 8.4 billion  
▼ 9.8%^

Recurrent  
Business Profit



HK\$ 2.7 billion  
▼ 40.6%\*

Underlying  
Business Profit



HK\$ 3.4 billion  
▼ 26.0%\*

Total Assets



HK\$ 282.7 billion  
▲ 2.9% (vs 31 December 2018)

Net Assets



HK\$ 180.5 billion  
▼ 0.1% (vs 31 December 2018)

Net Debt-to-Equity Ratio



14.4%  
▼ 3.7% pts. (vs 31 December 2018)

<sup>^</sup> Excluding the provision for the Shatin to Central Link project, operating profit from recurrent businesses of the Group would have increased by 11.7%.

<sup>\*</sup> Excluding the provisions for the Shatin to Central Link project and South Western Railway franchise, recurrent and underlying business profits of the Group would have increased by 13.8% and 26.4% respectively.

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# HONG KONG OPERATING NETWORK WITH FUTURE EXTENSIONS



## LEGEND

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








## EXISTING NETWORK

-  Airport Express
-  Disneyland Resort Line
-  East Rail Line
-  High Speed Rail
-  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

-  Shatin to Central Link (Tai Wai to Hung Hom Section)
-  Shatin to Central Link (Hung Hom to Admiralty Section)

## 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

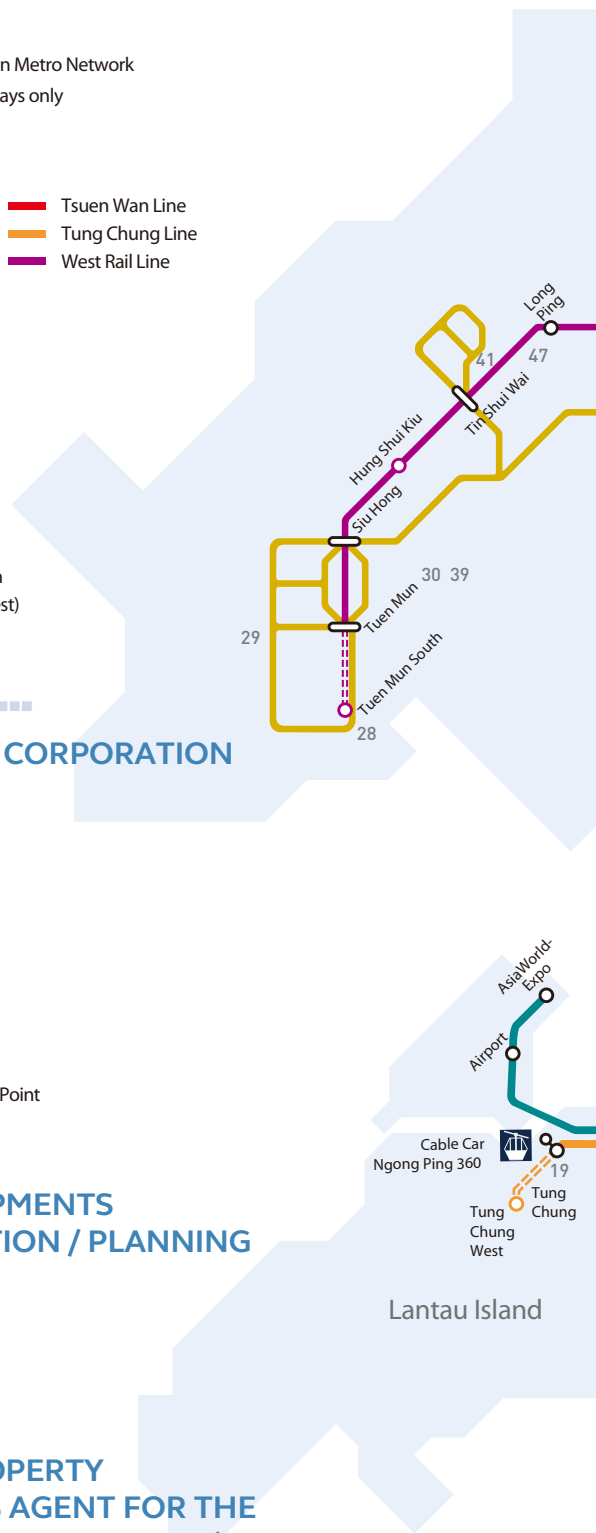
- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>01 Telford Gardens / Telford Plaza I and II</li> <li>02 World-wide House</li> <li>03 Admiralty Centre</li> <li>04 Argyle Centre</li> <li>05 Luk Yeung Sun Chuen / Luk Yeung Galleria</li> <li>06 New Kwai Fong Gardens</li> <li>07 Sun Kwai Hing Gardens</li> <li>08 Fairmont House</li> <li>09 Kornhill / Kornhill Gardens</li> <li>10 Fortress Metro Tower</li> <li>11 Hongway Garden / Infinitus Plaza</li> <li>12 Perfect Mount Gardens</li> <li>13 New Jade Garden</li> <li>14 Southorn Garden</li> <li>15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall</li> <li>16 Park Towers</li> <li>17 Felicity Garden</li> <li>18 Tierra Verde / Maritime Square 1 / Maritime Square 2</li> <li>19 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Coastal Skyline / Caribbean Coast</li> <li>20 Central Park / Island Harbourview / Park Avenue / Harbour Green / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two</li> <li>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</li> <li>22 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place</li> <li>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</li> <li>24 Residence Oasis / The Lane</li> <li>25 No.8 Clear Water Bay Road / Choi Hung Park &amp; Ride</li> <li>26 Metro Town</li> <li>27 Royal Ascot / Plaza Ascot</li> <li>28 Ocean Walk</li> <li>29 Sun Tuen Mun Centre / Sun Tuen Mun Shopping Centre</li> <li>30 Hanford Garden / Hanford Plaza</li> </ul> | <ul style="list-style-type: none"> <li>31 Citylink Plaza</li> <li>32 MTR Hung Hom Building / Hung Hom Station Carpark</li> <li>33 Trakside Villas</li> <li>34 The Capitol / Le Prestige / Hemera</li> <li>35 The Palazzo</li> <li>36 Lake Silver</li> <li>37 Festival City</li> <li>38 The Riverpark</li> <li>39 Century Gateway</li> <li>42 The Austin / Grand Austin</li> <li>45 Ocean Pride / Ocean Supreme / PARC CITY / THE PAVILIA BAY / City Point</li> <li>46 Cullinan West</li> <li>47 The Spectra</li> </ul> |
|--|--|

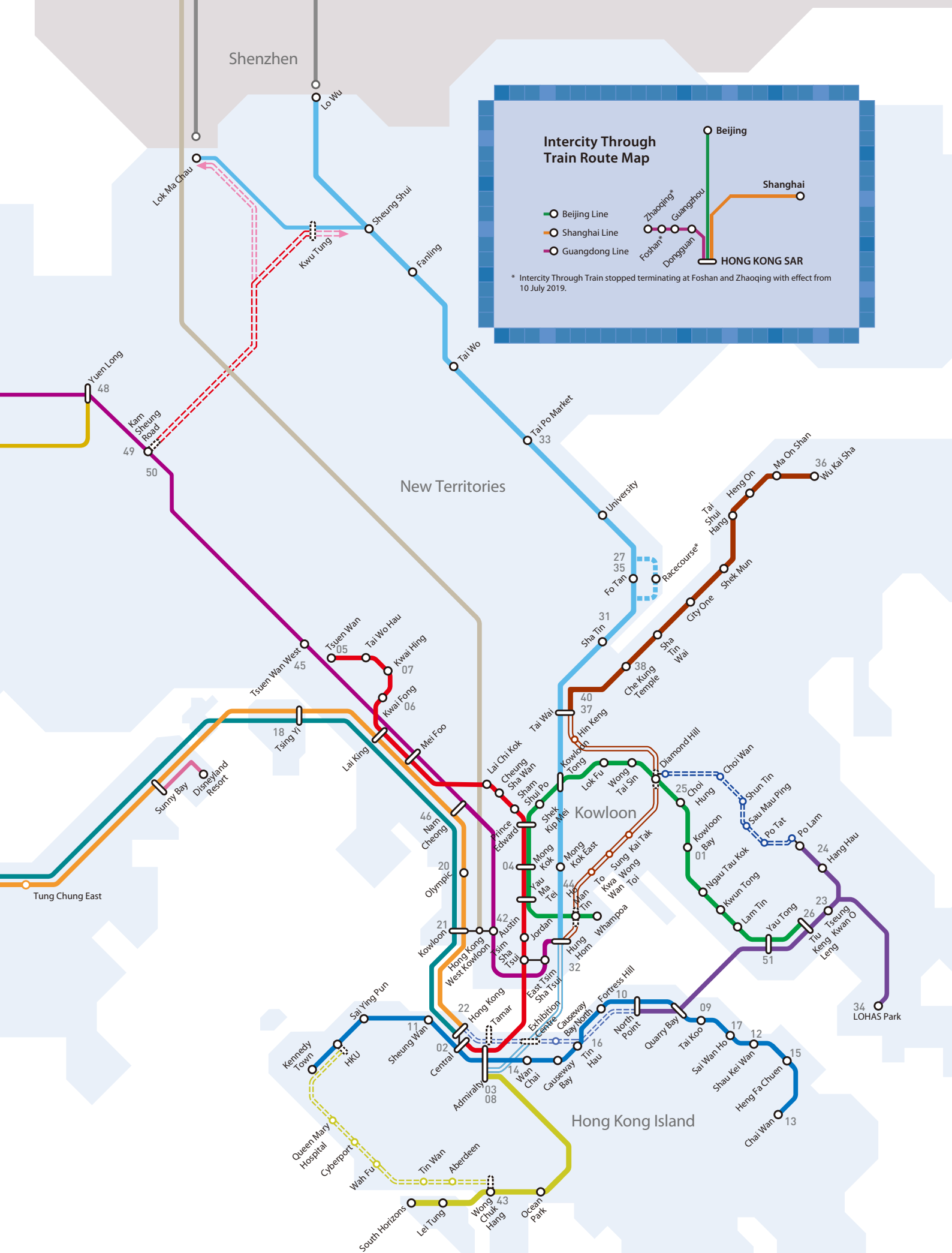
## PROPERTY DEVELOPMENTS UNDER CONSTRUCTION / PLANNING

- 34 LOHAS Park Packages
- 40 Tai Wai Station
- 41 Tin Wing Stop
- 43 Wong Chuk Hang Station Packages
- 44 Ho Man Tin Station Packages
- 51 Yau Tong Ventilation Building

## WEST RAIL LINE PROPERTY DEVELOPMENTS (AS AGENT FOR THE RELEVANT SUBSIDIARIES OF KCRC)

- 39 Century Gateway
- 45 Ocean Pride / Ocean Supreme / PARC CITY / THE PAVILIA BAY / City Point
- 46 Cullinan West
- 47 The Spectra / Sol City
- 48 Yuen Long Station
- 49 Kam Sheung Road Station Packages
- 50 Pat Heung Maintenance Plaza







# CHAIRMAN'S LETTER



## Dear Shareholders and other Stakeholders,

It is a great privilege for me to have been appointed as the chairman of MTR, a position that I formally assumed on 1 July 2019. Although my term as Chairman only began in July 2019, I have been in close contact with my predecessor, Professor Frederick Ma, and the senior management since my appointment to the MTR Board in March in order to familiarise myself with the business operations of the Company.

I have been impressed by what I have been learning about the Company over the past few months, particularly the high calibre of MTR staff. I am very excited about having the opportunity to work with the Board and the management, and I look forward to bringing new ideas to the Company that will change it for the better.

As a matter of priority, the Company needs to continue working hard to deal with the recent challenges that have tarnished the Company's reputation. These include concerns over the project management of the Hung Hom Station extension of the Shatin to Central Link and the train collision incident in March 2019.

With regard to the construction of the diaphragm wall and platform slabs at the Hung Hom Station extension, the Commission of Inquiry ("COI") in its Interim Report has stated that the structures are safe. However, this incident, combined with the insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel, the South Approach Tunnel, and the Hung Hom Stabling Sidings, has served as a wake-up call for the Company and



reminds us of the importance of staying vigilant. Working as one team, the Board and the management have now put in place a comprehensive plan that will enable the Company to manage projects of this magnitude and complexity with greater oversight and transparency.

The incident surrounding the train collision during a drill of the new signalling system for the Tsuen Wan Line in non-traffic hours also caused public concern. All train tests relating to new signalling systems were suspended immediately after this incident, and an Investigation Panel was set up to identify its root causes. A report was then submitted to Government on 17 June and made public on 5 July, and improvement actions recommended by the Investigation Panel have been adopted to prevent a reoccurrence of a similar incident.

Based on the lessons learned from these incidents, the Company has taken appropriate measures and actions to ensure we can continue to provide a safe and reliable service to the Hong Kong public.

As the new Chairman, one of my top priorities is to restore the public's confidence in the Company and maintain the reputation of our brand. In particular, I will recommend ideas on how we can prepare MTR for the future in areas such as the Company's corporate culture, governance, succession planning and new technology. With regard to new technology, I will recommend greater usage of artificial intelligence that enables us to look ahead and identify ways to improve efficiency, enable our employees to perform their duties more effectively, and allow customers to enjoy a better travel experience on our trains.

From a more general perspective, we should be constantly thinking about making changes, not because of the things we have not done but to ensure that we as an organisation are keeping pace with global developments. The way we see the market will vary at different points of time, and we need to work together across the organisation to position the Company for the future.

## FINANCIAL PERFORMANCE

In the first six months of 2019, profit attributable to equity shareholders from recurrent businesses decreased by 40.6% to HK\$2,665 million, mainly due to the provisions totaling HK\$2.44 billion related to the Shatin to Central Link project and the South Western Railway franchise in the UK. Property development profit for the period increased by 369.7% to HK\$775 million. As a result, profit attributable to shareholders from underlying businesses decreased by 26.0% to HK\$3,440 million. Including the gain arising from the investment property revaluation, net profit attributable to shareholders of the Company decreased by 22.3% to HK\$5,506 million, representing earnings per share after revaluation of HK\$0.90. The Board has declared an interim ordinary dividend of HK\$0.25 per share.

## OPERATIONS AND FARES

During the period, MTR staff continued to work relentlessly to maintain operational performance at a world-class standard. Passenger journeys on-time were maintained at 99.9%, with three delays and no delays of a duration of 31 minutes or more attributable to factors within MTR's control reported on heavy rail and light rail, respectively.





## CHAIRMAN'S LETTER

To maintain this high level of service, fares must be periodically reviewed in order to support the significant investment necessary to renew and upgrade MTR's assets. According to the Fare Adjustment Mechanism, the overall fare adjustment rate for 2019/2020 is +3.3%. With the implementation of a 3.3% rebate for 40 weeks, however, there will effectively be no actual fare increase for Octopus passengers until 5 April 2020. The total amount of savings to customers through fare promotions and on-going fare concessions will come to over HK\$3.5 billion in the next 12 months.

## GROWTH

Hong Kong remains our core market, and rail operations continue to be our core business. Accordingly, we must continue to build on this long-term business in our home market in order to maintain a solid foundation for future growth.

During the period, MTR made steady progress on the Shatin to Central Link project, the remaining railway project under Rail Gen 2.0. As at the end of June 2019, 99.7% of the Tai Wai to Hung Hom Section and 78.8% of the Hung Hom to Admiralty Section had been completed.

Improvements were also made to the existing network, including major asset replacements and facilities upgrades.

Proposals have been submitted for five new railway lines under the Railway Development Strategy 2014, the framework for the future expansion of Hong Kong's railway network up to the year 2031. Among these were proposals for the Tuen Mun South Extension, Northern Link (and Kwu Tung Station), East Kowloon Line, Tung Chung West Extension (and Tung Chung East Station) and North Island Line. We have also been invited by Government to submit proposals for the Hung Shui Kiu Station and South Island Line (West) projects.

Outside of Hong Kong, MTR opened two new railway lines in the first half of the year: Sydney Metro Northwest in Australia and the initial section of Hangzhou Metro Line 5 in the Mainland of China. For Crossrail in the UK, we are preparing to commence services from Paddington to Reading in December 2019 under the TfL Rail brand. What's

more, steady progress was made on Macau's first light rail service, the Macau Light Rapid Transit Taipa Line. The Macau SAR Government has also indicated their target to open the Macau Light Rapid Transit Taipa Line by the end of 2019.

On non-rail projects outside of Hong Kong, we launched a soft opening of TIA Mall in Shenzhen in April 2019, with the official opening targeted for August 2019.

## OUR PEOPLE

Our staff are the heroes of the Company. Their experience and commitment to provide our customers with excellent service are key to MTR's success as a world-class railway company.

An excellent example of how our engaged team exemplify the "can do" spirit is the way they handled the train collision incident on 18 March 2019, when the drill was being conducted during non-traffic hours for the new signalling system for the Tsuen Wan Line. More than 200 colleagues worked around the clock, with assistance from the Fire Services Department, to remove the collided trains from the tunnel for resumption of service on Tsuen Wan Line.

To develop railway professionals globally and contribute to the Mainland of China's Belt and Road initiative, the MTR Academy ("MTRA") was established in November 2016. In the first six months of 2019, MTRA continued to share our railway and engineering expertise across the region. One of the highlights for MTRA during the period was the co-founding of the Corporate Tech Academy Network with five other partnering organisations in May 2019. Its mission will be to promote vocational and professional education and training for the development of a skilled and qualified workforce.

## CONTRIBUTIONS TO THE COMMUNITY

MTR is part of the Hong Kong fabric, and corporate responsibility is embedded in our DNA. Since the Company is also one of the few home-bred multinational Hong Kong brands and one of the major public transport service providers in Hong Kong, we cannot afford to ignore this.



During the period, MTR organised a variety of programmes capitalising on our expertise that benefited the community, particularly the younger generation. A series of promotional videos, entitled *Amazed by Youth*, was also produced to highlight the various youth programmes at MTR. Among these were the MTR Budding Station Master Programme, in which we invited primary school students to visit station control rooms and play the role of station staff; the MTR Safety Experience Zone in Tsing Yi Station, where children learned about railway safety; and Uth Live Saturdays, which gave tertiary students the opportunity to demonstrate their performing arts talents at the Living Art Stage in Hong Kong Station.

We also held the STEM Challenge for the second year, which included a series of school talks on how STEM principles are applied in the design and operation of our railway system. In the STEM Challenge itself, students had the opportunity to present their ideas on "Innovation for Sustainable Infrastructure", based on the knowledge they had gained during the talks. The winning student teams were invited to visit our overseas railway operations in the UK. We also held Youth Forum 2.0, in which forum members were invited to brainstorm ideas on enhancing the Company's business initiatives from a youth perspective.

In our Art in MTR programme, we continued to enrich the cultural life of Hong Kong people through our extensive network. In addition to the existing 82 artworks in our network, the programme featured a variety of exhibitions in Sheung Wan, Sai Wan Ho and Central stations, as well as 22 live performances at the Living Art Stage in the Central Subway of Hong Kong Station during the first half of 2019.

Our staff volunteers are also an integral part of corporate responsibility at MTR. Up to June this year, 140 volunteer projects have been organised under the "More Time Reaching Community" Scheme, involving thousands of volunteer headcount. In recognition of our commitment to colleagues, the community and the environment, we received the "10 Years Plus Caring Company Logo" from the Hong Kong Council of Social Service for the fifth consecutive year.

## BOARD

MTR has a strong Board, which through its effective oversight of the Company's operations drives MTR's sustainable development. I would like to take this opportunity to thank Professor Frederick Ma for his many contributions to the MTR Board during his tenure as a member and Chairman, and especially for his valuable advice to me in the past few months. I would also like to thank the Board for the time they devoted and their wise counsel to the Company during the past six months.

I would like to welcome Dr Jacob Kam, who was appointed as the Company's CEO on 1 April 2019, and thank Mr Lincoln Leong, who retired from the Company after 31 March 2019, for his contributions during his time at MTR. Moreover, I would also like to express my gratitude to Mr Vincent Cheng Hoi-chuen, Mr Lau Ping-cheung, Kaizer and Mr Abraham Shek Lai-him, who retired from the Board on 22 May 2019. Finally, I would like to welcome Mr Walter Chan Kar-lok, Mr Cheng Yan-kee and Mr Jimmy Ng Wing-ka, who were appointed as Independent Non-executive Directors of the Company, effective 22 May 2019.

As the new chairman of MTR, I am confident that, with the continuous collaboration and work of the Board and management, MTR will continue to be the pride of Hong Kong and a multinational company that is admired globally as a leader in sustainable rail transport.



Rex Auyeung Pak-kuen

*Chairman*

Hong Kong, 8 August 2019



# CEO'S REVIEW OF OPERATIONS AND OUTLOOK



## Dear Shareholders and other Stakeholders,

I was deeply honoured to be appointed as the new CEO of the Company on 1 April 2019. Although I am new to this role, I have been with the Company for 24 years and am therefore intimately familiar with the achievements MTR has made over the years as well as the challenges it currently faces.

When I began my duties as CEO, I said that I welcomed the opportunity to build on our strengths and restore our reputation as one of the world's leading providers of railway services. I also stated to my colleagues that I had identified three main equal priorities for our immediate future. The first is to regain people's confidence in our ability to construct world-class railways. The second is to continue providing a safe, reliable and value-for-money service to customers, while the third is to ensure that our large and complex business is managed effectively and efficiently in Hong Kong, the Mainland of China and overseas.

Most importantly, to fulfil these goals I believe it is vital to maintain a spirit of open communication among ourselves, in the communities we serve, and with our customers.

As we entered 2019, the 40<sup>th</sup> anniversary of MTR service, we continued to deliver on our three-pronged strategy of strengthening and growing our Hong Kong business, maintaining growth in our Mainland of China and international businesses, and enhancing our corporate reputation. In Hong Kong, our business performed reasonably well despite a weaker local economy and caution in world markets. In the Mainland of China and in our international operations, we also made satisfactory progress.

Among our other achievements, we opened two new lines: Sydney Metro Northwest in Australia and the initial section of Hangzhou Metro Line 5 in the Mainland of China. Even for a rapidly expanding railway company such as ours, this is a noteworthy achievement.

On the other hand, we have had to deal with the incidents relating to the Shatin to Central Link, namely allegations concerning workmanship in relation to the Hung Hom Station extension, and an insufficiency of construction records and certain constructions issues at the Hung Hom North Approach Tunnel, the South Approach Tunnel and the Hung Hom Stabling Sidings.

On 18 July 2019, the Company completed and submitted to Government two separate final reports in respect of incidents relating to the Hung Hom Station extension, the Hung Hom North Approach Tunnel and South Approach Tunnel and the Hung Hom Stabling Sidings. These reports contain, inter alia, proposals for suitable measures required at certain locations to achieve code compliance.

To enable the public to enjoy as much of the new service as practicable and at the earliest opportunity, Government accepted the Company's recommendation that the Tuen Ma Line should open in phases, with the first phase involving the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station targeted to occur in the first quarter of 2020.

