CONNECTING FORWARD

INTERIM REPORT
2018
Stock Code: 66

2018 INTERIM RESULTS PERFORMANCE HIGHLIGHTS

Revenue from Recurrent Businesses	HK$ 26.4 billion	▲ 13.9%
Total Revenue	HK$ 26.4 billion	▼ 12.1%
Operating Profit Before Depreciation, Amortisation and Variable Annual Payment	HK$ 9.5 billion	▼ 20.2%
Recurrent Business Profit	HK$ 4.5 billion	▲ 0.1%
Underlying Business Profit	HK$ 4.6 billion	▼ 20.5%
Total Assets	HK$ 262.8 billion	▼ 0.4% (vs 31 December 2017)
Net Assets	HK$ 168.4 billion	▲ 1.2% (vs 31 December 2017)
Net Debt-to-Equity Ratio	20.8%	▲ 0.2% pt. (vs 31 December 2017)

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HONG KONG OPERATING NETWORK WITH FUTURE EXTENSIONS

Legend

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

Existing Network

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

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

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- Tuen Mun South Extension
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- Hung Shui Kiu Station
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- North Island Line

Properties Owned / Developed / Managed by the Corporation

01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Tower
11 Hongway Garden / Infinitus Plaza
12 Perfect Mount Gardens
13 New Jade Garden
14 Southorn Garden
15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall
16 Park Towers
17 Felicity Garden
18 Tierra Verde / Maritime Square 1 / Maritime Square 2
19 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Coastal Skyline / Caribbean Coast
20 Central Park / Island Harbourview / Park Avenue / Harbour Green / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two
21 The Waterfront / Sorrento / The Harbourside / The Arch / Elements / The Cullinan / The Harbourview Place / W Hong Kong / International Commerce Centre / The Ritz-Carlton, Hong Kong
22 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place
23 Central Heights / The Grandiose / The Wings / PopCorn 1 / PopCorn 2 / Crowne Plaza Hong Kong Kowloon East / Holiday Inn Express Hong Kong Kowloon East / Vega Suites
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27 Royal Ascot / Plaza Ascot
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29 Sun Tuen Mun Centre / Sun Tuen Mun Shopping Centre
30 Hanford Garden / Hanford Plaza
31 Citylink Plaza
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34 The Capitol / Le Prestige / Hemera
35 The Palazzo
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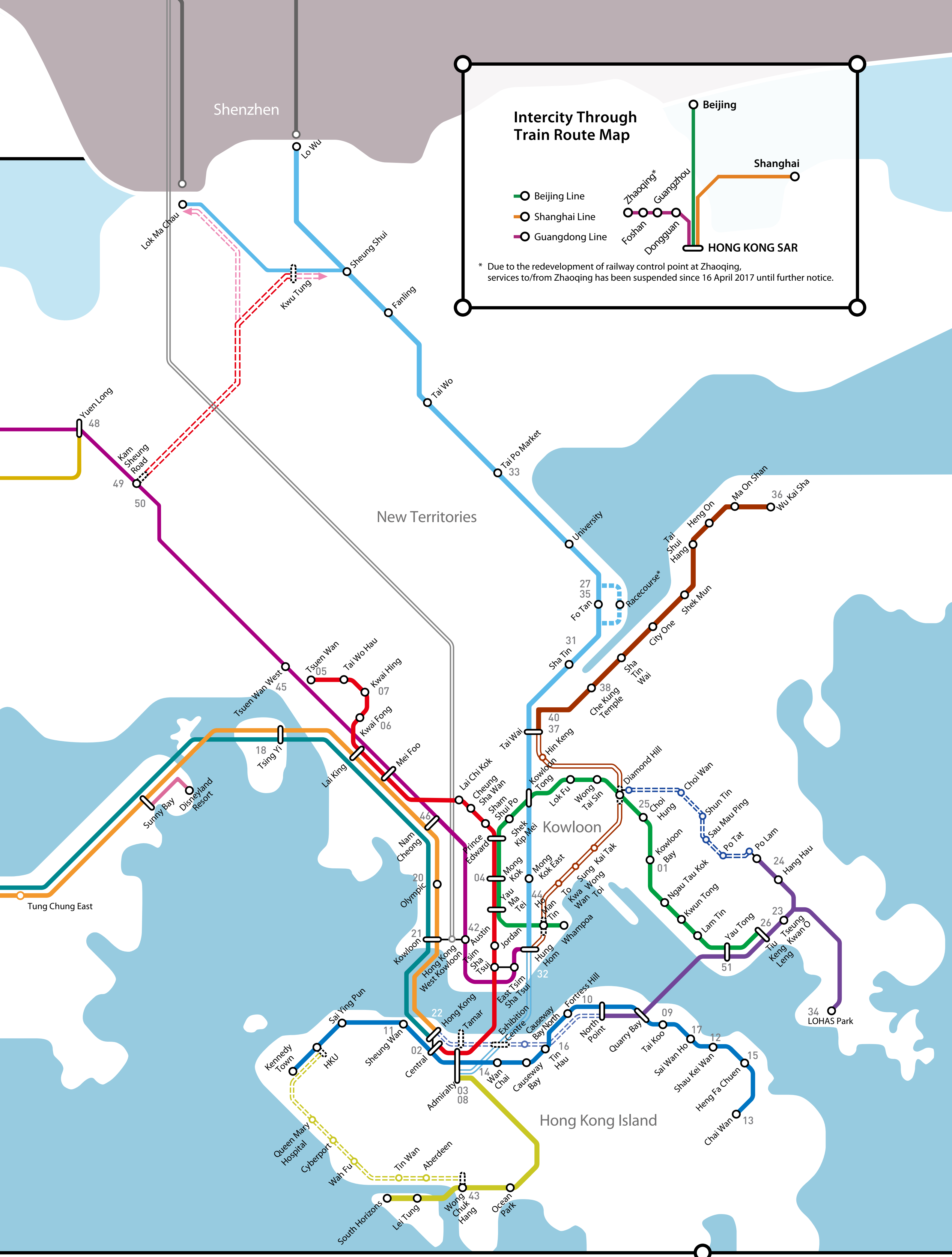
46 Cullinan West
47 The Spectra / Long Ping Station (South)
48 Yuen Long Station
49 Kam Sheung Road Station Packages
50 Pat Heung Maintenance Centre