In order to progress the Shatin to Central Link project and to facilitate the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station in the first quarter of 2020, the Company will fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom incidents and associated with the phased opening of the Tuen Ma Line, whilst reserving its position as to the ultimate liability for such costs. Currently, the Company's best estimate of such costs is around HK\$2 billion in aggregate. In light of

this, the Company has made a provision of HK\$2 billion in its consolidated profit and loss account for the six months ended 30 June 2019. This amount does not take into account any potential recovery from any other party. Furthermore, there is no certainty that, ultimately, the entirety of this amount will need to be funded by the Company.

The Company and Government will continue discussions with a view to reaching an overall settlement in relation to the Hung Hom incidents and their respective funding obligations relating to the cost to complete the Shatin to Central Link project and certain costs arising from the Hung Hom incidents and certain costs associated with the phased opening of the Tuen Ma Line.

On 18 March 2019, a train collision occurred near Central Station during a drill in non-traffic hours for the new signalling system for the Tsuen Wan Line. All train tests relating to the new signalling systems were immediately suspended following this incident. An Investigation Panel was then set up to identify the root causes of the incident and make recommendations on how to prevent a reoccurrence. The panel submitted its report to the Electrical and Mechanical Services Department on 17 June 2019 and made it public on 5 July 2019.

On a more positive note, our Guangzhou-Shenzhen-Hong Kong High Speed Rail (Hong Kong Section) service ("HSR") has been gaining widespread acceptance among the travelling public since its launch on 23 September 2018. This was reflected in the over 100,000 passengers who took the HSR on 7 February 2019 during the Chinese New Year holiday and the total patronage of 9.9 million in the first half of 2019.





## CEO'S REVIEW OF OPERATIONS AND OUTLOOK

On our heavy rail network in Hong Kong, we maintained our world-class service performance in terms of train service delivery and passenger journeys on-time at a world-class level of better than 99.9%. This was the best first half performance of passenger journeys on-time since the Rail Merger. We also continued to invest heavily in rail infrastructure and enhance the customer experience through a variety of digital initiatives under Rail Gen 2.0.

In our property business, we awarded LOHAS Park Package 11 in Tseung Kwan O. Together with most of the other packages at LOHAS Park that have already been awarded, LOHAS Park is rapidly maturing into a vibrant new community in Hong Kong.

With regard to our financial performance, total revenue for the first six months of 2019 increased by 7.2% to HK\$28,272 million when compared with the comparable period of 2018. This was mainly attributable to the incremental contribution from HSR, which opened in September last year. Operating profit before Hong Kong and Mainland of China property development businesses, depreciation, amortisation and variable annual payment decreased by 9.8% to HK\$8,411 million, predominantly due to the provision of HK\$2 billion relating to the Shatin to Central Link project. Excluding the Company's Mainland of China and international railway, property rental and management subsidiaries, revenue grew by 11.3%, while operating profit decreased by 13.2%. Recurrent profit attributable to equity shareholders, being net profit before property development profits (from both Hong Kong and the Mainland of China) and investment property revaluation, decreased by 40.6% to HK\$2,665 million. Post-tax profit from property developments was HK\$775 million. Excluding investment property revaluation, net profit from underlying businesses attributable to equity shareholders decreased by 26.0% to HK\$3,440 million. Excluding the HK\$2 billion provision relating to the Shatin to Central Link project

and HK\$436 million provision relating to the South Western Railway franchise, net profit from recurrent and underlying businesses would have increased by 13.8% and 26.4% respectively. The gain in revaluation of investment properties was HK\$2,066 million, as compared with HK\$2,435 million in the first six months of 2018. As a result, net profit attributable to equity shareholders was HK\$5,506 million, equivalent to earnings per share of HK\$0.90 after revaluation. The Board has declared an interim dividend of HK\$0.25 per share.

### 40<sup>TH</sup> ANNIVERSARY OF MTR

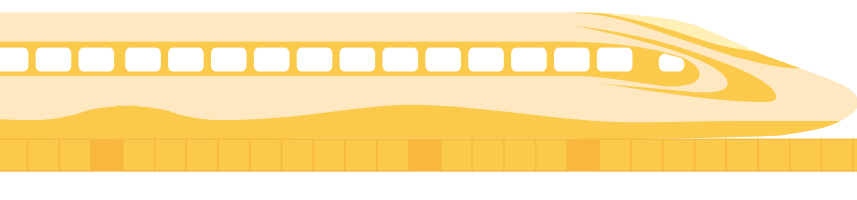
This is a special year for the Company as 2019 marks 40 years of MTR service to the people of Hong Kong. Since our launch in 1979, we have grown from a small, single line railway company into a global, world-leading organisation that operates over 2,000 kilometres of railway and employs a total of 48,000 people, either directly or through our subsidiaries and associates in the Mainland of China, Europe and Australia.

Our market share in the first five months of 2019 in Hong Kong was 48.8%, with 5.9 million passengers carried per weekday. In markets outside of Hong Kong, we carried 7.1 million passengers per weekday.

As we reflect on the achievements we have made and the challenges we have overcome, we hope to continue sharing the benefits of our growth with people in Hong Kong and globally.

### HONG KONG BUSINESSES

Our "Rail plus Property" business model continued to deliver solid results for our businesses in Hong Kong, which in addition to our rail network include station commercial activities, as well as property rental and property developments over and adjacent to our rail stations and depots.



# TRANSPORT OPERATIONS

## HIGHLIGHTS

- Maintained world-class 99.9% train service delivery and passenger journeys on-time
- Best first half performance in terms of passenger journeys on-time since the merger with Kowloon-Canton Railway Corporation (“KCRC”) in 2007
- Total patronage growth of 2.5%, with average weekday patronage reaching 5.9 million



HK\$ million	Half year ended 30 June		
	2019	2018	Inc./ (Dec.) %
<b>Hong Kong Transport Operations</b>			
Total Revenue	<b>10,690</b>	9,328	14.6
Operating Profit before Depreciation, Amortisation and Variable Annual Payment (“EBITDA”)	<b>4,346</b>	4,101	6.0
Operating Profit before Interest and Finance Charges and after Variable Annual Payment (“EBIT”)	<b>952</b>	1,148	(17.1)
EBITDA Margin (in %)	<b>40.7%</b>	44.0%	(3.3)% pts.
EBIT Margin (in %)	<b>8.9%</b>	12.3%	(3.4)% pts.

During the first half of 2019, total revenue from Hong Kong transport operations amounted to HK\$10,690 million, an increase of 14.6% as compared with the corresponding period in 2018. This was mainly due to the incremental contribution from HSR, which was opened in September 2018. EBIT decreased by 17.1% to HK\$952 million, mainly due to higher depreciation and amortisation charges brought about by new assets commissioned, as well as an increase in staff costs.

## Safety

As safety is always our highest priority, during the period we launched a number of promotional activities to further enhance safety, especially with regard to our escalators, light rail service and station platform gaps. In the first half of 2019, the number of reportable incidents on our heavy rail and light rail networks rose by 3% as compared with the same period in 2018. We will continue to implement various initiatives to further reduce the number of reportable incidents as much as possible. As planned, we conducted a safety campaign in July 2019 to enhance safety awareness among passengers and worked with Government departments to improve light rail safety at junctions.

## Patronage and Revenue

Revenue from our Hong Kong transport operations is summarised below:

HK\$ million	Half year ended 30 June		Inc./ (Dec.) %
	2019	2018	
<b>Hong Kong Transport Operations</b>			
Domestic Service	<b>6,755</b>	6,531	3.4
Cross-boundary Service	<b>1,716</b>	1,723	(0.4)
HSR	<b>1,139</b>	–	N/A
Airport Express	<b>576</b>	559	3.0
Light Rail and Bus	<b>370</b>	358	3.4
Intercity	<b>82</b>	113	(27.4)
Others	<b>52</b>	44	18.2
Total Revenue	<b>10,690</b>	9,328	14.6

In the first six months of 2019, total patronage of all of our rail and bus passenger services increased by 2.5% to 1,022.4 million passenger trips. Average weekday patronage increased by 2.5% to 5.9 million.

On our 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 for the period was 830.2 million, a 1.7% increase over the corresponding period of 2018. On the Cross-boundary Service to Lo Wu and Lok Ma Chau, patronage decreased slightly by 0.8% to 57.6 million, mainly due to the opening of HSR. Patronage on the Airport Express rose by 5.8% to 9.0 million, supported by a rise in air passenger traffic and events organised at AsiaWorld-Expo. Total patronage on the HSR in the first half of 2019 was 9.9 million.

### Market Share

The Company's overall share of the franchised public transport market in Hong Kong in the first five months of 2019 was 48.8%, as compared with 48.9% in the same period of 2018. Within this total, the share of cross-harbour traffic was 68.2%, as compared with 69.2% during the same period last year. For MTR's Cross-boundary Service and HSR, our share of the cross-boundary business for the first five months of 2019 fell from 51.8% to 51.5%. Our market share to and from the airport rose from 21.7% to 21.8%.

### Fare Adjustments, Promotions and Concessions

According to the Fare Adjustment Mechanism ("FAM"), the overall adjustment rate of MTR fares for 2019/2020 was +3.3%, effective 30 June 2019. On 22 May 2019, we announced details of our fare promotions package and new MTR fares for 2019/2020. To thank our passengers and to commemorate our 40<sup>th</sup> anniversary, we offered the following major fare promotions:

- From 30 June 2019 to 4 April 2020 we are offering a 40-week 3.3% Rebate for Every Trip for Octopus passengers, totalling over HK\$400 million.
- No price adjustment will be made on MTR City Saver and Tuen Mun – Nam Cheong Day Pass until 5 April 2020.
- No price adjustment will be made for Monthly Pass Extras until May 2020.
- The Early Bird Discount Promotion was extended for one year to 31 May 2020, with the discount rate to be increased to 35% starting October 2019 and the number of stations covered increased to 44.

For passengers using Octopus, there will be no actual fare increase until early April 2020. Under the new promotion package, passengers are expected to save more than HK\$800 million in 2019/2020 as compared with over HK\$500 million in the previous year. Together with the HK\$2.7 billion-worth of on-going fare concessions and interchange discounts, the Company will be providing customers with over HK\$3.5 billion-worth of fare concessions in the coming 12 months.

## Operations Performance in the first half of 2019

Service Performance Item	Performance Requirement	Customer Service Pledge Target	Actual Performance
<b>Train service delivery</b>			
– 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%	<b>99.9%</b>
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	<b>99.9%</b>
– West Rail Line	98.5%	99.5%	<b>99.9%</b>
– Light Rail	98.5%	99.5%	<b>99.9%</b>
<b>Passenger journeys on-time</b>			
– 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%	<b>99.9%</b>
– Airport Express	98.5%	99.0%	<b>99.9%</b>
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	<b>99.9%</b>
– West Rail Line	98.5%	99.0%	<b>99.9%</b>
<b>Train punctuality</b>			
– 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%	<b>99.8%</b>
– Airport Express	98.0%	99.0%	<b>99.9%</b>
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	<b>99.9%</b>
– West Rail Line	98.0%	99.0%	<b>99.9%</b>
– Light Rail	98.0%	99.0%	<b>99.9%</b>
<b>Train reliability: train car-km per train failure causing delays ≥ 5 minutes</b>			
– 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	700,000	<b>3,660,764</b>
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	700,000	<b>9,116,465</b>
<b>Ticket reliability: smart ticket transactions per ticket failure</b>			
– 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	10,500	<b>49,198</b>
<b>Add value machine reliability</b>			
– 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%	<b>99.8%</b>
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	<b>99.8%</b>
– West Rail Line	98.0%	99.0%	<b>99.9%</b>
<b>Ticket machine reliability</b>			
– 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%	<b>99.7%</b>
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	<b>99.9%</b>
– West Rail Line	97.0%	99.0%	<b>99.8%</b>
– Light Rail	N/A	99.0%	<b>99.7%</b>
<b>Ticket gate reliability</b>			
– 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%	<b>99.9%</b>
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	<b>99.9%</b>
– West Rail Line	97.0%	99.0%	<b>99.9%</b>
<b>Light Rail platform Octopus processor reliability*</b>	N/A	N/A	<b>N/A</b>
<b>Escalator reliability</b>			
– 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%	<b>99.9%</b>
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	<b>99.9%</b>
– West Rail Line	98.0%	99.0%	<b>99.9%</b>
<b>Passenger lift reliability</b>			
– 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%	<b>99.7%</b>
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	<b>99.9%</b>
– West Rail Line	98.5%	99.5%	<b>99.9%</b>
<b>Temperature and ventilation</b>			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26 °C	N/A	97.5%	<b>99.9%</b>
– Light Rail: on-train air-conditioning failures per month	N/A	<3	<b>0</b>
– 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	93.0%	<b>99.8%</b>
<b>Cleanliness</b>			
– Train compartment: cleaned daily	N/A	99.0%	<b>100.0%</b>
– Train exterior: washed every two days (on average)	N/A	99.0%	<b>100.0%</b>
<b>Northwest transit service area bus service</b>			
– Service delivery	N/A	99.0%	<b>99.8%</b>
– Cleanliness: washed daily	N/A	99.0%	<b>100.0%</b>
<b>Passenger enquiry response time within six working days</b>	N/A	99.0%	<b>100.0%</b>

\* Performance data for Light Rail will be available after completion of installation, testing and trial operations of the new Light Rail platform Octopus processors.

## CEO'S REVIEW OF OPERATIONS AND OUTLOOK

The overall fare adjustment is important for maintaining financial sustainability as well as meeting higher operating expenses and the cost of asset renewal. Although the fare increases have been introduced in accordance with the FAM, our profit is actually not high in comparison with the assets we must deploy to earn that profit. In addition to funding major improvements to our existing network, such as replacing older trains, signalling systems and air conditioning systems, our revenue also goes towards many other additions and refurbishments, such as new lifts, gates and seating, all of which create a more pleasant and comfortable customer experience.

At the same time, we recognise the necessity of maintaining fares at an affordable level. It should also be noted that for the fares we charge on our Domestic Service (approximately equal to an average of US\$1 per trip) passengers can count on us to provide 99.9% reliability of service, which by any measure represents excellent value for money.

### Service Performance

For the first six months of 2019, we continued to maintain train service delivery and passenger journeys on-time in our heavy rail network at a world-class level of 99.9%. This exceeds the targets set for us in the Operating Agreement

for MTR as well as our own, more rigorous Customer Service Pledges. The first half of 2019 was our best first half performance since the Rail Merger in terms of passenger journeys on-time.

During the period, we operated more than 1.05 million train trips on our heavy rail network and more than 0.54 million trips on our light rail network. Although there were only three delays on heavy rail lasting 31 minutes or more attributable to factors within MTR's control, this was one more than in the same period last year. There were no delays lasting 31 minutes or more attributable to factors within MTR's control on light rail during this period.

For our new HSR service, we saw growing popularity among passengers as patronage continued to increase throughout the first six months of 2019. I am also delighted to report that Hong Kong West Kowloon Station was ranked the best High Speed Rail station in the Guangdong-Hong Kong-Macao Greater Bay Area ("Greater Bay Area") by Southern Metropolis Daily and the Southern Metropolitan Big Data Research Institute in January 2019. On 10 July 2019, we further enhanced HSR service by increasing the total number of long haul train pairs from 13 to 17 and the number of destinations from 44 to 58.





## STATION COMMERCIAL BUSINESSES

### HIGHLIGHTS

- Good performance driven by both incremental contribution from HSR and station shop rental growth
- Positive rental reversions in our station shops
- Advertising revenue benefited from the more positive market sentiment in the first half of the year



HK\$ million	Half year ended 30 June		
	2019	2018	Inc./ (Dec.) %
<b>Hong Kong Station Commercial Businesses</b>			
Station Retail Rental Revenue	2,507	2,154	16.4
Advertising Revenue	606	523	15.9
Telecommunication Income	376	338	11.2
Other Station Commercial Income	66	60	10.0
Total Revenue	3,555	3,075	15.6
EBITDA	3,227	2,807	15.0
EBIT	2,679	2,414	11.0
EBITDA Margin (in %)	90.8%	91.3%	(0.5)% pt.
EBIT Margin (in %)	75.4%	78.5%	(3.1)% pts.

In the first six months of 2019, total revenue from all Hong Kong station commercial activities increased by 15.6% to HK\$3,555 million, mainly attributable to the incremental contribution from HSR in station retail rental as well as an increase in advertising revenue driven by improved market sentiment.

Rental revenue from station shops amounted to HK\$2,507 million during this period, a rise of 16.4%, mainly due to incremental contributions from HSR and rental growth in station shops. The total number of retail shops in our stations was 1,473, covering 66,502 square metres of station retail area, as at 30 June 2019. The increase in the number of station shops as compared with the end of 2018 was mainly due to the opening of seven shops in University, Austin and Hong Kong West Kowloon stations.

Revenue from advertising increased by 15.9% to HK\$606 million in the first half of the year as sales momentum carried forward from 2018. The increases are mainly attributable to greater advertising expenditures in high spending categories; HSR and competitive new digital formats also contributed to the revenue growth. As at 30 June 2019, the total number of advertising units in stations and trains increased to 48,021, and a total of 380 panels were upgraded.

In our telecommunications business, revenue for the first six months of 2019 rose by 11.2% to HK\$376 million. During the period, installation of a new commercial telecom system to increase capacity at 31 of our stations continued. As of June 2019, a total of 16 stations had been equipped with the new system.

## PROPERTY AND OTHER BUSINESSES

### HIGHLIGHTS

- Awarded LOHAS Park Package 11 in April 2019
- Revenue from Hong Kong property rental and management businesses increased by 4.7%
- Rental reversion of 3% in our shopping mall portfolio in Hong Kong



In the commercial sector, Grade-A office buildings in Central again recorded satisfactory performance, despite uncertainties arising from the US-China trade conflict. In large part, this was owing to the continuing low vacancy rate and limited new office supply in Central. At the same time, rental rates remained flat due to decentralisation to districts such as Island East and Kowloon East.

During the period, the residential property market continued to be buoyant, with property prices rebounding from early 2019 to nearly reach the record high of mid-2018. This was due primarily to positive sentiments related to low interest rates and limited supply. According to the Mass Centa-City Leading Index, secondary market prices increased from 173.08 at the end of 2018 to 191.58 by 30 June 2019, representing an increase of 10.7% in the first half of 2019.

### Property Rental and Management Businesses

HK\$ million	Half year ended 30 June		Inc./ (Dec.) %
	2019	2018	
<b>Hong Kong Property Rental and Property Management Businesses</b>			
Revenue from Property Rental	<b>2,492</b>	2,373	5.0
Revenue from Property Management	<b>143</b>	144	(0.7)
Total Revenue	<b>2,635</b>	2,517	4.7
EBITDA	<b>2,240</b>	2,136	4.9
EBIT	<b>2,229</b>	2,128	4.7
EBITDA Margin (in %)	<b>85.0%</b>	84.9%	0.1% pt.
EBIT Margin (in %)	<b>84.6%</b>	84.5%	0.1% pt.

Property rental revenue increased by 5.0% to HK\$2,492 million in the first six months of 2019. Our shopping malls in Hong Kong recorded a positive rental reversion of 3% during the first six months of 2019 (10% if including a special

rental case). In the first half of 2019, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre were close to 100% let.

## Property Development Packages Completed during the period and Awarded

Location	Developers	Type	Gross floor area (sq. m.)	Tender award date	Expected completion date
<b>Ho Man Tin Station</b>					
Package 1	Goldin Financial Holdings Limited	Residential	69,000	December 2016	2022
Package 2	Chinachem Group	Residential	59,400	October 2018	2024
<b>LOHAS Park Station</b>					
MALIBU	Wheelock and Company Limited	Residential	102,336	November 2014	2019
LP6	Nan Fung Group Holdings Limited	Residential	136,970	January 2015	2020
MONTARA and GRAND MONTARA	Wheelock and Company Limited	Residential Retail Kindergarten	70,260 44,500 1,160	June 2015	By phases in 2021
Package 8	CK Asset 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
Package 11	Sino Land Company Limited, K. Wah International Holdings Limited and China Merchants Land Limited	Residential	88,858	April 2019	2025
<b>Tai Wai Station</b>					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	October 2014	2022
<b>Tin Wing Stop</b>					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	February 2015	2024
<b>Wong Chuk Hang Station</b>					
Package 1	Road King Infrastructure Limited and Ping An Real Estate Company Limited	Residential	53,600	February 2017	2022
Package 2	Kerry Properties Limited and Sino Land Company Limited	Residential	45,800	December 2017	2023
Package 3	CK Asset Holdings Limited	Residential Retail	92,900 47,000	August 2018	2024
<b>Yau Tong Ventilation Building</b>					
Yau Tong Ventilation Building	Sino Land Company Limited and CSI Properties Limited	Residential	30,225	May 2018	2025
<b>Kam Sheung Road Station<sup>#</sup></b>					
Package 1	Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited	Residential	114,896	May 2017	2025
<b>Long Ping Station<sup>#</sup></b>					
Sol City	Chinachem Group	Residential	41,990	June 2013	2019
<b>Nam Cheong Station<sup>#</sup></b>					
Cullinan West	Sun Hung Kai Properties Limited	Residential Retail Kindergarten	214,700 26,660 1,000	October 2011	By phases from 2017 – 2019
<b>Yuen Long Station<sup>#</sup></b>					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535 <sup>^</sup>	August 2015	2022

<sup>#</sup> as a development agent for the relevant subsidiaries of KCRC

\* excluding a bicycle park with cycle track

<sup>^</sup> 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 230,000	2019 – 2021	2025 – 2026
Wong Chuk Hang Station	Residential	165,200		

### 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.



## CEO'S REVIEW OF OPERATIONS AND OUTLOOK

As at 30 June 2019, our attributable share of investment properties in Hong Kong was 217,469 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of office space and 17,764 square metres of property for other use.

At Maritime Square 1, renovation work on the ground floor was completed and the shops opened progressively starting in October 2018. All shops were fully opened by April 2019.

Hong Kong property management revenue in the first six months of 2019 decreased by 0.7% to HK\$143 million. As at 30 June 2019, MTR managed over 103,000 residential units and over 772,000 square metres of commercial space.

### Property Development

Hong Kong property development profit (before tax) was HK\$898 million, mainly derived from the sales of inventory at Lake Silver in Wu Kai Sha and Wings at Sea II at LOHAS Park and share of surplus proceeds released from completed property development projects. This was HK\$740 million higher than the first six months of 2018.

During the period, pre-sales of MONTARA and GRAND MONTARA (LOHAS Park Package 7) were launched in May

and June respectively. As at 30 June 2019, all 616 units of MONTARA and all 504 units of GRAND MONTARA had been sold. Meanwhile, pre-sales of the remaining units in Wings at Sea and Wings at Sea II (LOHAS Park Package 4), MALIBU (LOHAS Park Package 5) and LP6 (LOHAS Park Package 6) continued. As at 30 June 2019, about 97.5% of 1,040 units of Wings at Sea, about 96.1% of 1,132 units of Wings at Sea II, about 98.1% of 1,600 units of MALIBU and about 97.3% of 2,392 units of LP6 had been sold.

In our role as agent for relevant subsidiaries of KCRC for West Rail property development projects, pre-sales continued for the remaining units in Sol City (Long Ping Station (South)). As at 30 June 2019, about 76.7% of 720 units of Sol City had been sold.

On 25 April 2019, the tender for LOHAS Park Package 11 was awarded to Sky Castle Limited, a consortium formed by Sino Land Company Limited, K. Wah International Holdings Limited and China Merchants Land Limited. This development, which will be located atop The LOHAS mall, will offer around 1,850 residential units with a maximum gross floor area ("GFA") of 88,858 square metres.

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### Other Businesses

Our other businesses, Ngong Ping 360 and Octopus Holdings Limited, both achieved satisfactory performance during the period.

Revenue from Ngong Ping 360 increased by 7.9% in the first six months of 2019 to HK\$245 million, despite a slight drop in visitor numbers of 0.2% to about 0.88 million. This was due to fewer operating days resulting from a rope shifting exercise in March 2019.

The Company's share of profit from Octopus Holdings Limited in the first six months of 2019 increased by 22.4% to HK\$120 million, mainly due to higher transaction volume and higher sales of consumer products. As at 30 June 2019, more than 19,000 service providers in Hong Kong accepted Octopus payments. Total cards and other stored-value Octopus products in circulation stood at 36.8 million, while average daily transaction volumes and value were 15.3 million and HK\$218.2 million respectively.

# HONG KONG BUSINESS GROWTH

## HIGHLIGHTS

- Shatin to Central Link – 90.2% complete as at end of June 2019
- Railway Development Strategy 2014 (“RDS 2014”): five proposals submitted to Government and invitations received to submit proposals for the remaining two projects
- 15 MTR property development packages previously tendered out will provide about 21,000 residential units, with a total GFA of over 1.3 million square metres when completed



## GROWING OUR HONG KONG RAIL BUSINESS

Our near-term rail business growth in Hong Kong falls under Rail Gen 2.0. In addition to the Shatin to Central Link, which remains under construction, Rail Gen 2.0 also covers major upgrades and replacements to the existing rail network, including initiatives to enhance the customer experience through the use of technology. Looking beyond Rail Gen 2.0, the seven new projects announced under RDS 2014 have the potential to increase Hong Kong’s rail network by a further 35 km. For the longer term, Government is planning to commence the Strategic Study on Railways beyond 2030 – Feasibility Study in 2019, which calls for an even further expansion of the railway network. The expanded network would cover strategic development areas under Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030.

### Rail Gen 2.0

#### Shatin to Central Link

Rail Gen 2.0 is our vision for the next generation of rail travel in Hong Kong. Having delivered four new rail projects in the last four-and-a-half years, including HSR, we are now undertaking the fifth and final rail project under Rail Gen 2.0 – the Shatin to Central Link.

The ten-station Shatin to Central Link, a project managed by MTR on behalf of Government, will add another 17 km to MTR’s railway network when completed, notably improving connectivity in Hong Kong and reducing travelling time across the length of Hong Kong.

Comprising two phases, the Shatin to Central Link includes the 11-km Tai Wai to Hung Hom Section and the 6-km Hung Hom to Admiralty Section. The first phase, the Tai Wai to Hung Hom Section, will connect the Ma On Shan Line to the West Rail Line, via Diamond Hill and Hung Hom stations, to form the Tuen Ma Line. When the second phase, the Hung Hom to Admiralty Section is completed, the East Rail Line will run under Victoria Harbour to Exhibition Centre Station and Admiralty Station via Hung Hom.

During the first half of the year, we progressed the construction works for both phases such that at the end of June 2019 the Tai Wai to Hung Hom Section is 99.7% complete and the Hung Hom to Admiralty Section is 78.8% complete.

For the tunnel under the harbour, all 11 pre-cast units of the immersed tube tunnel have been installed and connected to the land tunnels. Excavation works at Exhibition Centre Station are complete with structural works continuing at the end of the period.



## CEO'S REVIEW OF OPERATIONS AND OUTLOOK

At Admiralty Station, internal structural works, architectural finishes and building services installation for the extended Admiralty Station are well underway.

On 26 March 2019, the Government published the redacted Interim Report of the Commission of Inquiry ("COI") concerning project quality issues at the Hung Hom Station extension. In the report, the COI concluded that the Hung Hom Station extension diaphragm wall and platform slab construction works are safe.

The COI also made a number of comments regarding the Company's performance and systems as well as a number of recommendations for the future. We welcomed such recommendations, many of which concurred with the findings of our own review conducted by the Capital Works Committee of the Board. We have already begun implementing some of the recommendations and will continue to strengthen our project management through additional training and the introduction of digital project management systems.

On 18 July 2019, the Company submitted to Government two separate final reports in respect of incidents relating to the Hung Hom Station extension, the Hung Hom North Approach Tunnel and South Approach Tunnel and the Hung Hom Stabling Sidings. These reports contain, inter alia, proposals for suitable measures required at certain locations to achieve code compliance.

The two final reports have been carefully reviewed and the conclusions therein have been accepted by Government and its Expert Advisor Team. The reports conclude that the structures are safe for the purpose of the ongoing construction activities, but suitable measures should be implemented to address deficiencies and achieve code compliance. Subsequently, a long-term monitoring scheme will be developed to monitor the on-going structural integrity of the structures.

The dynamic train tests for the Tuen Ma Line signalling system resumed on 10 June 2019 after a temporary suspension due to the Tsuen Wan Line incident on 18 March 2019. During the suspension, the contractor of the signalling system for the Tuen Ma Line completed a comprehensive review and submitted reports to confirm that the system meets the safety requirements for dynamic train tests. We also appointed an Independent Safety Assessor to conduct a

safety assessment, which further confirmed that the Tuen Ma Line signalling system meets international safety standards for dynamic train tests.

### *Programme for Delivery*

To enable the public to enjoy as much of the new service as practicable and at the earliest opportunity, Government accepted the Company's recommendation that the Tuen Ma Line should open in phases, with the first phase involving the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station targeted to occur in the first quarter of 2020.

The Company will work with Government to agree on the details of the phased opening and will continue to take steps reasonably necessary to facilitate the phased opening, which will also require the assistance and co-operation of relevant Government departments. The Company is now undertaking necessary system modifications works, including adjustment of the signalling system, some re-cabling works, and modifications to some of the signage, which will allow the opening of the first phase of the Tuen Ma Line, once all statutory processes have been completed.

Once the first phase of the Tuen Ma Line is open, passengers travelling on the Ma On Shan Line will be able to travel directly to Kai Tak Station in East Kowloon district via Hin Keng Station and Diamond Hill Station. The expanded Diamond Hill Station will become a new interchange between the Tuen Ma Line and the Kwun Tong Line, allowing passengers from New Territories North and East districts to interchange for rail services to East Kowloon district and Hong Kong Island East district. This will reduce train travelling time and also relieve the current peak link on the East Rail Line between Tai Wai and Kowloon Tong stations.

### *Funding*

Under the entrustment agreement for the construction and commissioning of the Shatin to Central Link between the Company and Government dated 29 May 2012 ("Entrustment Agreement"), Government is responsible for bearing all the work costs specified in the Entrustment Agreement, except for certain costs for which the Company is responsible under the existing service concession agreement with KCRC.

The Company completed a detailed review of the estimated Shatin to Central Link Cost to Complete ("CTC") for the main construction works under the Entrustment Agreement and

the latest estimate was submitted to the Government for review on 5 December 2017. Taking into account a number of factors, including issues such as archaeological finds, the Government's requests for additional scope and late or incomplete handover of construction sites, the Company has increased the latest estimate by HK\$16,501 million from HK\$70,827 million to HK\$87,328 million including an increase in the total project management fee payable to the Company, which is subject to agreement and approval processes. Since submission of this latest estimate to the Government, the Company has been liaising with the Government to facilitate their review and verification process. The Company intends to carry out a further review and revalidation of the CTC within 2019.

In order to progress the Shatin to Central Link project and to facilitate the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station in the first quarter of 2020, the Company will fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom incidents and certain costs associated with the phased opening of the Tuen Ma Line, whilst reserving its position as to the ultimate liability for such costs. Currently, the Company's best estimate of such costs is around HK\$2 billion in aggregate. In light of this, the Company has recognised a provision of HK\$2 billion in its consolidated profit and loss account for the six months ended 30 June 2019. This amount does not take into account any potential recovery from any other party. Furthermore, there is no certainty that, ultimately, the entirety of this amount will need to be funded by the Company.

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## Major Asset Upgrades and Replacements on the Existing Network

In addition to the Shatin to Central Link and other completed new railway projects, our Rail Gen 2.0 vision for the future of rail transport in Hong Kong includes major upgrades and replacements to our existing rail network. It also covers enhancements to the customer experience.

Up to July 2019, we received delivery of seven out of a total of 93 new trains, which are currently in the process of being tested and commissioned. Equipment level tests are currently in progress.

To meet the growing demand for our light rail services, we ordered a total of 40 new light rail vehicles, of which 30 will replace the existing light rail vehicles in our fleet, and the remainder will help to expand our light rail fleet size to 150 by the year 2023. The first two new light rail vehicles were received during the period for testing and commissioning, while the remaining light rail vehicles will be delivered to Hong Kong in batches between 2019 and 2023.

In order to maintain a comfortable environment for our passengers and workforce, we have been replacing the chillers in our stations and depots. A total of 154 chillers in 35 stations and four depots have been or will be replaced in the next four years. Up to June 2019, we completed the second phase works for the replacement of 32 chillers in four stations

and two depots, taking the total number of replaced chillers to 61 in ten stations and three depots.

MTR will continue to address the challenge of near-capacity operation, although this is a situation that will be partly alleviated for the existing cross harbour section of Tsuen Wan Line after the completion of the new cross harbour rail line of the Shatin to Central Link.

One of the major asset replacement projects currently underway is the replacement of the signalling systems for the Tsuen Wan, Island, Kwun Tong, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express. During non-traffic hours on 18 March 2019, a drill was conducted on the new signalling system for the Tsuen Wan Line. While the drill was underway, a non-passenger train heading to Central Station through a crossover collided with another non-passenger train that was departing from Central Station through the same crossover, causing damage to both trains.

The Corporation was greatly concerned about the incident and subsequently set up an Investigation Panel consisting of MTR senior personnel and external experts to identify the root cause of the incident and make recommendations to prevent the reoccurrence of a similar incident. After the investigation was completed, a report was submitted to the Electrical and Mechanical Services Department on



## CEO'S REVIEW OF OPERATIONS AND OUTLOOK

17 June 2019 for review. The results of the investigation were made public on 5 July 2019. A number of improvement measures have been recommended for the contractor of the new signalling system. As safety is the first priority of the Corporation, train testing will only be resumed after the consent of Government is obtained.

On the East Rail Line, dynamic train tests during non-traffic hours for the new signalling system resumed on 28 May 2019

after the temporary suspension following the Tsuen Wan Line incident on 18 March 2019. The new signalling system of the East Rail Line is different from the new system of the Tsuen Wan Line, and the contractor has submitted a detailed assessment to confirm that its system meets the safety requirements for dynamic testing. The safety assessment conducted by an Independent Safety Assessor also confirmed that the new signalling system meets international safety standards for dynamic testing.

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### Enhancing the Customer Experience

While Rail Gen 2.0 involves large scale asset renewals such as trains and signalling systems, other customer experience enhancements have also been initiated. Among these are new drinking water dispensers, public toilets and baby care rooms in stations.

At Tiu Keng Leng Station on 20 February 2019, we opened the first dedicated baby care room at an interchange station within the MTR network. This was followed by the opening of new toilets and a baby care room at Yau Tong Station on 29 May, with other baby care rooms and public toilets planned for five additional interchange stations, namely Lai King, Central, Yau Ma Tei, North Point and Tsim Sha Tsui stations. Breastfeeding areas in the remaining interchange stations will continue to be open for passenger use.

All of the enhancements carried out so far have received a very positive response from passengers and are part of our commitment to improving station facilities and providing a caring service. In our planning for new stations on our future railway lines, toilets and baby care rooms will be included as part of the design and planning standard.

Beyond the provision of new facilities, we added 86 weekly train trips on the Tsuen Wan, Kwun Tong and Island lines, all of which started on 22 April 2019. Passengers can also look forward to more frequent train services on Fridays as well as during weekends and public holidays.

In our stations, we are enriching the travelling experience by offering shops that meet a wide range of passengers' needs

as well as introducing new, more engaging interactive digital advertising media.

To keep abreast of technology trends in one of the world's most digitally connected cities and continuously enhancing our services, we are constantly looking for ways to improve our mobile apps. Our MTR Mobile app, which currently has over 1.2 million active users per month, offers many personalised services such as a Chatbot function. In June 2019, we launched a new Alighting Reminder, enhanced Trip Planner and estimated time of arrival function for MTR Buses. Additionally, the user interface of the Airport Express function on the MTR Mobile was also revamped in February 2019 for a better customer experience.

To create a seamless travel experience across our network, the MTR Mobile app will undergo a major revamp to integrate it with our station shops and MTR Malls, as well as their loyalty programmes, over the next six months.

As payments via mobile phones are becoming more prevalent, we accept mobile payments (Alipay, Alipay HK, WeChat Pay and WeChat Pay HK) in our four Ticket Issuing Machines ("TIMs") at Sheung Shui Station in April 2019, bringing the total number of these TIMs in our stations to 24.

Digital technology, particularly big data, is also playing a major role in preventive maintenance. This is in line with our vision of implementing a "smart city, smart mobility" for MTR, which will contribute to safer, more comfortable journeys on board our trains as well as enhanced performance in our operations.



## New Rail Projects beyond Rail Gen 2.0

RDS 2014 was introduced as a framework for the future expansion of Hong Kong's railway network up to the year 2031. Under this strategy, seven additional rail projects have been identified by Government, and we have submitted proposals for five of these.

They included the Tuen Mun South Extension, Northern Link (and Kwu Tung Station), East Kowloon Line, Tung Chung West Extension (and Tung Chung East Station) and North Island Line. During the period, we provided supplementary information on all five projects as requested by Government.

We are now working closely with Government to resolve the technical, operational and financial issues in our proposals so that we can take these projects forward to the next stage.

For the Hung Shui Kiu Station and South Island Line (West), we were invited by Government to submit proposals in May and June 2019 respectively. These proposals are targeted for submission in 2020.

Additionally, we look forward to participating in the Government's Strategic Study on Railways Beyond 2030 – Feasibility Study.

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## EXPANDING THE PROPERTY PORTFOLIO

Along with the expansion of our rail network in Hong Kong, opportunities have been opening up for undertaking new residential and commercial property developments.

Over the next few years, we will open new malls that will add around 49% to the attributable GFA of our existing retail portfolio. Our target is to open The LOHAS, a shopping centre at LOHAS Park, in the second half of 2020. The construction of new shopping centres in Tai Wai and Wong Chuk Hang is currently underway.

As at 30 June 2019, construction of The LOHAS, spanning three-storeys and 44,500 square metre GFA, was 60% complete and remained on target for opening by the second half of 2020. When it opens to the public, The LOHAS will connect seamlessly with LOHAS Park Station and nearby residential buildings. With a large international standard indoor ice-skating rink and the biggest cinema in Tseung Kwan O, The LOHAS will be home to nearly 150 retail tenants including entertainment, leisure and community facilities.

As at 30 June 2019, construction of the 60,620 square metre GFA shopping centre at Tai Wai Station was 25% complete. The progress of foundation works, which had been affected by measures taken to address ground settlement

at a localised area of the southbound platform on the East Rail Line at Tai Wai Station, resumed in January 2019 with stringent monitoring by the Corporation and Government. The target completion date for this project is now 2023.

The 47,000 square metre GFA shopping centre at Wong Chuk Hang is targeted for completion at the end of 2023.

A total of 15 new residential property projects under development will provide about 21,000 new units to the market, most of which will be delivered over the next five years.

The successful tendering of LOHAS Park Package 11 during the period means that the vast majority of the packages at LOHAS Park have now been awarded and are in various stages of development.

For the Siu Ho Wan Depot Site, approval was received on 12 February 2019 from the Chief Executive in Council for the draft Outline Zoning Plan to develop this area into a community, comprising about 14,000 public and private housing units together with community facilities. Detailed technical studies of the project are being conducted, and discussion with Government is ongoing. At this preliminary stage, there is no assurance that the project will be commercially viable.

## MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

### HIGHLIGHTS

- Opening of Sydney Metro Northwest in May 2019
- Commencement of service of the initial section of Hangzhou Metro Line 5 in June 2019



Outside of Hong Kong, our expertise has enabled us to build a growing portfolio of railway-related businesses in the Mainland of China, Europe and Australia. These businesses carried an average of around 7.1 million passengers per weekday during the first half of 2019.

Mainland of China and International – Recurrent Businesses									
Half year ended 30 June HK\$ million	Mainland of China Railway, Property Rental and Property Management Businesses			International Railway Businesses			Total		
	2019	2018	Inc./Dec.) %	2019	2018	Inc./Dec.) %	2019	2018	Inc./Dec.) %
<b>Subsidiaries</b>									
Revenue	464	451	2.9	10,094	10,002	0.9	10,558	10,453	1.0
EBITDA	155	111	39.6	517	299	72.9	672	410	63.9
EBIT	148	106	39.6	412	233	76.8	560	339	65.2
EBIT (Net of Non-controlling Interests)	148	106	39.6	314	145	116.6	462	251	84.1
EBITDA Margin (in %)	33.4%	24.6%	8.8% pts.	5.1%	3.0%	2.1% pts.	6.4%	3.9%	2.5% pts.
EBIT Margin (in %)	31.9%	23.5%	8.4% pts.	4.1%	2.3%	1.8% pts.	5.3%	3.2%	2.1% pts.
<b>Associates and Joint Venture</b>									
Share of EBIT	522	487	7.2	(450)	(41)	(997.6)	72	446	(83.9)
Share of Profit/(Loss)	257	224	14.7	(451)	(36)	(1,152.8)	(194)	188	N/A
<b>EBIT of Subsidiaries (Net of Non-controlling Interests) and Share of EBIT of Associates and Joint Venture</b>	<b>670</b>	<b>593</b>	<b>13.0</b>	<b>(136)</b>	<b>104</b>	<b>N/A</b>	<b>534</b>	<b>697</b>	<b>(23.4)</b>

Mainland of China – Property Development				
HK\$ million	Half year ended 30 June			
	2019	2018	Inc./Dec.)%	
<b>Subsidiaries</b>				
Revenue	–	–	N/A	
EBITDA	(10)	(17)	41.2	
EBIT	(10)	(19)	47.4	

Mainland of China and International – Recurrent Businesses and Property Development			
HK\$ million	Half year ended 30 June		
	2019	2018	Inc./ (Dec.)%
<b>Profit for the Period attributable to Shareholders of the Company*</b>			
– Arising from Recurrent Businesses	146	342	(57.3)
– Arising from Mainland of China Property Development	25	33	(24.2)
Total	171	375	(54.4)
<b>Number of Passengers Carried by our Railway Subsidiaries, Associates and Joint Venture outside of Hong Kong (in million)</b>			
	1,108	1,054	5.1

\*excluding business development expenses

In the Mainland of China, EBITDA for the first half of 2019 from our railway, property rental and property management subsidiaries increased by 39.6% to HK\$155 million, mainly due to the new accounting standard on leases and contributions from technical assistance to a property project in Shunde. In the new accounting standard, lease expenses relating to our shopping mall in Beijing are no longer accounted for as operating expenses but as amortisation for the right-of-use of assets and interest expenses. In our International businesses, EBITDA from our railway subsidiaries increased by 72.9% to HK\$517 million, mainly due to contributions from Macau Light Rapid Transit (“LRT”) Taipa Line and reduced loss of MTR Pendeltågen AB. Our share of

loss from associates and joint venture was HK\$194 million, mainly due to the onerous contract provision made for First MTR South Western Trains Limited. Excluding Mainland of China property development and before business development expenses, our railway, property rental and management subsidiaries, together with our associates and joint venture outside of Hong Kong, contributed net after-tax profits of HK\$146 million during the first six months of 2019 on an attributable basis, a decrease of 57.3% compared with that of 2018. Such net after-tax profits would have increased by 70.2% to HK\$582 million if the onerous contract provision made for First MTR South Western Trains Limited is excluded.

## Railway Businesses in the Mainland of China

### Beijing

In Beijing, our 49%-owned associate Beijing MTR Corporation Limited (“BJMTR”) operates four lines, which include Beijing Metro Line 4 (“BJL4”), the Daxing Line, the first three phases of Beijing Metro Line 14 (“BJL14”) and the Northern Section of Beijing Metro Line 16 (“BJL16”). The average on-time performance of these four lines in the first half of 2019 was 99.9%.

Both BJL4 and the Daxing Line recorded steady patronage, with total ridership of about 221 million passenger trips and average weekday patronage of 1.33 million.

Construction works to complete the full BJL16 and BJL14 lines continued to progress during the first six months of 2019. Full line opening for BJL16 and BJL14 is targeted for 2021 and 2022 respectively.

### Shenzhen

Shenzhen Metro Line 4 (“SZL4”), which is operated by MTR Corporation (Shenzhen) Limited (“MTR(SZ)”), recorded steady growth in patronage at 6.8% in the first half of 2019 to 116 million passengers. Average weekday patronage rose to 656,000, and on-time performance remained at 99.9%.

As noted previously, although patronage continued to increase on SZL4 there has been no increase in fares since we started operating the line in 2010, and MTR(SZ) does not benefit from any shadow fare subsidy mechanism. We understand that the Shenzhen Municipal Government is undergoing the statutory process in relation to a fare adjustment in the Shenzhen Metro Network. If appropriate fare adjustments and the adjustment mechanism are not implemented soon, the long-term financial viability of SZL4 will be affected.

## CEO'S REVIEW OF OPERATIONS AND OUTLOOK

During the first half of the year, we continued to negotiate for the operation arrangement of SZL4 North Extension in preparation for its opening at the end of 2020. We also received the first 6-car train set in April 2019, out of a total of 24 new train sets, to prepare for the opening of SZL4 North Extension.

### Hangzhou

Through our 49% ownership of our associate in Hangzhou, Hangzhou MTR Corporation Limited ("HZMTR"), we operate Hangzhou Metro Line 1 and the Hangzhou Metro Line 1 Extension. Patronage on these lines increased during the

period, rising by 12.6% to 144 million, with an average weekday patronage of 803,000. On-time train performance was maintained at 99.9%.

The 51.5 km Hangzhou Metro Line 5, another Public Private Partnership ("PPP") project, was awarded in 2017 to a new joint venture, Hangzhou MTR Line 5 Corporation Limited, with MTR ownership at 60%. This underground metro line runs from Xiangzhanglu Station in Xiaoshan District to Lutinglu Station in Yuhang District, serving a total of 38 stations. The initial section, with 12 stations from Liangmu Road Station to Shanxian Station, commenced service on 24 June 2019 with positive response from passengers.

### Property Businesses in the Mainland of China

Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1, with a total developable GFA of approximately 206,167 square metres, comprises a retail centre of about 10,000 square metres (GFA). More than 98% of the residential units have been sold and handed over to buyers. TIA Mall held a soft opening in April 2019, and its official opening is scheduled for August 2019.