Shenzhen
Intercity Through Train Route Map
Beijing Line
Shanghai Line
Guangdong Line
Beijing
Shanghai
Zhaoqing*
Guangzhou
Foshan
Dongguan
HONG KONG SAR
* Due to the redevelopment of railway control point at Zhaoqing, services to/from Zhaoqing has been suspended since 16 April 2017 until further notice.
Lo Wu
Lok Ma Chau
Sheung Shui
Kwu Tung
Fanling
Tai Wo
Tai Po Market
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Yuen Long
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Kam Sheung Road
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50
Racecourse*
Fo Tan
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Sha Tin
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Wu Kai Sha
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Ma On Shan
Heng On
Tai Shui Hang
Shek Mun
City One
Sha Tin Wai
Che Kung Temple
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Tai Wai
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Hin Keng
Tsuen Wan West
45
Tsuen Wan
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Tai Wo Hau
Kwai Hing
07
Kwai Fong
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Lai King
Mei Foo
Tsing Yi
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Sunny Bay
Disneyland Resort
Tung Chung East
Lai Chi Kok
Cheung Sha Wan
Sham Shui Po
Prince Edward
Shek Kip Mei
Kowloon Tong
Lok Fu
Wong Tai Sin
Diamond Hill
Choi Hung
25
Choi Wan
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Sau Mau Ping
Po Tat
Po Lam
Hang Hau
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Kowloon
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Ngau Tau Kok
Kwun Tong
Lam Tin
Yau Tong
51
Tiu Keng Leng
26
Tseung Kwan O
23
LOHAS Park
34
Nam Cheong
46
Olympic
20
Kowloon
21
Mong Kok
04
Mong Kok East
Yau Ma Tei
Ho Man Tin
44
To Kwa Wan
Sung Wong Toi
Kai Tak
Whampoa
Austin
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Jordan
Tsim Sha Tsui
Hong Kong West Kowloon
East Tsim Sha Tsui
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Exhibition Centre
Hong Kong
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Tamar
Sai Ying Pun
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Central
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Admiralty
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Wan Chai
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Causeway Bay
Causeway Bay North
Tin Hau
16
Fortress Hill
10
North Point
Quarry Bay
Tai Koo
09
Sai Wan Ho
17
Shau Kei Wan
12
Heng Fa Chuen
15
Chai Wan
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HKU
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Tin Wan
Aberdeen
South Horizons
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Ocean Park

Dear Shareholders and other Stakeholders,

The first six months of 2018 saw MTR push ahead in many areas, as we worked towards our vision of becoming a world-class operator of sustainable rail transport services that is admired around the world.

Our strategy remains to strengthen and grow our Hong Kong business, accelerate our expansion in the Mainland of China and internationally, and enhance our corporate reputation. In Hong Kong, as part of "Rail Gen 2.0", we are in final preparations for the opening of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong High Speed Rail ("High Speed Rail"). In relation to the Shatin to Central Link project, we continue to make progress, but are also acutely aware of the public's concern over the recently reported issues in relation to the project. I would like to emphasise that the Board of Directors take these matters very seriously and further details of the actions we have taken are set out under the section of "Our Network".