In Tianjin, a Sale and Purchase Agreement was signed on 26 January 2018 for the shopping centre on the Beiyunhe Station site. Construction is progressing on the site, including piling work for the shopping centre. Project completion is targeted for the end of 2022.

In the Greater Bay Area, we are providing Transit Oriented Development technical assistance to an associated company of Country Garden Group and Foshan Shunde District Metro Company Limited. This technical assistance relates to a mixed-use property development adjacent to Chencun Station in the Shunde district of Foshan, Guangdong province.

The Company also manages self-developed and other third party properties in the Mainland of China which, as at 30 June 2019, had a total GFA of 390,000 square metres. Our shopping mall in Beijing, Ginza Mall, was 98% occupied in the first six months of 2019.

### European Railway Businesses

#### United Kingdom

Our wholly owned subsidiary in London, MTR Corporation (Crossrail) Limited ("MTR Crossrail"), operates the Crossrail operating concession under the TfL Rail brand.

The first phase, a 32.5-km, 14-station route between Liverpool Street Station and Shenfield, has been in service under MTR Crossrail since May 2015, while the second phase, running between Paddington Station and Heathrow Airport, commenced operation in May 2018.

Since taking over the Crossrail concession in 2015, we have significantly improved punctuality and reliability performance

as measured by the Public Performance Measure Moving Annual Average on the routes that we operate. As a result, TfL Rail has earned a reputation as one of the most reliable services in the UK.

Although MTR Crossrail is not participating in the construction or project management of the Crossrail line, as the operator we continue to support Transport for London on the phased opening of the line. The TfL Rail service is scheduled to be extended from Paddington to Reading in December 2019. Following completion of the new tunnel being constructed through central London, the line will be further extended to 118 km from Reading in the west to the east of London and serve 41 stations. When the central

London section opens for passenger service, the line will be renamed the Elizabeth line.

Also in the UK, through our associate First MTR South Western Trains Limited we are a 30% shareholder (in partnership with FirstGroup plc) of the South Western Railway franchise, one of the UK's largest rail networks. During the period, the financial performance of this franchise continued to suffer owing to a variety of factors. Consequently, we announced on 30 May 2019 that a provision of GBP43 million had been made in our consolidated profit and loss account, representing our share of the maximum potential loss under the Franchise Agreement.

First MTR South Western Trains Limited is negotiating with the UK Government to agree on potential commercial and contractual remedies but, at the current time, there is a range of potential outcomes.

## Sweden

As the largest rail operator in Sweden by passenger volume, MTR operates three rail businesses in the country: Stockholm Metro, MTR Express and Stockholm commuter rail ("Stockholms pendeltåg").

During the first half of 2019, Stockholm Metro recorded satisfactory performance, with high levels of operational service and customer satisfaction. MTR Tunnelbanan, our operating entity for Stockholm Metro, was awarded the prestigious Swedish Quality Award for the second time in 2018.

MTR Express (Sweden) AB is a wholly owned subsidiary of the Corporation, operating the open access MTR Express intercity service between Stockholm and Gothenburg. With 110 trains per week, MTR Express was ranked as the most punctual operator between the two cities and named the second most innovative company in Sweden. Passenger revenues have continued to grow but, as increases have remained below expectations, we have implemented new marketing initiatives to stimulate ridership.

Our wholly owned subsidiary MTR Pendeltågen AB operates the Stockholms pendeltåg under a concession that runs for ten years to December 2026 (with an option to extend for four more years). It provides rail services for the greater Stockholm area with 54 stations over a total route length of 247 km. Although operational performance demonstrated satisfactory improvement in the first half of the year, there are still challenges relating to a nationwide lack of drivers and infrastructure performance under the control of a third party. Previous rectification actions, which have included management team changes, closer collaboration with the infrastructure owner and customer service initiatives designed to provide better service information, will continue with a focus on bringing service back to the committed level. However, MTR Pendeltågen AB will likely remain in a loss-making position for a few years.

## Australian Railway Businesses

In Melbourne, we have been operating the 409-km Melbourne metropolitan rail network under our 60%-owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), since November 2009.

During the first half of 2019, MTM's operational performance was slightly affected by a number of network improvement initiatives led by the Victorian Government. Measures are in place to bring back the performance to the committed level. Indeed, our record of performance over the term of the previous franchise was one of the reasons for the renewal of our concession to November 2024, with an option to further extend for a maximum of three years.

Our new rail service, Sydney Metro Northwest, opened on 26 May 2019, marking a new era in passenger rail travel in Australia. Operating under Metro Trains Sydney Pty Ltd ("MTS"), a 60% owned subsidiary of the Company, it runs along a 36-km route and serves 13 stations between Tallawong and Chatswood. Equipped with state-of-the-art rail service features such as fully automated (driverless) trains and platform screen doors, it has been commended by the Premier of the New South Wales State Government and well received by the public. In the coming months, MTS will ramp up service on Sydney Metro Northwest to provide more frequent passenger service.

### Macau Railway Business

In April 2018, our wholly owned subsidiary was awarded an MOP 5.88 billion (HK\$5.71 billion) contract for operations and maintenance ("O&M") services on Macau's first rail system, the Macau LRT Taipa Line. Running over a length of 9.3 km, the line will serve 11 stations. Under the contract for the Macau LRT Taipa Line, we will be responsible for the line's

testing and trial runs before opening, operation of train services, maintenance of trains, the signalling system and other infrastructure over an 80-month service period. During the first half of 2019, we conducted on-going testing and commissioning in preparation for the opening of the line. The Macau SAR Government has also indicated their target to open the Macau LRT Taipa Line by the end of 2019.

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### Growth Outside of Hong Kong

#### Mainland of China

In November 2017, we signed a Letter of Intent ("LoI") with Beijing Infrastructure Investment Corporation Limited ("BIIC") (one of the partners in BJMTR), BJMTR and Daxing District People's Government of Beijing Municipality to study the southward extension of the Beijing Daxing Line, Nanzhaolu Depot capacity expansion and integrated property development above the depot.

Building on these earlier agreements, in October 2018 we signed a Memorandum of Understanding ("MOU") with the Beijing Municipal Commission of Transport, BIIC and BJMTR to deepen our cooperation in upgrading metro rail services. Several potential PPP and O&M projects for urban rail lines in Beijing are being explored.

As Beijing is planning to put more rail sections into service, we will remain alert to opportunities to participate in new lines in the city.

In Chengdu, we had signed an LoI with Chengdu Rail Transit Group in 2017 for strategic cooperation on metro-related projects and an MOU in 2018 for the potential integrated development of stations. During the period, we continued our discussions to identify development opportunities in the city.

In Hangzhou and the Greater Bay Area, we continued our discussions on opportunities to build transport infrastructure as well as property and community building projects.

As one of the four core cities in the Greater Bay Area, Hong Kong will depend on the Greater Bay Area for its long-term development and prosperity. MTR is supportive of, and looks forward to participating in, infrastructure and transportation opportunities arising from future Greater Bay Area policies.

The most important of these opportunities will be those that enhance connectivity and the customer experience through the use of innovation and technology, including a digital mobility platform such as the Mobility-as-a-Service ("MaaS") concept. Currently being developed or in operation in Europe, this platform enables users to take multiple trips on various modes of transport with just one payment for a more convenient, accessible and sustainable way of travel. We will continue to explore opportunities with other mobility operators to develop a MaaS solution for the area.

#### International

In the UK, together with Guangshen Railway Company Limited (an associated company of China State Railway Group Co Ltd) we submitted a bid in July 2018 for the West Coast Partnership franchise, followed by a second round submission in November 2018. A decision is expected in the third quarter of 2019.

In Australia, Sydney Metro City and Southwest, the second phase of the Sydney Metro project, is a 30-km extension of Sydney Metro Northwest serving 18 additional metro stations. We are currently in discussion with the client for the financial close of the project, expected later this year.

## FINANCIAL REVIEW

### Profit and Loss

In the first half of 2019, the Group recorded revenue growth in all major business segments. Total revenue of the Group increased by 7.2% to HK\$28,272 million, mainly reflecting the full six-month contribution from the HSR, growth in passenger volume and adjustment of fares under the FAM in our Hong Kong transport operations, as well as higher contributions from Hong Kong station commercial and property rental and management businesses.

Operating profit from recurrent businesses (being operating profit before Hong Kong and Mainland of China property developments, depreciation, amortisation and variable annual payment) decreased by 9.8% to HK\$8,411 million, while operating margin from recurrent businesses decreased by 5.5 percentage points to 29.8%. The decreases in operating profit and operating margin from recurrent businesses were predominantly due to a provision of HK\$2 billion made in respect of the Shatin to Central Link ("SCL") project.

Excluding this SCL provision, operating profit from recurrent businesses would have increased by 11.7%. The increase was mainly due to higher contributions from Hong Kong station commercial and property rental and management businesses (resulting from incremental income from the new Duty Free Shops in Hong Kong West Kowloon Station and the rental income growth of station shops and shopping malls), higher operating profit from Hong Kong transport operations, as well as higher operating profit from Macau LRT Taipa Line project management and O&M services, while operating margin from recurrent businesses would have increased by 1.5 percentage points to 36.8% mainly due to the operating margin improvement of our businesses in Macau and Europe. If the Mainland of China and international subsidiaries were also excluded from the profit before SCL provision, operating margin from recurrent businesses would have decreased by 1.0 percentage point to 55.0% mainly due to the incremental contribution from the HSR, which carries lower margin than other heavy rail under Hong Kong transport operations.

Hong Kong property development profit (before tax) was HK\$898 million, mainly derived from the sales of inventory at Lake Silver in Wu Kai Sha Station and Wings at Sea II at LOHAS Park and further surplus proceeds released from completed property development projects.

Depreciation and amortisation charges increased by 5.3% to HK\$2,592 million. As the incremental revenues from fares and businesses relating to the HSR are also subject to the variable annual payment to KCRC at the top rate of 35%, variable annual payment increased by 50.8% to HK\$1,506 million.

After taking into account the contributions from Hong Kong and Mainland of China property developments, depreciation, amortisation and variable annual payment, operating profit before interest and tax decreased by 13.3% to HK\$5,201 million.

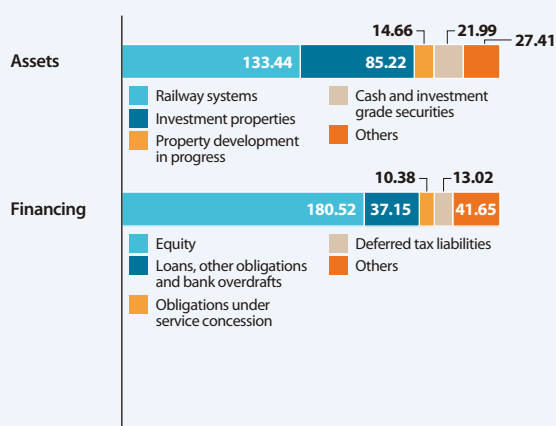
Interest and finance charges decreased by 23.8% to HK\$442 million, mainly due to savings in interest expenses from lower average debt outstanding and higher interest income from deposits. Investment property revaluation gain amounted to HK\$2,066 million. Our share of profit from Octopus Holdings Limited increased by 22.4% to HK\$120 million, mainly due to higher transaction volume, higher sales of consumer products and more local projects. Our share of loss from other associates and joint venture was HK\$194 million, compared with a share of profit of HK\$188 million in the same period of 2018, due to the share of loss from First MTR South Western Trains Limited as a result of a provision of onerous contract amounting to HK\$436 million made in respect of the South Western Railway franchise agreement, partly offset by profit improvements in BJMTR and HZMTR.

Net profit attributable to shareholders, after deducting income tax of HK\$1,147 million and profits shared by non-controlling interests of HK\$98 million, decreased by 22.3% to HK\$5,506 million in the first half of 2019. Earnings per share therefore decreased by 23.7% from HK\$1.18 to HK\$0.90. Excluding investment property revaluation, which is a non-cash accounting adjustment, the underlying profit attributable to shareholders decreased by 26.0% to HK\$3,440 million. Within this underlying business profit, our recurrent profit decreased by 40.6% to HK\$2,665 million, while post-tax property development profit increased from HK\$165 million to HK\$775 million. Excluding the provisions made in respect of the SCL project and South Western Railway franchise agreement, recurrent business profit and underlying business profit of the Group would have increased by 13.8% and 26.4% respectively.

### Simplified Consolidated Statement of Financial Position

(As at 30 June 2019)

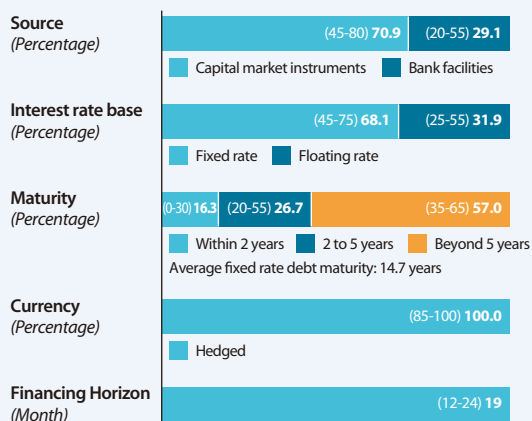
(HK\$ billion)



### Preferred Financing Model and Debt Profile

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

(Preferred Financing Model) vs. Actual debt profile  
(As at 30 June 2019)



### Statement of Financial Position

Our financial position remained strong. The Group's net assets decreased marginally from HK\$180,619 million as at 31 December 2018 to HK\$180,524 million as at 30 June 2019.

Total assets increased by HK\$8,029 million to HK\$282,716 million. This was mainly due to the revaluation gains on investment properties, the increase in cash balance arising mainly from cash receipts from our Hong Kong property development, as well as the recognition of right-of-use assets upon the adoption of the new accounting standard HKFRS 16 Leases effective 1 January 2019.

Total liabilities increased by HK\$8,124 million to HK\$102,192 million. This was mainly due to the accrual for the 2018 final ordinary dividend, the amount received in respect of Hong Kong property development and the provision made in respect of the SCL project. The increase in total liabilities was partly offset by the net repayment of borrowings and the settlement of payable of variable annual payment to KCRC.

The Group's net debt-to-equity ratio was 14.4% at 30 June 2019, a decrease of 3.7 percentage points from 18.1% as at 31 December 2018, mainly due to the increase in cash balances benefited from higher cash generated from operating activities.

### Cash Flow

Net cash generated from operating activities was HK\$10,043 million in the first half of 2019, being mainly the net cash inflow from operating activities. Receipts from property developments were HK\$4,580 million, mainly from LOHAS Park and Wu Kai Sha Station packages. Including other cash receipts of HK\$7 million, net cash receipts amounted to HK\$14,630 million in the first half of 2019. Net cash receipts were higher than that in the same period of 2018 by HK\$8,467 million, mainly due to the payment of the land premium of Wong Chuk Hang Station Package 2 to the Government amounting to HK\$5,214 million in 2018, which was not repeated in 2019, as well as higher cash receipts from property developments in 2019.

Total capital expenditure was HK\$3,349 million, slightly lower than that in the same period of 2018 by HK\$148 million. This comprised HK\$2,614 million for the purchase of assets for our Hong Kong existing railways and related operations, HK\$175 million for Hong Kong railway extension projects, HK\$454 million for investment in Hong Kong property-related businesses and HK\$106 million for investment in Mainland of China and overseas subsidiaries.

The Group also paid HK\$2,305 million in variable annual payment to KCRC in accordance with the Service Concession Agreement with KCRC. Taking into account the cash investment into the Hangzhou Metro Line 5 joint venture



of HK\$544 million and other payments, total cash outflow amounted to HK\$7,026 million in the first half of 2019.

Therefore, net cash inflow before financing amounted to HK\$7,604 million. After net repayment of borrowings of HK\$3,955 million and the effect of exchange rate changes on foreign currency cash holdings, the Group's cash balance increased by HK\$3,595 million to HK\$21,617 million at 30 June 2019.

## Financing Activities

The trade tensions between the US and China continued to weigh on global economic growth and engender anxiety and volatility in the global financial markets. Contrary to the expectation at the end of 2018, the US Federal Reserve stopped its hiking of the target range for the federal funds rate and became more dovish in forward guidance, leading the market to expect lower interest rates going forward. The 3-month USD-Libor has moved steadily down from 2.81% p.a. at the start of the year to close at 2.32% p.a. at the end of June. In contrast, the 3-month HKD-Hibor exhibited more volatility, starting the year at 2.33% p.a., falling to a low of 1.56% p.a. in February, before swinging back up to close at 2.46% p.a. at the end of June.

Longer term USD and HKD benchmark rates both exhibited down trends, with the yield on 10-year US Treasury falling from 2.68% p.a. to 2.01% p.a. over the first half of 2019, and the 10-year HKD swap rate likewise from 2.45% p.a. to 1.86% p.a.

With robust operating cash flows and minimal funding requirement, the Company did not tap the debt capital markets during the period but focused on reducing borrowing cost by cancelling banking facilities that were no longer required and making use of shorter tenor and lower cost bank loans. A total of HK\$1.75 billion of short-term bilateral banking facilities were added to the Company's debt portfolio, including a HK\$1 billion green loan which was the second green loan facility arranged since the Company established its Green Finance Framework in 2018.

Hangzhou MTR Line 5 Corporation Limited, in which the Company has a 60% interest, closed a 25-year RMB 6.54 billion project loan for the Hangzhou Metro Line 5 project.

The weighted average cost of the Group's interest-bearing borrowings over the first six months remained at 2.7%, the same as last year.

The Company's credit rating remains on par with the Hong Kong SAR Government at AA+ and Aa2 as assigned by Standard and Poor's and Moody's respectively.

## HUMAN RESOURCES

As at 30 June 2019, the Corporation and our subsidiaries employed 17,654 people in Hong Kong and 15,239 people outside of Hong Kong, while our associates employed an additional 15,880 people in Hong Kong and in our hubs. Our efforts to engage and develop our colleagues are reflected in our stable workforce, with the staff turnover rate in Hong Kong remaining low at 4.9% during the first half of the year.

Our goal is to develop our colleagues in line with our business growth and succession needs. To cater for our current and future operational needs, we continued to search for the best candidates through a series of Recruitment Days, our online recruitment platform and various social media channels. We also launched a new Employee Referral Programme in January 2019, which has received an encouraging response.

With the growth of our Mainland of China and overseas businesses, we have been using a variety of platforms to connect our colleagues in different parts of the world. We also continued to create stronger ties among colleagues in our global business units and facilitate cross-unit collaboration and talent development. Additionally, we have developed a series of talent assessment programmes that help to meet our business needs and further the long-term career aspirations of our colleagues.

Recognising the importance of personal and professional career development, we organised various training and development initiatives, including workshops, topical seminars, benchmarking visits and experiential learning opportunities. All of these initiatives are designed to equip our colleagues with the knowledge and skills necessary for better job performance and career advancement. During the first half of the year, we provided an average of 3.3 training days per staff in Hong Kong. We also continued to place strong emphasis on our MTR culture by advocating "participative communication", "collaboration", "effectiveness & innovation" and "agility to change" as our core cultural focuses.

## CEO'S REVIEW OF OPERATIONS AND OUTLOOK

### MTR ACADEMY

The MTR Academy continued to offer high quality programmes that bring MTR's railway management and engineering expertise to the Mainland of China and Belt and Road countries, as well as accredited programmes and short courses for the next generation of railway professionals. During the first six months of 2019, over 400 participants from Hong Kong and overseas attended these programmes.

### OUTLOOK

Despite the challenges we have faced in the recent past, we remain on programme delivering our business strategy in Hong Kong and international markets. In doing so, I believe my remit as the new CEO of MTR is to maintain and strengthen our already robust business, enhance the Company's ability to deal with challenges, and become better at what we do.

During the remainder of 2019, even though our commercial operations in Hong Kong have some defensiveness against slower economic growth, we will need to contend with a variety of risks, including uncertainties surrounding the worldwide and local economy, particularly trade conflicts, the possibility of an economic recession and political risks. Since June 2019, sluggish retail sales and conservative market sentiment have been on the rise, due to China-US trade tensions and the ongoing public order events in Hong Kong. As a result, the advertising market and our rentals which are subject to renewals will be dependent on the development of such situations during the second half of the year.

For our new railway projects in Hong Kong, we will work with Government to agree on the details of the phased opening of the Shatin to Central Link, covering the three new stations at Hin Keng, Diamond Hill and Kai Tak, targeting the first quarter of 2020. We will also work with Government on the arrangements for the completion of the rest of the Shatin to Central Link and progress discussions with Government on the project proposals submitted under RDS 2014.

In addition, subject to market conditions, we will be inviting tenders for Wong Chuk Hang Station Package 4 and LOHAS Park Package 12 over the next six months or so, providing a total of around 2,650 residential units. In our property development business, the booking of development profits this year for MALIBU (LOHAS Park Package 5) and the

shopping centre of LOHAS Park Package 7 is now dependent on construction progress.

Outside of Hong Kong, our businesses should see performance in line with expectations. However, we are still working to overcome the challenges faced by Stockholms pendeltåg in Sweden, as well as the South Western Railway franchise in the UK. Full line service on Hangzhou Metro Line 5 is targeted to commence by the end of the year, and we are working on the financial close of Sydney Metro City and Southwest. The Macau SAR Government has also indicated their target to open the Macau LRT Taipa Line by the end of 2019.

I would now like to take this opportunity to thank Professor Frederick Ma for his exemplary service as Chairman, which has been invaluable to the Corporation. During his tenure with us, MTR has achieved many successes, including the opening of new lines and expansion of our business both in Hong Kong and internationally. I would also like to welcome Mr Rex Auyeung, whose official term as the new Chairman of MTR began on 1 July 2019. I and the rest of the management team look forward to working with him and benefiting from his insights gained over many years in the private and public sectors.

I would like to thank Mr Lincoln Leong who served MTR so ably during his 17 years with the Corporation. His hard work and contributions to the Company were well respected, and we wish him all the best. I would also like to welcome our new Projects Director, Mr Roger Bayliss, who joined us on 18 March 2019.

Finally, I would like to thank all my colleagues at MTR for their dedication and commitment to excellence in pursuit of our vision. As the new CEO of MTR, I look forward to working closely with my colleagues and members of the Board and helping to create a brighter future for the Corporation.



Dr Jacob Kam Chak-pui  
Chief Executive Officer  
Hong Kong, 8 August 2019

# KEY FIGURES

	Half year ended 30 June		
	2019	2018	Inc./.(Dec.) %
<b>Financial highlights (in HK\$ million)</b>			
Revenue			
– Hong Kong transport operations	<b>10,690</b>	9,328	14.6
– Hong Kong station commercial businesses	<b>3,555</b>	3,075	15.6
– Hong Kong property rental and management businesses	<b>2,635</b>	2,517	4.7
– Mainland of China and international railway, property rental and management subsidiaries	<b>10,558</b>	10,453	1.0
– Other businesses	<b>834</b>	1,000	(16.6)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	<b>8,401</b>	9,304	(9.7)
Profit on Hong Kong property development	<b>898</b>	158	468.4
Operating profit before depreciation, amortisation and variable annual payment	<b>9,299</b>	9,462	(1.7)
Profit attributable to shareholders of the Company arising from underlying businesses	<b>3,440</b>	4,648	(26.0)
Total assets	<b>282,716</b>	274,687 <sup>^</sup>	2.9
Loans, other obligations and bank overdrafts	<b>37,149</b>	40,205 <sup>^</sup>	(7.6)
Obligations under service concession	<b>10,378</b>	10,409 <sup>^</sup>	(0.3)
Total equity attributable to shareholders of the Company	<b>180,294</b>	180,447 <sup>^</sup>	(0.1)
<b>Financial ratios</b>			
Operating margin (in %)	<b>29.7</b>	35.3	(5.6)% pts.
Operating margin (excluding Mainland of China and international subsidiaries) (in %)	<b>43.7</b>	56.0	(12.3)% pts.
Net debt-to-equity ratio* (in %)	<b>14.4</b>	18.1 <sup>^</sup>	(3.7)% pts.
Interest cover (times)	<b>13.4</b>	11.6	1.8 times
<b>Share information</b>			
Basic earnings per share (in HK\$)	<b>0.90</b>	1.18	(23.7)
Basic earnings per share arising from underlying businesses (in HK\$)	<b>0.56</b>	0.77	(27.3)
Ordinary dividend per share (in HK\$)	<b>0.25</b>	0.25	–
Share price at 30 June (in HK\$)	<b>52.60</b>	43.40	21.2
Market capitalisation at 30 June (HK\$ million)	<b>323,068</b>	260,822	23.9
<b>Operations highlights</b>			
Total passenger boardings in Hong Kong (million)			
– Domestic Service	<b>830.2</b>	816.1	1.7
– Cross-boundary Service	<b>57.6</b>	58.1	(0.8)
– High Speed Rail (Hong Kong Section)	<b>9.9</b>	–	N/A
– Airport Express	<b>9.0</b>	8.5	5.8
– Light Rail and Bus	<b>114.4</b>	113.2	1.0
Average number of passengers (thousand)			
– Domestic Service (weekday)	<b>4,892</b>	4,802	1.9
– Cross-boundary Service (daily)	<b>318.4</b>	320.8	(0.8)
– High Speed Rail (Hong Kong Section) (daily)	<b>54.9</b>	–	N/A
– Airport Express (daily)	<b>49.7</b>	47.0	5.8
– Light Rail and Bus (weekday)	<b>657.5</b>	647.1	1.6
Fare revenue per passenger (in HK\$)			
– Domestic Service	<b>8.14</b>	8.00	1.7
– Cross-boundary Service	<b>29.78</b>	29.67	0.4
– High Speed Rail (Hong Kong Section)	<b>90.13</b>	–	N/A
– Airport Express	<b>64.05</b>	65.77	(2.6)
– Light Rail and Bus	<b>3.23</b>	3.16	2.2
Proportion of franchised public transport boardings (January to May) (in %)	<b>48.8</b>	48.9 <sup>#</sup>	(0.1)% pt.

\* Including lease liabilities, obligations under service concession and loan from holders of non-controlling interests as components of debt.

# Market share for January-May 2018 was rebased to reflect the impact on the opening of Hong Kong – Zhuhai – Macao Bridge.

<sup>^</sup> Figures as at 31 December 2018.

# 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 8 August 2019)

	Board Committees						
	Executive Committee	Audit Committee	Nominations Committee	Remuneration Committee	Capital Works Committee	Risk Committee	Corporate Responsibility Committee
<b>Members of the Board</b>							
<b>Non-executive Directors</b>							
Rex Auyeung Pak-kuen (Chairman)			M	M			C
James Henry Lau Jr (Secretary for Financial Services and the Treasury)			M	M			
Secretary for Transport and Housing (Frank Chan Fan)			M	M			
Permanent Secretary for Development (Works) (Lam Sai-hung)					M	M	
Commissioner for Transport (Mable Chan)		M				M	
<b>Independent Non-executive Directors ("INED")</b>							
Andrew Clifford Winawer Brandler		M					C
Walter Chan Kar-lok			M				M
Dr Pamela Chan Wong Shui			C				M
Dr Dorothy Chan Yuen Tak-fai				C	M		
Cheng Yan-kee				M	M		
Dr Anthony Chow Wing-kin				M	M		
Dr Eddy Fong Ching	C		M				
James Kwan Yuk-choi					M	M	
Rose Lee Wai-mun		M				M	
Lucia Li Li Ka-lai		M					M
Jimmy Ng Wing-ka					M		M
Benjamin Tang Kwok-bun				M		M	
Dr Allan Wong Chi-yun			M		C		
Johannes Zhou Yuan		M				M	
<b>Executive Director</b>							
Dr Jacob Kam Chak-pui (Chief Executive Officer)	C						M
<b>Members of the Executive Directorate</b>							
Dr Jacob Kam Chak-pui (Chief Executive Officer)	C						M
Roger Francis Bayliss (Projects Director)	M						
Margaret Cheng Wai-ching (Human Resources Director)	M						M
Dr 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						
Jeny Yeung Mei-chun (Commercial Director)	M						

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

Corporate governance is the collective responsibility of the 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 is conscious about continuous improvement in the arena of corporate governance and takes prompt actions in responding to identified improvement opportunities.

## CORPORATE GOVERNANCE CODE COMPLIANCE

During the six-month period ended 30 June 2019, the Company has complied with the Code Provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## BUSINESS ETHICS

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

The Code of Conduct is reviewed and updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements. Education programmes including seminars and mandatory computer-based training programmes are in place to raise staff awareness. Staff members are also encouraged to report existing or perceived violations or 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 are briefed on the Code of Conduct as part of the staff induction programme. New recruits are also required to complete the mandatory computer-based training programmes within three months of joining the Company. The Code of Conduct is also uploaded onto the Company's website ([www.mtr.com.hk](http://www.mtr.com.hk)).

In addition, the Code of Conduct 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 to the Listing Rules (the "Model Code"). After having made specific enquiry, the Company confirms that all Members of the Board and (where applicable) their Alternate Directors, and all Members of the Executive Directorate have complied with the Model Code throughout the six-month period ended 30 June 2019.

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 and have confirmed their compliance.

## CHANGES DURING THE PERIOD FROM 1 JANUARY 2019 TO 8 AUGUST 2019

### Changes in Composition of the Board

1. Mr Rex Auyeung Pak-kuen was appointed by the Board as a Non-executive Director of the Company with effect from 7 March 2019 and elected as a Board Member of the Company at the Company's Annual General Meeting held on 22 May 2019 (the "2019 AGM").

Pursuant to Article 117(a) of the Company's Articles of Association, The Financial Secretary Incorporated appointed Mr Auyeung as Chairman of the Company with effect from 1 July 2019 until 31 December 2021 (both dates inclusive). He also became the chairman of the Corporate Responsibility Committee and a member of each of the Nominations Committee and the Remuneration Committee of the Company, all with effect from the same time.

- Mr Lincoln Leong Kwok-kuen retired from the position of Chief Executive Officer (the “CEO”) and ceased to be a member of each of the Board, the Executive Directorate and the Corporate Responsibility Committee of the Company, all with effect from 1 April 2019.
- Dr Jacob Kam Chak-pui, a Member of the Executive Directorate of the Company and formerly Managing Director – Operations and Mainland Business, was appointed by the Board as the CEO, a member of each of the Board and the Corporate Responsibility Committee, of the Company, all with effect from 1 April 2019. Dr Kam was elected as a Board Member of the Company at the 2019 AGM.
- Dr Pamela Chan Wong Shui, an INED and a member of each of the Nominations Committee and the Corporate Responsibility Committee of the Company, was appointed by the Board as the chairman of the Nominations Committee of the Company with effect from the conclusion of the 2019 AGM.
- Mr Walter Chan Kar-lok was elected as a Board Member and became an INED of the Company with effect from the conclusion of the 2019 AGM, and was appointed by the Board as a member of each of the Nominations Committee and the Corporate Responsibility Committee of the Company, with effect from the same time.
- Mr Cheng Yan-kee was elected as a Board Member and became an INED of the Company with effect from the conclusion of the 2019 AGM, and was appointed by the Board as a member of each of the Remuneration Committee and the Capital Works Committee of the Company, with effect from the same time.
- Mr Jimmy Ng Wing-ka was elected as a Board Member and became an INED of the Company with effect from the conclusion of the 2019 AGM, and was appointed by the Board as a member of each of the Capital Works Committee and the Corporate Responsibility Committee of the Company, with effect from the same time.
- Mr Vincent Cheng Hoi-chuen retired as an INED and ceased to be a member of each of the Remuneration Committee and the Corporate Responsibility Committee of the Company, all with effect from the conclusion of the 2019 AGM.
- Mr Lau Ping-cheung, Kaizer retired as an INED and ceased to be a member of each of the Capital Works Committee and the Corporate Responsibility Committee of the Company, all with effect from the conclusion of the 2019 AGM.
- Mr Abraham Shek Lai-him retired as an INED and ceased to be the chairman of the Nominations Committee and a member of the Capital Works Committee of the Company, all with effect from the conclusion of the 2019 AGM.
- Professor Frederick Ma Si-hang retired from the position of Chairman and ceased to be a member of each of the Board, the Nominations Committee and the Remuneration Committee, and the chairman of the Corporate Responsibility Committee of the Company, upon expiration of his tenure after 30 June 2019.

### Changes of Alternate Directors

- Mr Joseph Chan Ho-lim (Under Secretary for Financial Services and the Treasury) and Ms Alice Lau Yim (Permanent Secretary for Financial Services and the Treasury (Treasury)) were appointed by Mr James Henry Lau Jr (Secretary for Financial Services and the Treasury), a Non-executive Director of the Company, as his Alternate Directors with effect from 2 May 2019.
- Ms Rebecca Pun Ting-ting (Deputy Secretary for Transport and Housing (Transport)) (“DS for T&H (Transport)”) ceased to be an Alternate Director to the Secretary for Transport and Housing (“S for T&H”), a Non-executive Director of the Company, with effect from 15 July 2019.
- Mrs Sharon Yip Lee Hang-yee (DS for T&H (Transport)) was appointed as an Alternate Director to S for T&H, a Non-executive Director of the Company, with effect from 15 July 2019.

### Changes in Composition of the Executive Directorate

- Mr Roger Francis Bayliss was appointed as Projects Director and became a Member of the Executive Directorate of the Company with effect from 18 March 2019.
- Mr Lincoln Leong Kwok-kuen retired as the CEO and ceased to be a Member of the Executive Directorate of the Company with effect from 1 April 2019.

## Changes in Information of Directors

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	Changes in Information	Nature and Effective Date of Change
<b>Members of the Board</b>		
Rex Auyeung Pak-kuen	Investor and Financial Education Council (Hong Kong) • Member of the Board of Directors (formerly Executive Committee)	Change of name of the governance body (29 March 2019)
	HSBC Provident Fund Trustee (Hong Kong) Limited • Independent Non-executive Director	Appointment (14 June 2019)
	Athenex Inc. • Senior Strategy and Business Advisor	Cessation (6 May 2019)
	Standard Life (Asia) Limited • Independent Non-executive Director	Cessation (30 June 2019)
	Sompo Insurance China Co., Ltd. • Independent Non-executive Director	Cessation (31 July 2019)
Commissioner for Transport (Mable Chan)	Tate's Cairn Tunnel Company Limited (In Members' Voluntary Liquidation) • Director	Cessation (22 October 2018)
Walter Chan Kar-lok	Harbourfront Commission (Hong Kong) • Member	Cessation (1 July 2019)
Dr Pamela Chan Wong Shui	The Community Chest of Hong Kong • Member of the Board of Directors	Appointment (27 June 2019)
Dr Dorothy Chan Yuen Tak-fai	The Chartered Institute of Logistics and Transport • Global Chairperson for Women in Logistics and Transport	Appointment (16 June 2019)
Dr Eddy Fong Ching	SC Digital Solutions Limited • Independent Non-executive Director	Appointment (26 April 2019)
Rose Lee Wai-mun	The Community Chest of Hong Kong • Vice Patron • Member of the Board of Directors • Deputy Chairman of the Executive Committee	• Appointment (27 June 2019) • Cessation (27 June 2019) • Cessation (27 June 2019)
Jimmy Ng Wing-ka	Glorious Sun Enterprises Limited • Independent Non-executive Director	Appointment (8 June 2019)
	Security Bureau (Hong Kong) • Chairman of HKSAR Passports Appeal Board	Appointment (1 July 2019)
Abraham Shek Lai-him (Retired on 22 May 2019)	Chuang's China Investments Limited • Honorary Chairman • Chairman of the Board	• Appointment (29 April 2019) • Cessation (29 April 2019)
Benjamin Tang Kwok-bun	Croucher Foundation • Member of the Audit Committee	Cessation (31 July 2019)
<b>Members of the Executive Directorate</b>		
Dr Jacob Kam Chak-pui	The Hong Kong General Chamber of Commerce • Member of the General Committee	Appointment (1 April 2019)
	International Association of Public Transport (UITP) • Chairman of the Regional and Suburban Railways Division (formerly the Regional and Suburban Railways Assembly)	Change of name of the governance body (23 November 2018)
Margaret Cheng Wai-ching	Labour Department (Hong Kong) • Member of the Labour Advisory Board Committee on Employment Services	Appointment (1 January 2019)
	Education Bureau (Hong Kong) • Member of the Standing Committee on Language Education and Research	Cessation (1 July 2019)
Adi Lau Tin-shing	International Association of Public Transport (UITP) • Chairman of the Asia-Pacific Urban Rail Platform	Cessation (22 March 2019)
David Tang Chi-fai	West Kowloon Cultural District Authority (Hong Kong) • Co-opted Member of the Public Private Partnership Projects Committee under the board	Appointment (6 March 2019)
	Urban Renewal Authority (Hong Kong) • Non-executive Director	Cessation (1 May 2019)
Jeny Yeung Mei-chun	Immigration Department (Hong Kong) • Non-official Member of Users' Committee	Appointment (1 January 2019)
	Social Welfare Department (Hong Kong) • Member of the Advisory Committee on Enhancing Employment of People with Disabilities	Appointment (1 January 2019)
	SC Digital Solutions Limited • Independent Non-executive Director	Appointment (2 May 2019)
	Hong Kong Tourism Board • Member	Cessation (1 April 2019)

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

### (ii) Changes in Directors' Remuneration

- Dr Pamela Chan Wong Shui became the chairman (previously a member) of the Company's Nominations Committee with effect from the conclusion of the 2019 AGM held on 22 May 2019. As a result, the annual fee payable to her by the Company has increased from HK\$420,000 to HK\$470,000 per annum effective 22 May 2019. The actual fee receivable by Dr Chan for the year ending 31 December 2019 will be calculated on a pro rata basis.
- Mr Rex Auyeung Pak-kuen, a Non-executive Director of the Company, became the Chairman, the chairman of the Corporate Responsibility Committee and a member of each of the Nominations Committee and the Remuneration Committee, of the Company with effect from 1 July 2019. As a result, the fee payable to him by the Company has increased to HK\$1,730,000 per annum with effect from 1 July 2019. The actual fee receivable by Mr Auyeung for the year ending 31 December 2019 will be calculated on a pro rata basis.

## INDUCTION PROGRAMME, TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

On appointment, new Members of the Board (including Government nominated Directors), Alternate Directors and Members of the Executive Directorate are given a comprehensive, formal and tailored induction programme which covers:

- 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; and
- the general and specific duties of a director under general law (common law and legislation) and the Listing Rules.

In addition to the above, a Familiarization Programme to understand the key areas of the Company's business and operations is also provided.

Induction and familiarization programmes have been or will be provided to Mr Rex Auyeung Pak-kuen, Mr Walter Chan Kar-lok, Mr Cheng Yan-kee and Mr Jimmy Ng Wing-ka, the new Board Members, Mr Joseph Chan Ho-lim, Ms Alice Lau Yim and Mrs Sharon Yip Lee Hang-ye, the new Alternate Directors, and Mr Roger Francis Bayliss, the new Member of the Executive Directorate.

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 and e-learning provided by The Stock Exchange of Hong Kong Limited (the "HKSE") are also provided/notified to Members of the Board, Alternate Directors and Members of the Executive Directorate from time to time to keep them abreast of latest developments on this front.

## BOARD MEETINGS

The Board held eight meetings (three Regular Meetings, three Special Meetings and two Private Meetings) during the six-month period ended 30 June 2019.

### Regular Meetings

At these Regular Meetings, the Board reviewed, discussed and, where appropriate, approved matters relating to the Company's businesses, operations and financial performance. In particular, the following key matters were discussed at these Regular Meetings:

- Corporate Governance matters, including:
  - Review of the Board's structure and composition, and its corporate governance functions;
  - Review of Enterprise Risk Management Annual Report 2018 and the effectiveness of the Company's risk management and internal control systems;
  - Assessment of the independence of the INEDs;
  - Receipt of the proceedings of various Board Committee meetings and an MTR Academy Council meeting;
  - Receipt of shareholder analysis and investors' feedback;



- Approval of Sustainability Report 2018;
- Appointment of new Members of the Board; and
- Approval of Nomination Policy;
- 2019 AGM:
  - Recommendation of the election / re-election of Retiring Members of the Board and election of new Members of the Board; and
  - Recommendation of the renewal of the Scrip Dividend Scheme;
- Operations:
  - Review of 2018 train service performance;
  - Receipt of updates on the Tsuen Wan Line incident on 18 March 2019; and
  - Contract award for lifts and escalators maintenance services;
- Projects:
  - Receipt of updates on the Shatin to Central Link project and related matters;
- Mainland China and International Business:
  - Receipt of updates on Mainland China Business and Business Development; and
  - Receipt of updates on Macau Business and Business Development;
- Property:
  - Award of contract for fitting out works of an investment property;
- Commercial and Marketing:
  - Review of the principles for revising the Company's fares under the Fare Adjustment Mechanism (the "FAM"); and
  - Approval of the Controlled Fares for 2019 under the FAM;
- Financial:
  - Approval of 2018 Annual Report and Accounts.

## Special Meetings

Three special meetings were held to consider matters relating to the Shatin to Central Link project, the Tsuen Wan Line incident on 18 March 2019 and the tender arrangement for a property development project.

## Private Meetings

A private meeting was held in January 2019 for the Board to consider an internal policy matter and a senior executive appointment. The Legal and European Business Director and the Human Resources Director were invited to attend.

Another private meeting was held in March 2019 to consider the appointment of the new CEO, which the former CEO, the Legal and European Business Director and the Human Resources Director were invited to attend.

## COMMUNICATION WITH SHAREHOLDERS

### Annual General Meeting

The Company's 2019 AGM was held on 22 May 2019. The Chairman continued his practice of proposing separate resolutions for each substantially separate matter.

A total of 13 resolutions were passed at the 2019 AGM (with resolution no. 3 comprising four separate resolutions), each supported by over 98% of the votes cast. The full text of the resolutions is set out in the 2019 AGM Circular (which comprised Notice of the 2019 AGM) dated 12 April 2019.

All resolutions at the 2019 AGM were passed by way of a poll, and the poll results were posted on the respective websites of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the HKSE on the same day after the 2019 AGM.

For the benefit of the Company's shareholders who did not attend the 2019 AGM, the whole proceedings were webcast and posted on the Company's website in the same evening. Minutes of the 2019 AGM is made available on the Company's website ([www.mtr.com.hk](http://www.mtr.com.hk)).

## CONSTITUTIONAL DOCUMENT

The Company's Articles of Association (in both English and Chinese) are available on the websites of both the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the HKSE. During the six-month period ended 30 June 2019, 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 2019, 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:

Members of the Board/ Alternate Directors/ Members of the Executive Directorate	No. of ordinary shares held			No. of share options <sup>‡</sup>	No. of award shares <sup>‡</sup>	Total interests	Percentage of aggregate interests to total no. of voting shares in issue <sup>Δ</sup>
	Personal interests*	Family interests <sup>†</sup>	Other interests	Personal interests*	Personal interests*		
Professor Frederick Ma Si-hang (Note 1)	–	270,000 (Note 1)	270,000 (Note 1)	–	–	270,000	0.00440
Dr Jacob Kam Chak-pui	281,171	–	–	–	333,984	615,155	0.01002
Dr Pamela Chan Wong Shui	9,072	1,675 (Note 2)	–	–	–	10,747	0.00017
Cheng Yan-kee (Note 3)	–	2,000 (Note 3)	–	–	–	2,000	0.00003
Rose Lee Wai-mun	3,350 (Note 4)	–	–	–	–	3,350	0.00005
Lucia Li Li Ka-lai	–	1,614 (Note 5)	2,215 (Note 5)	–	–	3,829	0.00006
Alice Lau Yim (Note 6)	1,116	–	–	–	–	1,116	0.00002
Mak Shing-cheung	558	8,058 (Note 7)	–	–	–	8,616	0.00014
Dr Raymond So Wai-man	–	1,675 (Note 8)	–	–	–	1,675	0.00003
Roger Francis Bayliss (Note 9)	–	–	–	–	30,150	30,150	0.00049
Margaret Cheng Wai-ching	92,529	–	–	–	108,194	200,723	0.00327
Dr Peter Ronald Ewen	46,698	–	–	–	76,135	122,833	0.00200
Herbert Hui Leung-wah	42,660	2,233 (Note 10)	–	–	–	78,785	0.00201
Adi Lau Tin-shing	89,521	–	–	26,000	83,567	199,088	0.00324
Gillian Elizabeth Meller	105,800	–	–	–	79,950	185,750	0.00302
Linda So Ka-pik	71,536	–	–	–	79,817	151,353	0.00246
David Tang Chi-fai	190,550	–	–	–	84,634	275,184	0.00448
Jeny Yeung Mei-chun	664,753	–	–	–	84,267	749,020	0.01220

### Notes

As at 30 June 2019,

- 1 Professor Frederick Ma Si-hang retired as Chairman, a Member of the Board, chairman of the Corporate Responsibility Committee and a member of each of the Nominations Committee and the Remuneration Committee, of the Company, all with effect from 1 July 2019. The 270,000 shares were indirectly held by The Ma Family Trust established by Professor Ma for himself and his family of which his spouse was also a beneficiary.
- 2 The 1,675 shares were held by Dr Pamela Chan Wong Shui's spouse.
- 3 Mr Cheng Yan-kee was elected as a Member of the Board and became an INED of the Company, with effect from the conclusion of the 2019 AGM and was appointed by the Board as a member of each of the Remuneration Committee and the Capital Works Committee of the Company, with effect from the same time. The 2,000 shares were held by Mr Cheng's spouse.
- 4 At the time of her election as a Director of the Company, Ms Rose Lee Wai-mun had an interest in 3,350 shares.
- 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 Ms Alice Lau Yim (Permanent Secretary for Financial Services and the Treasury (Treasury)) has been appointed by Mr James Henry Lau Jr (Secretary for Financial Services and the Treasury), a Non-executive Director of the Company, as his Alternate Director with effect from 2 May 2019.
- 7 The 8,058 shares were held by Mr Mak Shing-cheung's spouse.
- 8 The 1,675 shares were held by Dr Raymond So Wai-man's spouse.
- 9 Mr Roger Francis Bayliss was appointed as Projects Director and became a Member of the Executive Directorate of the Company, with effect from 18 March 2019.
- 10 The 2,233 shares were held by Mr Herbert Hui Leung-wah's spouse.

# Details of the share options and award shares are set out in the sections headed "2007 Share Option Scheme" and "Executive Share Incentive Scheme" respectively on pages 42 to 44

\* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

Δ The Company's total number of voting shares in issue as at 30 June 2019 was 6,141,984,589

Save as disclosed above and in the sections headed “2007 Share Option Scheme” and “Executive Share Incentive Scheme”:

- A as at 30 June 2019, 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 2019, no Member of the Board or the Executive Directorate of the Company 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 2019 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of ordinary shares held	Percentage of ordinary shares to all the voting shares in issue <sup>Δ</sup>
The Financial Secretary Incorporated (“FSI”) (in trust on behalf of Government)	4,634,173,932	75.45%

<sup>Δ</sup> The Company's total number of voting shares in issue as at 30 June 2019 was 6,141,984,589

The Company has been informed by the Hong Kong Monetary Authority that, as at 30 June 2019, approximately 0.35% 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 2019, 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 2019 are set out below:

Member of the 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 2019	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 2019	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Adi Lau Tin-shing	30/5/2014	80,000	23/5/2015 – 23/5/2021	26,000	–	–	–	28.65	26,000	–
Other eligible employees	30/3/2012	15,868,500	23/3/2013 – 23/3/2019	840,000	–	–	840,000	27.48	–	46.40
	6/5/2013	20,331,500	26/4/2014 – 26/4/2020	2,709,000	–	–	813,000	31.40	1,896,000	47.81
	30/5/2014	19,812,500	23/5/2015 – 23/5/2021	4,595,500	–	–	846,000	28.65	3,749,500	47.47

### Notes

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

## EXECUTIVE SHARE INCENTIVE SCHEME

The Company adopted the Executive Share Incentive Scheme (formerly the "2014 Share Incentive Scheme") on 15 August 2014. The purposes of the Executive 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 Executive Share Incentive Scheme as award holders in accordance with the rules of the Executive Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares (together, the "Award Shares").

Restricted Shares are awarded to selective eligible employees and vested ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). Performance Shares are awarded to eligible employees generally on a three-year performance cycle ("Performance Period"), subject to review and approval by the Remuneration Committee from time to time. The vesting of the Performance Shares is subject to the performance of the Company, assessed by reference to certain pre-determined performance metrics approved by the Board for the relevant Performance Period and such other performance conditions as determined by the Remuneration Committee from time to time.

The Award Shares to be granted under the Executive Share Incentive Scheme are issued 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 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.

As part of the overall governance of the Executive Share Incentive Scheme, the Company reviews the scheme features on a regular basis to ensure continued relevance and effectiveness.

The maximum number of Award Shares that may at any time be the subject of an outstanding award granted under the Executive 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 Executive Share Incentive Scheme (the "Effective Date").

For the six-month period ended 30 June 2019, a total of 2,306,800 Award Shares (2018: 4,061,850 Award Shares) were awarded under the Executive Share Incentive Scheme. As at 30 June 2019, a total of 5,821,942 Award Shares (2018: 6,212,053 Award Shares) were neither vested, lapsed nor had been forfeited, representing 0.10% of the issued ordinary shares of the Company (2018: 0.11%) as at the Effective Date.

The particulars of the Award Shares granted are as follows:

Members of the Executive Directorate and eligible employees	Date of award	Types of Award Shares granted		Award Shares outstanding as at 1 January 2019	Award Shares vested during the period	Award Shares lapsed and/or forfeited during the period	Award Shares outstanding as at 30 June 2019
		Restricted Shares	Performance Shares				
Lincoln Leong Kwok-kuen (Note 1)	8/4/2016	64,850	–	21,618	21,618	–	–
	10/4/2017	63,900	–	42,600	42,600	–	–
	16/3/2018	80,000	–	80,000	80,000	–	–
	10/4/2018	73,300	239,950	313,250	73,300	–	239,950
Dr Jacob Kam Chak-pui	8/4/2016	21,550	–	7,184	7,184	–	–
	10/4/2017	22,050	–	14,700	7,350	–	7,350
	10/4/2018	25,550	50,450	76,000	8,516	–	67,484
	1/4/2019	120,000	–	–	–	–	120,000
	8/4/2019	47,400	91,750	–	–	–	139,150
Roger Francis Bayliss (Note 2)	8/4/2019	–	30,150	–	–	–	30,150
Margaret Cheng Wai-ching	19/8/2016	71,428	–	23,810	–	–	23,810
	10/4/2017	16,950	30,400	11,300	5,650	–	5,650
	10/4/2018	17,600	50,450	68,050	5,866	–	62,184
	8/4/2019	16,550	–	–	–	–	16,550
Dr Peter Ronald Ewen	10/4/2017	15,050	–	10,034	5,016	–	5,018
	10/4/2018	12,250	50,450	62,700	4,083	–	58,617
	8/4/2019	12,500	–	–	–	–	12,500
Herbert Hui Leung-wah	10/4/2017	15,200	30,400	10,134	5,066	–	5,068
	10/4/2018	14,200	50,450	64,650	4,733	–	59,917
	8/4/2019	13,800	–	–	–	–	13,800
Adi Lau Tin-shing	8/4/2016	8,400	–	2,800	2,800	–	–
	10/4/2017	17,700	25,050	11,800	5,900	–	5,900
	10/4/2018	16,450	50,450	66,900	5,483	–	61,417
	8/4/2019	16,250	–	–	–	–	16,250
Gillian Elizabeth Meller	8/4/2016	17,300	–	5,768	5,768	–	–
	10/4/2017	16,200	–	10,800	5,400	–	5,400
	10/4/2018	16,050	50,450	66,500	5,350	–	61,150
	8/4/2019	13,400	–	–	–	–	13,400
Linda So Ka-pik	8/4/2016	16,400	44,050	5,468	5,468	–	–
	10/4/2017	15,300	–	10,200	5,100	–	5,100
	10/4/2018	14,200	50,450	64,650	4,733	–	59,917
	8/4/2019	14,800	–	–	–	–	14,800

Members of the Executive Directorate and eligible employees	Date of award	Types of Award Shares granted		Award Shares outstanding as at 1 January 2019	Award Shares vested during the period	Award Shares lapsed and/or forfeited during the period	Award Shares outstanding as at 30 June 2019
		Restricted Shares	Performance Shares				
David Tang Chi-fai	8/4/2016	17,950	–	5,984	5,984	–	–
	10/4/2017	17,250	–	11,500	5,750	–	5,750
	10/4/2018	16,850	50,450	67,300	5,616	–	61,684
	8/4/2019	17,200	–	–	–	–	17,200
Jeny Yeung Mei-chun	8/4/2016	18,850	–	6,284	6,284	–	–
	10/4/2017	17,700	–	11,800	5,900	–	5,900
	10/4/2018	17,350	50,450	67,800	5,783	–	62,017
	8/4/2019	16,350	–	–	–	–	16,350
Other eligible employees	8/4/2016	2,199,700	107,450	589,668	585,532	4,136	–
	10/4/2017	1,994,050	26,350	1,162,593	586,446	10,585	565,562
	10/4/2018	1,954,800	1,028,450	2,784,450	616,486	77,717	2,090,247
	8/4/2019	1,773,900	122,750	–	4,450	5,500	1,886,700

## Notes

- 1 Mr Lincoln Leong Kwok-kuen retired as the Chief Executive Officer, and as a member of the Board, the Corporate Responsibility Committee and the Executive Directorate of the Company, all with effect from 1 April 2019.
- 2 Mr Roger Francis Bayliss was appointed as Projects Director and became a Member of the Executive Directorate of the Company, with effect from 18 March 2019.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, sell or redeem any of the Group's listed securities during the six-month period ended 30 June 2019. However, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the HKSE a total of 1,870,000 ordinary shares of the Company for a total consideration of approximately HK\$88 million during the same period (2018: HK\$239 million).

## LOAN AGREEMENTS WITH COVENANT RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

As at 30 June 2019, the Group had borrowings of HK\$30,096 million (2018: HK\$30,761 million) with maturities ranging from 2019 to 2055 and undrawn committed banking facilities of HK\$6,271 million (2018: HK\$18,077 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

For the purpose of ascertaining the Company's shareholders' entitlement to the 2019 interim dividend, the Register of Members of the Company was closed from 23 August 2019 to 28 August 2019 (both days inclusive) during which time no transfers of shares in the Company were effected. To qualify for the 2019 interim dividend, all completed transfer documents, accompanied by the relevant share certificates, had to be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 22 August 2019 (Hong Kong time). The 2019 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 11 October 2019 to shareholders whose names appeared on the Register of Members of the Company as at the close of business on 28 August 2019.

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

in HK\$ million	Note	Half year ended 30 June 2019 (Unaudited)	Half year ended 30 June 2018 (Unaudited) (Note)
Revenue from Hong Kong transport operations		10,690	9,328
Revenue from Hong Kong station commercial businesses		3,555	3,075
Revenue from Hong Kong property rental and management businesses		2,635	2,517
Revenue from Mainland of China and international railway, property rental and management subsidiaries	2	10,558	10,453
Revenue from other businesses		834	1,000
		<b>28,272</b>	26,373
Revenue from Mainland of China property development	2	–	–
		<b>28,272</b>	26,373
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses		(3,233)	(2,854)
– Energy and utilities		(891)	(759)
– Government rent and rates		(137)	(127)
– Stores and spares consumed		(260)	(264)
– Maintenance and related works		(981)	(679)
– Railway support services		(333)	(144)
– General and administration expenses		(342)	(249)
– Other expenses		(167)	(151)
		<b>(6,344)</b>	(5,227)
Expenses relating to Hong Kong station commercial businesses		(328)	(268)
Expenses relating to Hong Kong property rental and management businesses		(395)	(381)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	2	(9,886)	(10,043)
Expenses relating to other businesses	14B(h)	(2,737)	(919)
Project study and business development expenses		(171)	(214)
		<b>(19,861)</b>	(17,052)
Expenses relating to Mainland of China property development	2	(10)	(17)
<b>Operating expenses before depreciation, amortisation and variable annual payment</b>		<b>(19,871)</b>	(17,069)
<b>Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment</b>			
– Arising from recurrent businesses		8,411	9,321
– Arising from Mainland of China property development		(10)	(17)
		<b>8,401</b>	9,304
Profit on Hong Kong property development	3	898	158
<b>Operating profit before depreciation, amortisation and variable annual payment</b>		<b>9,299</b>	9,462
Depreciation and amortisation		(2,592)	(2,461)
Variable annual payment		(1,506)	(999)
<b>Operating profit before interest and finance charges</b>		<b>5,201</b>	6,002
Interest and finance charges	4	(442)	(580)
Investment property revaluation	11	2,066	2,435
Share of profit or loss of associates and joint venture	5	(74)	286
<b>Profit before taxation</b>		<b>6,751</b>	8,143
Income tax	6	(1,147)	(972)
<b>Profit for the period</b>		<b>5,604</b>	7,171
<b>Attributable to:</b>			
– Shareholders of the Company		5,506	7,083
– Non-controlling interests		98	88
<b>Profit for the period</b>		<b>5,604</b>	7,171
<b>Profit for the period attributable to shareholders of the Company:</b>			
– Arising from recurrent businesses		2,665	4,483
– Arising from property development		775	165
– Arising from underlying businesses		3,440	4,648
– Arising from investment property revaluation		2,066	2,435
		<b>5,506</b>	7,083
<b>Earnings per share:</b>	8		
– Basic		HK\$0.90	HK\$1.18
– Diluted		HK\$0.90	HK\$1.18

Note:

The Group has applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1.

The notes on pages 50 to 71 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 2019 (Unaudited)	Half year ended 30 June 2018 (Unaudited) (Note)
<b>Profit for the period</b>		<b>5,604</b>	7,171
<b>Other comprehensive income for the period (after taxation and reclassification adjustments):</b>			
Item that will not be reclassified to profit or loss:			
– Surplus on revaluation of self-occupied land and buildings		<b>63</b>	324
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of subsidiaries, associates and joint venture outside Hong Kong		<b>(59)</b>	(247)
– non-controlling interests		<b>(6)</b>	(6)
– Cash flow hedges: net movement in hedging reserve		<b>128</b>	136
		<b>63</b>	(117)
	10	<b>126</b>	207
<b>Total comprehensive income for the period</b>		<b>5,730</b>	7,378
<b>Attributable to:</b>			
– Shareholders of the Company		<b>5,638</b>	7,296
– Non-controlling interests		<b>92</b>	82
<b>Total comprehensive income for the period</b>		<b>5,730</b>	7,378

Note:

The Group has applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1.

The notes on pages 50 to 71 form part of this interim financial report.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in HK\$ million	Note	At 30 June 2019 (Unaudited)	At 31 December 2018 (Audited) (Note)
<b>Assets</b>			
Fixed assets			
– Investment properties	11	85,218	82,676
– Other property, plant and equipment	12	102,616	102,776
– Service concession assets	13	30,824	30,473
		<b>218,658</b>	215,925
Property management rights		24	26
Goodwill		56	58
Property development in progress	15	14,657	14,840
Deferred expenditure		1,988	1,878
Interests in associates and joint venture		9,603	8,756
Deferred tax assets	22	157	121
Investments in securities		371	294
Properties held for sale	16	939	1,369
Derivative financial assets	17	98	61
Stores and spares		1,841	1,673
Debtors and other receivables	18	10,289	9,576
Amounts due from related parties	19	2,418	2,088
Cash, bank balances and deposits		21,617	18,022
		<b>282,716</b>	274,687
<b>Liabilities</b>			
Bank overdrafts		5	–
Short-term loans		2,991	4,424
Creditors, other payables and provisions	20	32,661	25,947
Current taxation		1,857	1,161
Amounts due to related parties	19	6,579	2,676
Loans and other obligations	21	34,153	35,781
Obligations under service concession		10,378	10,409
Derivative financial liabilities	17	408	545
Loan from holders of non-controlling interests		145	146
Deferred tax liabilities	22	13,015	12,979
		<b>102,192</b>	94,068
<b>Net assets</b>		<b>180,524</b>	180,619
<b>Capital and reserves</b>			
Share capital	23	58,054	57,970
Shares held for Executive Share Incentive Scheme		(265)	(265)
Other reserves		122,505	122,742
<b>Total equity attributable to shareholders of the Company</b>		<b>180,294</b>	180,447
<b>Non-controlling interests</b>		<b>230</b>	172
<b>Total equity</b>		<b>180,524</b>	180,619

Note:

The Group has applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1.

The notes on pages 50 to 71 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in HK\$ million	Note	Share capital	Shares held for Executive Share Incentive Scheme	Other reserves				Retained profits	Total equity attributable to shareholders of the Company	Non-controlling interests	Total equity
				Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve				
<b>30 June 2019 (Unaudited)</b>											
Balance as at 1 January 2019, as previously reported		57,970	(265)	3,815	(26)	142	(788)	119,599	180,447	172	180,619
Effect of adoption of HKFRS 16 (net of tax)	1	-	-	-	-	-	-	(8)	(8)	-	(8)
Balance as at 1 January 2019, as restated		57,970	(265)	3,815	(26)	142	(788)	119,591	180,439	172	180,611
Changes in equity for the half year ended 30 June 2019:											
- Profit for the period		-	-	-	-	-	-	5,506	5,506	98	5,604
- Other comprehensive income for the period		-	-	63	128	-	(59)	-	132	(6)	126
- Total comprehensive income for the period		-	-	63	128	-	(59)	5,506	5,638	92	5,730
- Amounts transferred from hedging reserve to initial carrying amount of hedged items		-	-	-	4	-	-	-	4	-	4
- 2018 final ordinary dividend	7	-	-	-	-	-	-	(5,835)	(5,835)	-	(5,835)
- Shares purchased for Executive Share Incentive Scheme	23E	-	(88)	-	-	-	-	-	(88)	-	(88)
- Vesting and forfeiture of award shares of Executive Share Incentive Scheme	23F	5	88	-	-	(93)	-	-	-	-	-
- Ordinary dividends paid to holders of non-controlling interests		-	-	-	-	-	-	-	-	(34)	(34)
- Employee share-based payments		-	-	-	-	63	-	-	63	-	63
- Employee share options exercised	23C	79	-	-	-	(6)	-	-	73	-	73
Balance as at 30 June 2019		58,054	(265)	3,878	106	106	(847)	119,262	180,294	230	180,524
<b>31 December 2018 (Note)</b>											
Balance as at 1 January 2018 (Audited)		52,307	(173)	3,296	1	203	(27)	110,697	166,304	122	166,426
Changes in equity for the half year ended 30 June 2018:											
- Profit for the period		-	-	-	-	-	-	7,083	7,083	88	7,171
- Other comprehensive income for the period		-	-	324	136	-	(247)	-	213	(6)	207
- Total comprehensive income for the period		-	-	324	136	-	(247)	7,083	7,296	82	7,378
- 2017 final ordinary dividend	7	-	-	-	-	-	-	(5,228)	(5,228)	-	(5,228)
- Shares purchased for Executive Share Incentive Scheme	23E	-	(239)	-	-	-	-	-	(239)	-	(239)
- Vesting and forfeiture of award shares of Executive Share Incentive Scheme	23F	14	146	-	-	(160)	-	(11)	(11)	-	(11)
- Ordinary dividends paid to holders of non-controlling interests		-	-	-	-	-	-	-	-	(28)	(28)
- Employee share-based payments		-	-	-	-	64	-	-	64	-	64
- Employee share options exercised	23C	61	-	-	-	(5)	-	-	56	-	56
Balance as at 30 June 2018		52,382	(266)	3,620	137	102	(274)	112,541	168,242	176	168,418
Changes in equity for the half year ended 31 December 2018:											
- Profit for the period		-	-	-	-	-	-	8,925	8,925	60	8,985
- Other comprehensive income for the period		-	-	195	(163)	-	(514)	(348)	(830)	(16)	(846)
- Total comprehensive income for the period		-	-	195	(163)	-	(514)	8,577	8,095	44	8,139
- 2017 final ordinary dividend	7	-	-	-	-	-	-	4	4	-	4
- Shares issued in respect of scrip dividend of 2017 final ordinary dividend	7	4,175	(4)	-	-	-	-	-	4,171	-	4,171
- 2018 interim ordinary dividend	7	-	-	-	-	-	-	(1,525)	(1,525)	-	(1,525)
- Shares issued in respect of scrip dividend of 2018 interim ordinary dividend		1,298	(1)	-	-	-	-	-	1,297	-	1,297
- Vesting and forfeiture of award shares of Executive Share Incentive Scheme		1	6	-	-	2	-	2	11	-	11
- Ordinary dividends paid to holders of non-controlling interests		-	-	-	-	-	-	-	-	(48)	(48)
- Employee share-based payments		-	-	-	-	46	-	-	46	-	46
- Employee share options exercised		114	-	-	-	(8)	-	-	106	-	106
Balance as at 31 December 2018 (Audited)		57,970	(265)	3,815	(26)	142	(788)	119,599	180,447	172	180,619

**Note:**

The Group has applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1.

The notes on pages 50 to 71 form part of this interim financial report.

# CONSOLIDATED CASH FLOW STATEMENT

in HK\$ million	Note	Half year ended 30 June 2019 (Unaudited)	Half year ended 30 June 2018 (Unaudited) (Note)
<b>Cash flows from operating activities</b>			
Cash generated from operations	25	9,964	4,845
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		608	645
Purchase of tax reserve certificates		(7)	(6)
Current tax paid			
– Hong Kong Profits Tax paid		(308)	(274)
– Tax paid outside Hong Kong		(214)	(407)
<b>Net cash generated from operating activities</b>		<b>10,043</b>	4,803
<b>Cash flows from investing activities</b>			
Capital expenditure			
– Purchase of assets for Hong Kong transport and related operations		(2,614)	(2,653)
– Shenzhen Metro Longhua Line Project and related operations		(44)	(44)
– Hong Kong railway extension projects		(175)	(233)
– Hong Kong and Shenzhen property development		(357)	(298)
– Investment property projects and fitting out work		(112)	(218)
– Other capital projects		(47)	(51)
Variable annual payment		(2,305)	(1,933)
Receipts in respect of Hong Kong and Shenzhen property development		4,580	1,089
Increase in bank deposits with more than three months to maturity when placed or pledged		(3,797)	(982)
Purchase of investments in securities		(70)	(31)
Proceeds from sale or redemption of investments in securities		1	239
Proceeds from disposal of fixed assets		3	2
Investments in associate and joint venture		(679)	(669)
Loan to an associate		(123)	–
Loan from holders of non-controlling interests		–	5
<b>Net cash used in investing activities</b>		<b>(5,739)</b>	(5,777)
<b>Cash flows from financing activities</b>			
Proceeds from shares issued under share option schemes		73	56
Purchase of shares for Executive Share Incentive Scheme		(88)	(239)
Proceeds from loans and capital market instruments		7,761	11,224
Repayment of loans and capital market instruments		(11,643)	(14,812)
Interest and finance charges paid		(539)	(621)
Interest received		91	136
Capital element of lease rentals paid		(78)	(5)
Dividends paid to holders of non-controlling interests		(34)	(28)
<b>Net cash used in financing activities</b>		<b>(4,457)</b>	(4,289)
Net decrease in cash and cash equivalents		(153)	(5,263)
Cash and cash equivalents at 1 January		8,865	13,939
Effect of exchange rate changes		(54)	(232)
Cash and cash equivalents at 30 June		<b>8,658</b>	8,444
<b>Analysis of the balances of cash and cash equivalents</b>			
Cash, bank balances and deposits on the consolidated statement of financial position		21,617	13,837
Bank deposits with more than three months to maturity when placed or pledged		(12,954)	(5,393)
Bank overdrafts		(5)	–
Cash and cash equivalents in the consolidated cash flow statement		<b>8,658</b>	8,444

Note:

The Group has applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1.

The notes on pages 50 to 71 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 72. 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 and joint venture since the issuance of the 2018 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 2018 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 2018 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 HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the 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.

The accounting policies adopted for the preparation of this interim financial report are the same as those adopted in the preparation of the 2018 annual accounts, except for the accounting policy changes arising from the adoption of HKFRS 16.

### HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*.

HKFRS 16 introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases (except for leases that have a lease term of 12 months or less and leases of low value assets). HKFRS 16 also introduces a change in lease definition which mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use. Accordingly, certain contracts that were previously assessed as leases under HKAS 17 where the Group does not control the use of an identified asset were not accounted for as leases under HKFRS 16. Previously, rentals payable under operating leases are charged on a straight-line basis over the period of the lease to the profit and loss account (or, where appropriate, are capitalised as a part of railway construction in progress, property development in progress and deferred expenditure). From 1 January 2019 onwards, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. The right-of-use asset is initially recognised and measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value; and
- right-of-use assets related to interests in leasehold land where the interest in the land is held as properties held for sale are carried at the lower of cost and net realisable value.

The lessor accounting requirements are brought forward from HKAS 17 and are substantially unchanged.

## 1 Basis of Preparation *(continued)*

The Group has applied HKFRS 16 as from 1 January 2019. At initial application, the Group has elected a) to use the modified retrospective approach; b) to apply the recognition exemption for operating leases with a remaining lease term of less than 12 months from 1 January 2019; and c) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. The Group applies the new definition of a lease in HKFRS 16 to contracts that were effective as at 1 January 2019. For lease liabilities, at the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using its incremental borrowing rates at 1 January 2019. The weighted average rate applied was 4.5%. For contracts entered into before 1 January 2019 which are or contain leases, the Group recognised right-of-use assets as if HKFRS 16 had always been applied since the commencement date of the leases, other than discounting using the relevant borrowing rate at 1 January 2019. As a result, any difference between the right-of-use asset recognised, the lease liability and related net deferred tax, is recognised as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continue to be reported under HKAS 17. The difference between the amount of operating lease commitments as at 31 December 2018 as disclosed in the Group's 2018 consolidated accounts and the amount of lease liabilities initially recognised at 1 January 2019 mainly related to the commitments of those arrangements which are not leases under HKFRS 16, as well as the discounting effect of lease payments.

Upon adoption of HKFRS 16 on 1 January 2019, the Group recognised right-of-use assets under "other property, plant and equipment" and "investment properties" of HK\$491 million and HK\$361 million respectively, lease liabilities under "loans and other obligations" of HK\$865 million and related net deferred tax assets of HK\$5 million, with the net difference of HK\$8 million being recognised as a decrease in the opening balance of "retained profits", on leases previously classified as operating leases.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the caption for the balance. Accordingly, instead of "finance leases" under "loans and other obligations", the amount of HK\$450 million is included within "lease liabilities" under "loans and other obligations". There is no impact on the opening balance of equity.

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

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

in HK\$ million	Half year ended 30 June 2019		Half year ended 30 June 2018	
	Revenue	Expenses	Revenue	Expenses
Railway-related subsidiaries outside of Hong Kong				
– Melbourne Train	5,526	5,194	5,842	5,527
– MTR Nordic*	2,408	2,466	2,485	2,622
– London Crossrail	1,040	953	793	751
– Shenzhen Metro Longhua Line	368	277	373	280
– Sydney Metro Northwest	711	689	780	701
– Macau Light Rapid Transit Taipa Line	409	275	102	102
	10,462	9,854	10,375	9,983
Property rental and management businesses in Mainland of China	96	32	78	60
	10,558	9,886	10,453	10,043
Property development in Mainland of China	–	10	–	17
Total Mainland of China and international subsidiaries	10,558	9,896	10,453	10,060

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

The Group's 60% owned subsidiary, Metro Trains Sydney Pty Ltd, commenced the train services of Sydney Metro North West on 26 May 2019.

## 3 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK\$ million	Half year ended 30 June 2019	Half year ended 30 June 2018
Share of surplus from property development	849	128
Agency fee and other income from West Rail property development	83	52
Overheads and miscellaneous studies	(34)	(22)
	898	158

## 4 Interest and Finance Charges

Interest and finance charges comprise:

in HK\$ million	Half year ended 30 June 2019	Half year ended 30 June 2018
Interest expenses in respect of:		
– Bank loans, overdrafts and capital market instruments	523	540
– Obligations under service concession	350	352
– Lease liabilities	32	13
– Others	11	11
Finance charges	23	31
Exchange gain	(15)	(19)
	<b>924</b>	928
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(38)	(54)
Derivative financial instruments:		
– Fair value hedges	–	22
– Cash flow hedges:		
– transferred from hedging reserve to interest expenses	(14)	(7)
– transferred from hedging reserve to offset exchange gain	23	74
– Hedge of net investments:		
– ineffective portion	(1)	(1)
– Derivatives not adopted hedge accounting	(1)	(32)
	<b>7</b>	56
Interest expenses capitalised	(213)	(182)
	<b>680</b>	748
Interest income in respect of:		
– Deposits with banks	(231)	(168)
– Others	(7)	–
	<b>(238)</b>	(168)
	<b>442</b>	580

## 5 Share of Profit or Loss of Associates and Joint Venture

Share of profit or loss of associates and joint venture comprises:

in HK\$ million	Half year ended 30 June 2019	Half year ended 30 June 2018
Share of profit or loss before taxation	84	434
Share of income tax expenses	(158)	(148)
	<b>(74)</b>	286

In March 2017, the Department for Transport of the United Kingdom (“DfT”) awarded the South Western Railway franchise (“Franchise”) to First MTR South Western Trains Limited (“SWR”), an associate of the Company which the Company holds a 30% shareholding and FirstGroup plc in the United Kingdom holds a 70% shareholding. Pursuant to a franchise agreement (“Franchise Agreement”) with DfT, the period of the Franchise runs from 20 August 2017 for seven years, with an option for an eleven month extension at the discretion of the DfT.

As noted in the Company’s 2018 annual accounts, the financial performance of SWR has been impacted by a number of adverse factors (and this has continued since March 2019). SWR continues to be engaged in discussions with the DfT and relevant third parties to agree potential commercial and contractual remedies but, at the current time, there is a range of potential outcomes. Given the level of uncertainty in these outcomes and the potential financial impact of some of the possible scenarios, the Franchise Agreement is considered as an onerous contract.

As such, a provision of GBP43 million (HK\$436 million) has been made under “share of profit or loss of associates and joint venture” in the consolidated profit and loss account for the half year ended 30 June 2019 which represents the Company’s 30% share of the maximum potential loss under the Franchise Agreement.

## 6 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK\$ million	Half year ended 30 June 2019	Half year ended 30 June 2018
Current tax		
– Hong Kong Profits Tax	1,055	920
– Tax outside Hong Kong	162	146
	1,217	1,066
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(31)	(32)
	1,186	1,034
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	(32)	4
– depreciation allowances in excess of related depreciation	(32)	(56)
– revaluation of properties	(3)	–
– provisions and others	28	(10)
	(39)	(62)
	1,147	972

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2019 is calculated at 16.5% (2018: 16.5%) on the estimated assessable profits for the period after deducting accumulated tax losses brought forward, if any. Current taxes for subsidiaries outside Hong Kong are charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The Company is a qualifying corporation under the two-tiered Profits Tax rate regime in Hong Kong. Under the two-tiered Profits Tax rate regime, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for the Company was calculated at the same basis in 2018.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2018: 16.5%), while that arising outside Hong Kong is calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

Details of the tax reserve certificates purchased by the Company are set out in note 18 to the condensed consolidated interim accounts.

## 7 Dividends

Ordinary dividends paid and proposed to shareholders of the Company comprise:

in HK\$ million	Half year ended 30 June 2019	Half year ended 30 June 2018
Ordinary dividends attributable to the period		
– Interim ordinary dividend declared after the reporting period of HK\$0.25 (2018: HK\$0.25) per share	1,535	1,526
Ordinary dividends attributable to the previous year		
– Final ordinary dividend of HK\$0.95 (2018: HK\$0.87 per share attributable to year 2017) per share approved and payable/paid during the period	5,835	5,228

The Company has recognised 2018 final ordinary dividend payable of HK\$4,402 million to the Financial Secretary Incorporated (the "FSI") of the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") and HK\$1,433 million to other shareholders in the amounts due to related parties (note 19) and creditors, other payables and provisions (note 20) respectively in the consolidated statement of financial position as at 30 June 2019.

## 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 2019 of HK\$5,506 million (2018: HK\$7,083 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

	Half year ended 30 June 2019	Half year ended 30 June 2018
Issued ordinary shares at 1 January	6,139,485,589	6,007,777,302
Effect of share options exercised	1,305,985	858,630
Less: Shares held for Executive Share Incentive Scheme	(5,623,421)	(4,463,901)
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 30 June	6,135,168,153	6,004,172,031

### 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 2019 of HK\$5,506 million (2018: HK\$7,083 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme, which is calculated as follows:

	Half year ended 30 June 2019	Half year ended 30 June 2018
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 30 June	6,135,168,153	6,004,172,031
Effect of dilutive potential shares under the share option scheme	2,494,987	4,248,298
Effect of shares awarded under Executive Share Incentive Scheme	5,780,265	5,786,864
Weighted average number of shares (diluted) at 30 June	6,143,443,405	6,014,207,193

C Both basic and diluted earnings per share would have been HK\$0.56 (2018: HK\$0.77) if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK\$3,440 million (2018: HK\$4,648 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, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section), 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:

in HK\$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates			Un-allocated amount	Total
					Mainland of China and international railway, property rental and management businesses	Mainland of China property development	Other businesses		
<b>Half year ended 30 June 2019</b>									
Revenue from contracts with customers within the scope of HKFRS 15	10,690	1,059	143	-	10,388	-	825	-	23,105
Revenue from other sources	-	2,496	2,492	-	170	-	9	-	5,167
Total revenue	10,690	3,555	2,635	-	10,558	-	834	-	28,272
Operating expenses	(6,344)	(328)	(395)	-	(9,886)	(10)	(2,737)	-	(19,700)
Project study and business development expenses	-	-	-	-	-	-	-	(171)	(171)
Operating profit/(loss) before Hong Kong property development, depreciation, amortisation and variable annual payment	4,346	3,227	2,240	-	672	(10)	(1,903)	(171)	8,401
Profit on Hong Kong property development	-	-	-	898	-	-	-	-	898
Operating profit/(loss) before depreciation, amortisation and variable annual payment	4,346	3,227	2,240	898	672	(10)	(1,903)	(171)	9,299
Depreciation and amortisation	(2,346)	(93)	(8)	-	(112)	-	(33)	-	(2,592)
Variable annual payment	(1,048)	(455)	(3)	-	-	-	-	-	(1,506)
Operating profit/(loss) before interest and finance charges	952	2,679	2,229	898	560	(10)	(1,936)	(171)	5,201
Interest and finance charges	-	-	-	-	(24)	38	-	(456)	(442)
Investment property revaluation	-	-	2,110	-	(44)	-	-	-	2,066
Share of profit or loss of associates and joint venture	-	-	-	-	(194)	-	120	-	(74)
Income tax	-	-	-	(148)	(98)	(3)	-	(898)	(1,147)
Profit/(loss) for the half year ended 30 June 2019	952	2,679	4,339	750	200	25	(1,816)	(1,525)	5,604
<b>Half year ended 30 June 2018</b>									
Total Revenue	9,328	3,075	2,517	-	10,453	-	1,000	-	26,373
Operating expenses	(5,227)	(268)	(381)	-	(10,043)	(17)	(919)	-	(16,855)
Project study and business development expenses	-	-	-	-	-	-	-	(214)	(214)
Operating profit/(loss) before Hong Kong property development, depreciation, amortisation and variable annual payment	4,101	2,807	2,136	-	410	(17)	81	(214)	9,304
Profit on Hong Kong property development	-	-	-	158	-	-	-	-	158
Operating profit/(loss) before depreciation, amortisation and variable annual payment	4,101	2,807	2,136	158	410	(17)	81	(214)	9,462
Depreciation and amortisation	(2,265)	(84)	(6)	-	(71)	(2)	(33)	-	(2,461)
Variable annual payment	(688)	(309)	(2)	-	-	-	-	-	(999)
Operating profit/(loss) before interest and finance charges	1,148	2,414	2,128	158	339	(19)	48	(214)	6,002
Interest and finance charges	-	-	-	-	(6)	63	-	(637)	(580)
Investment property revaluation	-	-	2,435	-	-	-	-	-	2,435
Share of profit or loss of associates and joint venture	-	-	-	-	188	-	98	-	286
Income tax	-	-	-	(26)	(91)	(11)	-	(844)	(972)
Profit/(loss) for the half year ended 30 June 2018	1,148	2,414	4,563	132	430	33	146	(1,695)	7,171

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

### 9 Segmental Information *(continued)*

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

in HK\$ million	Half year ended 30 June 2019	Half year ended 30 June 2018
Hong Kong (place of domicile)	17,689	15,891
Australia	6,237	6,622
Mainland of China	483	472
Sweden	2,408	2,485
United Kingdom	1,043	798
Other jurisdictions	412	105
	<b>10,583</b>	10,482
	<b>28,272</b>	26,373

### 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 2019			Half year ended 30 June 2018		
	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax expense	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of subsidiaries, associates and joint venture outside Hong Kong	(59)	–	(59)	(247)	–	(247)
– Non-controlling interests	(6)	–	(6)	(6)	–	(6)
	<b>(65)</b>	<b>–</b>	<b>(65)</b>	(253)	–	(253)
Surplus on revaluation of self-occupied land and buildings (note 12C)	75	(12)	63	388	(64)	324
Cash flow hedges: net movement in hedging reserve (note 10B)	154	(26)	128	163	(27)	136
Other comprehensive income	<b>164</b>	<b>(38)</b>	<b>126</b>	298	(91)	207

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 2019	Half year ended 30 June 2018
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	143	98
Amounts transferred to profit or loss:		
– Interest and finance charges (note 4)	9	67
– Other expenses	2	(2)
Deferred tax on the above items	(26)	(27)
	<b>128</b>	136

## 11 Investment Properties

As discussed in note 1, upon adoption of HKFRS 16 on 1 January 2019, the Group recognised a right-of-use asset of HK\$361 million in respect of its shopping centre in Beijing in the opening balance of “investment properties” as at 1 January 2019.

Investment properties of the Group in Hong Kong and Mainland of China were revalued at the reporting date by Jones Lang LaSalle Limited and Cushman & Wakefield Limited respectively. 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, the Group recognised the net increase in fair value of HK\$2,066 million for the half year ended 30 June 2019 (2018: HK\$2,435 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 profit and loss account in subsequent periods.

## 12 Other Property, Plant and Equipment

### A Right-of-use Assets

As discussed in note 1, upon adoption of HKFRS 16 on 1 January 2019, the Group recognised right-of-use assets of HK\$491 million in the opening balance of “other property, plant and equipment” as at 1 January 2019, on leases previously classified as operating leases.

### B Acquisitions and Disposals of Owned Assets

During the half year ended 30 June 2019, the Group acquired or commissioned assets (other than right-of-use assets) at a total cost of HK\$1,406 million (2018: HK\$1,388 million).

### C 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 Jones Lang LaSalle Limited. The valuation resulted in a revaluation surplus of HK\$75 million (2018: HK\$388 million), which, net of deferred tax provision of HK\$12 million (2018: HK\$64 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 2019, the Group incurred HK\$1,065 million (2018: HK\$1,093 million) of expenditure for the replacement and upgrade of the Kowloon-Canton Railway Corporation (“KCRC”) system (“Additional Concession Property”) under the service concession arrangement in the Rail Merger, HK\$11 million (2018: HK\$nil) of expenditure for the replacement and upgrade of the concession property of the High Speed Rail (“Additional Concession Property (High Speed Rail)”) under the supplemental service concession arrangement with KCRC and HK\$3 million (2018: HK\$4 million) of expenditure for asset additions in respect of Shenzhen Metro Longhua Line.

Shenzhen Metro Longhua Line (“SZL4”) forms part of the Shenzhen Metro, which is operated by a wholly-owned subsidiary, MTR Corporation (Shenzhen) Limited (“MTRSZ”). There has been no increase in fare since MTRSZ started operating the line in 2010. However, the Company understands that the Shenzhen Municipal Government is undergoing the statutory process in relation to a fare adjustment in the Shenzhen Metro Network. Based on progress of the fare adjustment made to date, no impairment loss is recognised at 30 June 2019. If appropriate fare adjustments are not implemented, the long-term financial viability of SZL4 is expected to be impacted.

## 14 Railway Construction Projects under Entrustment by the HKSAR Government

### A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“High Speed Rail” or “HSR”) Project

#### (a) HSR 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 HSR (the “HSR Preliminary Entrustment Agreement”). Pursuant to the HSR 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.

## 14 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

### A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“High Speed Rail” or “HSR”) Project *(continued)*

#### (b) HSR Entrustment Agreement:

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the HSR on the understanding that the Company would subsequently be invited to undertake the operation of the HSR 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 HSR (the “HSR Entrustment Agreement”). Pursuant to the HSR 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 HSR and the HKSAR Government, as owner of HSR, 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 “HSR Project Management Fee”) (subsequent amendments to these arrangements are described below). As at 30 June 2019 and up to the date of this interim financial 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 HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR 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 HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company’s total aggregate liability to the HKSAR Government arising out of or in connection with the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the HSR Project Management Fee and any other fees that the Company receives under the HSR Entrustment Agreement and certain fees received by the Company under the HSR Preliminary Entrustment Agreement (the “Liability Cap”). In accordance with general principles of law, such Liability Cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has reserved the right to refer to arbitration the question of the Company’s liability for the Current Cost Overrun (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement (as more particularly described in note 14A(c)(iv) below), up to the date of this interim financial report, no claim has been received from the HKSAR Government.

In April 2014, the Company announced that the construction period for the HSR 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 HSR being completed in the third quarter of 2018 (including programme contingency of six months) (the “HSR Revised Programme”); and
- the total project cost of HK\$85.3 billion (including contingency), based on the HSR 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”). Further particulars relating to the Revised Cost Estimate are set out in notes 14A(c) and (e) below.

#### (c) HSR Agreement:

On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the “HSR Agreement”) relating to the further funding and completion of the HSR. The HSR Agreement contains an integrated package of terms (subject to conditions as set out in note 14A(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 HSR 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) (“Special Dividend”). The first tranche was paid on 13 July 2016 and the second tranche was paid on 12 July 2017;
- (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 HSR Preliminary Entrustment Agreement and HSR 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 HSR Entrustment Agreement, the Liability Cap is equal to the HSR Project Management Fee and any other fees that the Company receives under HSR 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 HSR Project Management Fee is increased in accordance with the HSR Agreement (as it will be equal to the increased HSR Project Management Fee under the HSR 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:

## 14 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

### A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“High Speed Rail” or “HSR”) Project *(continued)*

- 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 HSR Entrustment Agreement to reflect the arrangements contained in the HSR Agreement, including an increase in HSR Project Management Fee payable to the Company under HSR 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 HSR Entrustment Agreement in relation to HSR project) and to reflect the HSR Revised Programme;

(vi) The arrangements under the HSR 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 HSR 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) Operations of HSR:

On 23 August 2018, the Company and KCRC entered into the SSCA to supplement the SCA dated 9 August 2007 in order for KCRC to grant a concession to the Company in respect of the HSR and to prescribe the operational and financial requirements that will apply to the HSR. The commercial operation of HSR began on 23 September 2018.

(e) Based on the Company’s latest review of the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the project and having taken account of the opinion of an independent expert who has reviewed the Revised Cost Estimate, the Company does not currently believe there is any need to revise further the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the project. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach agreement and settlement based on past experience.

Having considered the number of contracts yet to be finalised and the contingency allowance currently available, there can be no absolute assurance that the final project cost will not exceed HK\$84.42 billion, particularly if unforeseen difficulties arise in the resolution of commercial issues during the process of negotiating the final accounts. In such case, under the terms of the HSR Agreement, the Company will be required to bear and finance the portion of the project cost that exceeds HK\$84.42 billion (if any) except for certain agreed excluded costs (as more particularly described in note 14A(c)(ii) above).

(f) 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 based on information available to date there is any need to revise further the Revised Cost Estimate of HK\$84.42 billion. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach agreement and settlement;

(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 14A(c)(iv) above), given that (a) the Company has not received any notification from the HKSAR 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 HSR Agreement, cannot take place until after commencement of commercial operations on the HSR) (as of 30 June 2019 and up to the date of this interim financial report); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR 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, where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company’s obligation or liability (if any).

(g) During the half year ended 30 June 2019, HSR Project Management Fee of HK\$57 million (2018: HK\$222 million) was recognised in the consolidated profit and loss account. As at 30 June 2019, the total HSR Project Management Fee and the additional fees referred to above recognised to date in the consolidated profit and loss account amounted to HK\$6,527 million (as at 31 December 2018: HK\$6,470 million). In relation to the sufficiency of the HSR Project Management Fee, the Company estimated that the total costs to complete performance of its obligations in relation to the HSR project are likely to exceed the HSR Project Management Fee. Accordingly, an appropriate amount of provision was charged in the consolidated profit and loss account in the second half of 2018, and no additional provision was made for the half year ended 30 June 2019.

## 14 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

### 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 for carrying out or procuring the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible for funding 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 for carrying out or procuring the carrying out of the agreed works while the HKSAR Government is responsible for bearing and paying to the Company all the work costs ("SCL Advance Works Costs").

In August 2015, the Company notified the HKSAR Government that the Company estimated that the cost for the works carried out under the SCL Advance Works Entrustment Agreement will exceed the original estimate of HK\$7,350 million. In February 2016, the Company notified the HKSAR Government that the estimated exceedance would be 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 to the Legislative Council Public Works Subcommittee the application for additional funding needed in excess of amounts retained by the HKSAR Government from the original funding. Such 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 for bearing 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 for carrying out or procuring 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 (the "SCL Project Management Fee"). As at 30 June 2019 and up to the date of this interim financial report, the Company has received payments of the SCL Project Management Fee from the HKSAR Government in accordance with the original agreed payment schedule.

The sum entrusted to the Company by the HKSAR Government for the main construction works under the SCL Entrustment Agreement is HK\$70,827 million. The Company has previously announced that, due to the continuing challenges posed by external factors, the SCL Cost to Complete ("CTC") would need to be revised upwards significantly.

The Company completed a detailed review of the estimated CTC for the main construction works under the SCL Entrustment Agreement and the latest estimate was submitted to the HKSAR Government for review on 5 December 2017. Taking into account a number of factors, including issues such as archaeological finds, the HKSAR Government's requests for additional scope and late or incomplete handover of construction sites, the Company has increased the latest estimate by HK\$16,501 million from HK\$70,827 million to HK\$87,328 million including an increase in the SCL Project Management Fee payable to the Company, which is subject to agreement and approval processes. Since submission of this latest estimate to the HKSAR Government, the Company has been liaising with the HKSAR Government to facilitate their review and verification process. The Company intends to carry out a further review and revalidation of the CTC within 2019.

#### (d) Claims and Indemnification:

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses incurred by the HKSAR Government as a result of the negligence of the Company in performing its obligations under the relevant SCL Agreement or breach thereof by the Company. 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. In accordance with general principles of law, such cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the Commission of Inquiry into the Construction Works at and near the Hung Hom Station extension under the Shatin to Central Link ("COI") (as stated in note 14B(e) below), up to the date of this interim financial report, no claim has been received from the HKSAR Government in relation to any SCL Agreement. It is uncertain as to whether such claim will be made against the Company in the future and, if made, the nature and amount of such claim.

## 14 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

### B Shatin to Central Link (“SCL”) Project *(continued)*

#### (e) Hung Hom Incidents:

As stated in the Company’s announcement dated 18 July 2019, towards the end of the first half of 2018, there were allegations concerning workmanship in relation to the Hung Hom Station extension (“First Hung Hom Incident”). The Company took immediate steps to investigate the issues, report the Company’s findings to the HKSAR Government and reserve the Company’s position against relevant contractors. To address the First Hung Hom Incident, the Company submitted to the HKSAR Government a holistic proposal for the verification and assurance of the as-constructed conditions and workmanship quality of the Hung Hom Station extension.

In late-2018 and early 2019, the Company advised the HKSAR Government of an insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel (“NAT”), the South Approach Tunnel (“SAT”) and the Hung Hom Stabling Sidings (“HHS”), forming an addition to the First Hung Hom Incident (“Second Hung Hom Incident”). To address the Second Hung Hom Incident, the Company submitted to the HKSAR Government a verification proposal for verification of the as-constructed condition and workmanship quality of these areas.

#### (f) Commission of Inquiry:

On 10 July 2018, the COI was set up by the HKSAR Chief Executive in Council pursuant to the Commissions of Inquiry Ordinance (Chapter 86 of the Laws of Hong Kong). The Company has cooperated fully with the COI. The COI process included hearing of evidence from factual witnesses and reviewing evidence from experts on project management and structural engineering issues. On 29 January 2019, the HKSAR Government made its closing submission to the first phase of the COI in which it stated its view that the Company ought to have provided the required skills and care reasonably expected of a professional and competent project manager but that the Company had failed to do so. On 19 February 2019, the HKSAR Government announced that the terms of reference of the COI had been expanded and approved a further extension of time for the COI to submit its report to the Chief Executive by 30 August 2019, or such time as the Chief Executive in Council may allow. On 2 July 2019, the Chief Executive in Council approved, at the request of the COI, an extension of time for the COI to submit its final report to the Chief Executive on or before 29 November 2019.

On 25 February 2019, the COI submitted an interim report to the Chief Executive on its findings and recommendations on matters covered by the original terms of reference. On 26 March 2019, the HKSAR Government published the redacted interim report in which the COI, while recognising it to be an interim report, found that although the Hung Hom Station extension diaphragm wall and platform slab construction works are safe, they were not executed in accordance with the relevant contract in material aspects. The COI also made a number of comments regarding the Company’s performance and systems as well as a number of recommendations for the future.

On 18 July 2019, the Company completed and submitted to the HKSAR Government two separate final reports, one in respect of the First Hung Hom Incident and one in respect of the Second Hung Hom Incident, containing, inter alia, proposals for suitable measures required at certain locations to achieve code compliance.

#### (g) Hung Hom Incidents Related Costs:

In July 2019, the HKSAR Government has accepted the Company’s recommendation that the Tuen Ma Line (Tai Wai to Hung Hom Section of the SCL) should open in phases, with the first phase involving the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station (“Phased Opening”) targeted to occur in the first quarter of 2020.

In order to progress the SCL Project and to facilitate the Phased Opening in the first quarter of 2020, the Company will fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom Incidents and certain costs associated with Phased Opening (being costs for alteration works, trial operations and other costs associated with the preparation activities for the Phased Opening) (“Hung Hom Incidents Related Costs”), whilst reserving the Company’s position as to the ultimate liability for such costs. Currently, the Company’s best estimate of such costs is around HK\$2 billion in aggregate. However, there is no certainty that, ultimately, the entirety of this amount will need to be funded.

The Company and the HKSAR Government will continue discussions with a view to reaching an overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the CTC and the Hung Hom Incidents Related Costs. If no overall settlement is reached between the Company and the HKSAR Government within a reasonable period, the provisions of the SCL Entrustment Agreement shall continue to apply (as they currently do) including in relation to such costs, and the responsibility for the funding of such costs shall be determined in accordance with the SCL Entrustment Agreement.

(h) After taking into account the above and in light of the Company’s decision to fund, on an interim and without prejudice basis, the Hung Hom Incidents Related Costs, the Company recognised a provision of HK\$2,000 million in the 2019 interim financial report. The provision is included in “Expenses relating to other businesses” in the consolidated profit and loss account and “Creditors, other payables and provisions” in the consolidated statement of financial position.

This amount does not take into account any potential recovery from any other party (whether in the circumstances that no overall settlement is reached and / or as a result of an award, settlement or otherwise). Accordingly, if any such potential recovery becomes virtually certain, the amount of any such recovery will be recognised and credited to the Company’s consolidated profit and loss account in that financial period. The eventual outcome of the discussions between the Company and the HKSAR Government, the timing of any overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the CTC and the Hung Hom Incidents Related Costs, the level of recovery from relevant parties, and the pending agreement and approval of the increase in the SCL Project Management Fee payable to the Company, remain highly uncertain at the current stage. As a result, no additional provision other than the HK\$2,000 million referred to in note 14B (h) above has been made as the Company is currently not able to measure with sufficient reliability the ultimate amount of the Company’s obligation or liability arising from the SCL project.

## 14 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

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

(i) During the half year ended 30 June 2019, SCL Project Management Fee of HK\$441 million (2018: HK\$445 million) was recognised in the consolidated profit and loss account. As at 30 June 2019, the total SCL Project Management Fee recognised to date in the consolidated profit and loss account amounted to HK\$6,912 million (as at 31 December 2018: HK\$6,471 million).

Additionally, during the half year ended 30 June 2019, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK\$165 million (2018: HK\$196 million). As at 30 June 2019, 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\$1,162 million (as at 31 December 2018: HK\$1,107 million).

## 15 Property Development in Progress

Movements of property development in progress of the Group during the half year ended 30 June 2019 and the year ended 31 December 2018 are as follows:

in HK\$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Balance at 30 June/ 31 December
<b>At 30 June 2019 (Unaudited)</b>					
Hong Kong Property Development Projects	<b>14,840</b>	<b>245</b>	<b>(428)</b>	<b>–</b>	<b>14,657</b>
At 31 December 2018 (Audited)					
Hong Kong Property Development Projects	14,810	1,121	(912)	(179)	14,840

## 16 Properties Held for Sale

in HK\$ million	At 30 June 2019 (Unaudited)	At 31 December 2018 (Audited)
Properties held for sale		
– at cost	<b>819</b>	1,179
– at net realisable value	<b>120</b>	190
	<b>939</b>	1,369
Representing:		
Hong Kong property development	<b>726</b>	1,156
Mainland of China property development	<b>213</b>	213
	<b>939</b>	1,369

Properties held for sale represent the Group's interest in unsold properties or properties received by the Group as sharing in kind in Hong Kong, and the Group's unsold properties in Shenzhen.

Properties held for sale at net realisable value as at 30 June 2019 are stated net of provision of HK\$12 million (31 December 2018: HK\$18 million) made in order to state these properties at the lower of their cost and estimated net realisable value.



## 17 Derivative Financial Assets and Liabilities

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

in HK\$ million	At 30 June 2019 (Unaudited)		At 31 December 2018 (Audited)	
	Notional amount	Fair value	Notional amount	Fair value
<b>Derivative Financial Assets</b>				
Foreign exchange forwards				
– cash flow hedges	11	–	137	1
– not adopted hedge accounting	1,138	14	73	–
Cross currency swaps				
– cash flow hedges	5,419	48	277	25
– hedges of net investments	64	1	–	–
Interest rate swaps				
– fair value hedges	3,241	18	961	5
– cash flow hedges	1,250	15	1,350	30
– not adopted hedge accounting	1,413	2	–	–
	<b>12,536</b>	<b>98</b>	<b>2,798</b>	<b>61</b>
<b>Derivative Financial Liabilities</b>				
Foreign exchange forwards				
– cash flow hedges	350	8	1,169	13
– hedges of net investments	2,039	16	2,039	14
– not adopted hedge accounting	1,157	9	202	6
Cross currency swaps				
– fair value hedges	698	1	698	9
– cash flow hedges	8,458	361	10,935	469
– hedges of net investments	–	–	64	3
Interest rate swaps				
– fair value hedges	2,650	8	1,550	31
– cash flow hedges	100	4	–	–
– not adopted hedge accounting	500	1	–	–
	<b>15,952</b>	<b>408</b>	<b>16,657</b>	<b>545</b>
<b>Total</b>	<b>28,488</b>		<b>19,455</b>	

## 18 Debtors and Other Receivables

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 operation (except for that from the High Speed Rail as described in note 18(ii) below) 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) In respect of the High Speed Rail, tickets are sold by the Company and other mainland train operators. The clearance centre of China Railway Corporation administers the revenue allocation and settlement system of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and allocates the revenue of the High Speed Rail to the Company under a "section-based" approach with settlement in the following month.
- (iii) 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.
- (iv) 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.
- (v) 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.
- (vi) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.
- (vii) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.
- (viii) 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.
- (ix) 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 analysis of debtors based on due date is as follows:

in HK\$ million	At 30 June 2019 (Unaudited)	At 31 December 2018 (Audited)
Amounts not yet due	3,123	2,807
Overdue by 30 days	205	275
Overdue by 60 days	28	34
Overdue by 90 days	40	10
Overdue by more than 90 days	65	91
Total debtors	3,461	3,217
Other receivables	6,483	6,334
Contract assets	345	25
	<b>10,289</b>	<b>9,576</b>

Included in other receivables as at 30 June 2019 was HK\$1,978 million (31 December 2018: HK\$1,959 million) in respect of property development profit in Hong Kong distributable from stakeholding funds based on the terms of the development agreements and sales and purchase agreements.

During the years ended 31 December 2017 and 2018, the Inland Revenue Department of Hong Kong ("IRD") issued notices of assessment/additional assessment for the years of assessment 2010/2011 to 2017/2018 following queries in connection with the tax deductibility of certain payments relating to the Rail Merger.

Based on the strength of advice from external senior counsel and tax advisor, the directors of the Company have determined to strongly contest the assessments raised by the IRD. The Company has lodged objections against these tax assessments and has applied to hold over the additional tax demanded. The IRD has agreed to the holdover of the additional tax demanded subject to the purchases of tax reserve certificates ("TRCs") amounting to HK\$1,816 million and HK\$462 million in 2017 and 2018 respectively. The purchases of TRCs do not prejudice the Company's tax position and the purchased TRCs were included in debtors and other receivables in the Group's consolidated statement of financial position. No additional tax provision has been made in respect of the above notices of assessment/additional assessment.

## 19 Material Related Party Transactions

The FSI of the HKSAR Government, which holds approximately 75.45% of the Company's issued share capital on trust for the HKSAR Government as at 30 June 2019, 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 2019, 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 2019 (Unaudited)	At 31 December 2018 (Audited)
Amounts due from:		
– HKSAR Government	1,773	1,713
– KCRC	609	215
– associates	36	160
	<b>2,418</b>	2,088
Amounts due to:		
– HKSAR Government	4,450	70
– KCRC	2,129	2,475
– associates	–	131
	<b>6,579</b>	2,676

As at 30 June 2019, 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 the South Island Line 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 2019 related to the 2018 final ordinary dividend payable (note 7) amounting to HK\$4,402 million as well as land administrative fees in relation to railway extensions.

The amount due from KCRC mainly related to the recoverable cost for certain capital works in accordance with the agreements in relation to the Rail Merger, as well as amounts in relation to the High Speed Rail. The amount due to KCRC mainly related to the accrued portion of the fixed annual payment and variable annual payment arising from the Rail Merger and Operating Arrangements of the High Speed Rail.

The amounts due from associates as at 30 June 2019 included mainly the outstanding loan balance to an associate, as well as the daily Octopus card transactions with Octopus Cards Limited. During the half year ended 30 June 2019, the Group has settled the payable for the equity contribution to NRT Holdings 2 Pty Ltd amounting to AUD24 million (HK\$135 million), and has contributed equity of RMB471 million (HK\$544 million) into Hangzhou MTR Line 5 Corporation Limited.

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. The timeframe for the repayment mechanism was extended for a period ended on or before 30 June 2019 pursuant to various supplementary agreements between the Company and the HKSAR Government. During the half year ended 30 June 2019, the Company has made a final repayment to the HKSAR Government with a principal of HK\$114 million and interest of HK\$59 million under the repayment mechanism (year ended 31 December 2018: HK\$nil).

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 and Operating Arrangements of the High Speed Rail were described in the Group's audited accounts for the year ended 31 December 2018. In addition, in connection with the property developments along the railway system, the Company has been granted a land lot by the HKSAR Government in respect of the following site during the half year ended 30 June 2019:

Property development site	Land grant/land premium offer acceptance date	Total land premium in HK\$ million	Land premium settlement date
Site C2 of the Remaining Portion of Tseung Kwan O Town Lot No. 70	<b>7 May 2019</b>	<b>3,055</b>	<b>21 June 2019</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

### 19 Material Related Party Transactions *(continued)*

During the half year ended 30 June 2019, the Group had the following transactions with its associates, namely Octopus Holdings Limited and its subsidiaries ("Octopus Group") and NRT Pty Ltd ("NRT"):

in HK\$ million	Half year ended 30 June 2019	Half year ended 30 June 2018
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	79	77
– 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	24	20
NRT		
– Fees received or receivable in respect of the mobilisation service and design and delivery services of electrical and mechanical systems and rolling stock provided to NRT	518	734

### 20 Creditors, Other Payables and Provisions

The analysis of creditors by due dates is as follows:

in HK\$ million	At 30 June 2019 (Unaudited)	At 31 December 2018 (Audited)
Due within 30 days or on demand	5,634	6,152
Due after 30 days but within 60 days	1,257	1,142
Due after 60 days but within 90 days	999	911
Due after 90 days	6,251	4,398
	<b>14,141</b>	12,603
Rental and other refundable deposits	3,272	3,209
Accrued employee benefits	3,497	2,713
Dividends payable to other shareholders	1,433	–
Total creditors and accrued charges	<b>22,343</b>	18,525
Other payables and provisions (note 14B(h))	8,511	5,306
Contract liabilities	1,807	2,116
	<b>32,661</b>	25,947

### 21 Loans and Other Obligations

Notes issued by the Group during the half year ended 30 June 2019 and 2018 comprise:

in HK\$ million	Half year ended 30 June 2019		Half year ended 30 June 2018	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	–	–	1,491	1,488

During the half year ended 30 June 2019, MTR Corporation (C.I.) Limited did not issue any of its notes (2018: HK\$1,491 million), while the Company did not issue any of its notes (2018: HK\$nil). The obligations of the notes issued by the subsidiary are direct, unsecured and unsubordinated to the other unsecured obligations of the subsidiary which are unconditionally and irrevocably guaranteed by the Company. 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 2019, the Group did not redeem any of its listed debt securities (2018: HK\$nil). The Group redeemed HK\$200 million of its unlisted debt securities (2018: HK\$500 million).

## 22 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2019 and the year ended 31 December 2018 are as follows:

in HK\$ million	Deferred tax arising from					Total
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	
<b>At 30 June 2019 (Unaudited)</b>						
Balance as at 1 January 2019, as previously reported	12,385	751	(170)	(5)	(103)	12,858
Effect of adoption of HKFRS 16	–	8	(13)	–	–	(5)
Balance as at 1 January 2019, as restated	12,385	759	(183)	(5)	(103)	12,853
(Credited)/charged to consolidated profit and loss account	(32)	(3)	28	–	(32)	(39)
Charged to reserves	–	12	–	26	–	38
Exchange differences	–	–	2	–	4	6
Balance as at 30 June 2019	12,353	768	(153)	21	(131)	12,858
<b>At 31 December 2018 (Audited)</b>						
Balance as at 1 January 2018	12,158	648	(107)	–	(8)	12,691
Charged/(credited) to consolidated profit and loss account	228	–	10	–	(102)	136
Charged/(credited) to reserves	–	103	(74)	(5)	–	24
Exchange differences	(1)	–	1	–	7	7
Balance as at 31 December 2018	12,385	751	(170)	(5)	(103)	12,858

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

in HK\$ million	At 30 June 2019 (Unaudited)	At 31 December 2018 (Audited)
Net deferred tax assets	(157)	(121)
Net deferred tax liabilities	13,015	12,979
	12,858	12,858

## 23 Share Capital and Shares Held for Executive Share Incentive Scheme

### A Share Capital

	At 30 June 2019 (Unaudited)		At 31 December 2018 (Audited)	
	Number of shares	HK\$ million	Number of shares	HK\$ million
Ordinary shares, issued and fully paid:				
At 1 January	6,139,485,589	57,970	6,007,777,302	52,307
Shares issued in respect of scrip dividend of 2017 final ordinary dividend	–	–	93,790,912	4,175
Shares issued in respect of scrip dividend of 2018 interim ordinary dividend	–	–	32,348,875	1,298
Vesting of shares of Executive Share Incentive Scheme	–	5	–	15
Shares issued under the share option scheme	2,499,000	79	5,568,500	175
At 30 June/31 December	6,141,984,589	58,054	6,139,485,589	57,970

## 23 Share Capital and Shares Held for Executive Share Incentive Scheme

(continued)

**B** New shares issued and fully paid up during the half year ended 30 June 2019 comprise:

	Number of shares	Weighted average exercise price HK\$
Employee share options exercised:		
– 2007 Share Option Scheme	<b>2,499,000</b>	<b>29.15</b>

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

	Half year ended 30 June 2019	Half year ended 30 June 2018
	2007 Share Option Scheme	2007 Share Option Scheme
Outstanding at 1 January	<b>8,170,500</b>	13,794,000
Exercised during the period	<b>(2,499,000)</b>	(1,937,500)
Outstanding at 30 June	<b>5,671,500</b>	11,856,500
Exercisable at 30 June	<b>5,671,500</b>	11,856,500

**D** During the half year ended 30 June 2019, the Company awarded Performance Shares and Restricted Shares under the Company's Executive Share Incentive Scheme to certain eligible employees of the Company. A total of 244,650 Performance Shares (2018: 1,772,900) and 2,062,150 Restricted Shares (2018: 2,288,950) were awarded and accepted by the grantees on 8 April 2019 (2018: 16 March 2018, 10 April 2018). The fair value of these awarded shares was HK\$48.40 per share (2018: HK\$43.70 per share on 16 March 2018, HK\$42.80 per share on 10 April 2018).

**E** During the half year ended 30 June 2019, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 1,870,000 Ordinary Shares (2018: 5,351,600) of the Company for a total consideration of approximately HK\$88 million (2018: HK\$239 million).

**F** During the half year ended 30 June 2019, 2,145,215 shares (2018: 3,741,766) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK\$88 million (2018: HK\$146 million). During the half year ended 30 June 2019, HK\$5 million (2018: HK\$14 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 2019, 97,938 award shares (2018: 250,219) were forfeited.

## 24 Fair Value Measurement of Financial Instruments

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

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

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

Level 3: Fair value measured using significant unobservable inputs

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

### A Financial Assets and Liabilities Carried at Fair Value

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

in HK\$ million	Fair value at 30 June 2019 (Unaudited)	Fair value measurements as at 30 June 2019	
		Level 1	Level 2
<b>Financial Assets</b>			
Derivative financial assets			
– Foreign exchange forwards	14	–	14
– Cross currency swaps	49	–	49
– Interest rate swaps	35	–	35
	<b>98</b>	<b>–</b>	<b>98</b>
Investments in securities	371	371	–
	<b>469</b>	<b>371</b>	<b>98</b>
<b>Financial Liabilities</b>			
Derivative financial liabilities			
– Foreign exchange forwards	33	–	33
– Cross currency swaps	362	–	362
– Interest rate swaps	13	–	13
	<b>408</b>	<b>–</b>	<b>408</b>

in HK\$ million	Fair value at 31 December 2018 (Audited)	Fair value measurements as at 31 December 2018	
		Level 1	Level 2
<b>Financial Assets</b>			
Derivative financial assets			
– Foreign exchange forwards	1	–	1
– Cross currency swaps	25	–	25
– Interest rate swaps	35	–	35
	<b>61</b>	<b>–</b>	<b>61</b>
Investments in securities	294	294	–
	<b>355</b>	<b>294</b>	<b>61</b>
<b>Financial Liabilities</b>			
Derivative financial liabilities			
– Foreign exchange forwards	33	–	33
– Cross currency swaps	481	–	481
– Interest rate swaps	31	–	31
	<b>545</b>	<b>–</b>	<b>545</b>

There are no Level 3 measurements of financial instruments. During the half year ended 30 June 2019 and the year ended 31 December 2018, 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.

## 24 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 2019 and 31 December 2018 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

in HK\$ million	At 30 June 2019 (Unaudited)		At 31 December 2018 (Audited)	
	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	<b>23,366</b>	<b>26,813</b>	23,541	25,636
Other obligations	<b>478</b>	<b>568</b>	928	1,093

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.

## 25 Cash Generated from Operations

Reconciliation of the Group's 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 2019 (Unaudited)	Half year ended 30 June 2018 (Unaudited)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses	<b>8,411</b>	9,321
Adjustments for:		
– Loss on disposal of fixed assets	<b>22</b>	16
– Amortisation of deferred income from transfers of assets from customers	<b>(29)</b>	(11)
– (Increase)/decrease in fair value of derivative instruments	<b>(16)</b>	14
– Unrealised (gain)/loss on revaluation of investment in securities	<b>(6)</b>	3
– Employee share-based payment expenses	<b>62</b>	52
– Exchange gain	<b>(14)</b>	(5)
– Provision for SCL Project (note 14B)	<b>2,000</b>	–
Operating profit before working capital changes	<b>10,430</b>	9,390
(Increase)/decrease in debtors and other receivables	<b>(703)</b>	45
Increase in stores and spares	<b>(167)</b>	(100)
Increase/(decrease) in creditors and other payables	<b>404</b>	(4,490)
Cash generated from operations	<b>9,964</b>	4,845



## 26 Capital Commitments

A Outstanding capital commitments as at 30 June 2019 not provided for in the accounts were as follows:

in HK\$ million	Hong Kong transport operations, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Operations outside of Hong Kong	Total
<b>At 30 June 2019 (Unaudited)</b>					
Authorised but not yet contracted for	10,271	–	2,537	137	12,945
Authorised and contracted for	14,096	171	4,619	28	18,914
	<b>24,367</b>	<b>171</b>	<b>7,156</b>	<b>165</b>	<b>31,859</b>
At 31 December 2018 (Audited)					
Authorised but not yet contracted for	8,444	–	2,560	19	11,023
Authorised and contracted for	14,109	194	4,756	16	19,075
	22,553	194	7,316	35	30,098

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
<b>At 30 June 2019 (Unaudited)</b>				
Authorised but not yet contracted for	5,330	926	4,015	10,271
Authorised and contracted for	10,339	303	3,454	14,096
	<b>15,669</b>	<b>1,229</b>	<b>7,469</b>	<b>24,367</b>
At 31 December 2018 (Audited)				
Authorised but not yet contracted for	4,577	573	3,294	8,444
Authorised and contracted for	10,113	250	3,746	14,109
	14,690	823	7,040	22,553

## 27 Approval of Interim Financial Report

The interim financial report was approved by the Board on 8 August 2019.



# 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 45 to 71 which comprises the consolidated statement of financial position of MTR Corporation Limited as of 30 June 2019 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 2019 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  
8 August 2019

#### **SHAREHOLDER SERVICES**

Any matters relating to your shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

Computershare Hong Kong Investor Services Limited  
17M Floor, Hopewell Centre,  
183 Queen's Road East, Wan Chai, Hong Kong

Telephone: (852) 2862 8628 Facsimile: (852) 2529 6087



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