The Company's financial results for the first six months of 2018 were satisfactory. Profit attributable to equity shareholders for the period from recurrent businesses increased by 0.1% to HK$4,483 million. As the vast majority of profit from the Tiara development in Shenzhen was recognised in the first half of 2017, property development profit for the period declined by 88.0% to HK$165 million. As a result, profit attributable to shareholders from underlying businesses decreased by 20.5% to HK$4,648 million. Including the gain arising from investment property revaluation, net profit attributable to shareholders of the Company decreased by 5.3% to HK$7,083 million, representing earnings per share after revaluation of HK$1.18. The Board has declared an interim ordinary dividend of HK$0.25 per share.

OUR NETWORK

Safety is always the top priority in our railway operations, and during the first six months of the year our performance in this area continued to improve.

The High Speed Rail service will start in September 2018 following the completion of the project.

Although the Shatin to Central Link has made further progress, the commissioning date of the Tai Wai to Hung Hom section will depend on, inter alia, the verification of, and safety test on, the platform slab at the Hung Hom Station extension. The Hung Hom to Admiralty section is targeted for completion by 2021.

The Board of Directors has been and remains very focused on the recently reported issues relating to the Shatin to Central Link project which we understand have led to public concerns. Where issues have been raised, we have ensured that immediate steps have been taken to investigate the issues and, where required, remedial works have been carried out. We have also ensured that the findings have been reported to Government and that the Corporation's position against relevant contractors and consultants has been reserved. To provide additional assurances and confidence to the public, the Capital Works Committee of the Board will review the processes and procedures for the Shatin to Central Link project within the Company's project management system, assisted by an external consultant, who has now been appointed. The Board has also directed the Company's management to strengthen its monitoring and supervision over all Shatin to Central Link contracts. To address the concern relating to the platform at the Hung Hom Station extension, we have engaged an independent third party to perform a safety test. We will also cooperate fully with the Commission of Inquiry that has been appointed by the HKSAR Chief Executive in Council.

On 7 August 2018, the Board was informed that the report submitted by the Company to Government on 15 June 2018 in relation to the platform slab at Hung Hom Station extension of the Shatin to Central Link contained inaccuracies in respect of the construction methodology of the top side of the platform slab. The Board is very disappointed about such inaccuracies. The Company is investigating this issue and will provide updated information to Government in due course.

Looking ahead, Government is reviewing our proposals for five new railway lines put forward under the Railway Development Strategy 2014. In the longer term, Government has proposed additional transport corridors as part of the vision set out in its "Hong Kong 2030+" plan and we look forward to playing a role in realising these ambitions through participation in Government's "Strategic Studies on Railways and Major Roads beyond 2030".

Outside of Hong Kong, we have been awarded the operations and maintenance contract for Macau's first railway, the Macau Light Rapid Transit Taipa Line. We are also stepping up our efforts to take advantage of new railway and rail-related property development opportunities in Hangzhou, Shunde and Chengdu in the Mainland of China. In the UK, we have submitted our joint-venture bid for the West Coast Partnership rail franchise. In Australia, we are pushing forward our interests in the second metro project in Sydney – Sydney Metro City and Southwest. Finally, in North America, we are preparing for the pre-qualification bid for the Toronto Regional Express Rail project.

OUR CUSTOMERS

To provide our customers with the efficient, affordable railway service they demand, under "Rail Gen 2.0" we invest heavily each year in maintaining the high level of performance of our railway network and in projects designed to address future transport demand.

The affordability of our world-class services is underpinned by the Fare Adjustment Mechanism ("FAM"), which brings benefits to passengers while ensuring MTR's financial sustainability. There were no fare increases last year on the MTR lines while from June this year, in accordance with the FAM formula, fares will see an overall adjustment of +3.14%. This is significantly lower than the 11.89% increase in household incomes in Hong Kong over the last two years. We apply a variety of measures to keep our fares affordable. Adding together the HK$500 million of our 2018/2019 fare promotions package and the HK$2.6 billion of on-going fare concessions and discounts we provide to the community, we are offering customers with over HK$3 billion worth of fare concessions over the 12 month period to June 2019.

OUR PEOPLE

The Company's success relies on our well-trained and diligent staff, who are our greatest asset. This year, we have launched the "Strengthen Our Culture" Campaign, which focuses on four areas: Participative Communication, Effectiveness and Innovation, Collaboration and Agility to Change. Our continuous efforts in caring for our employees saw MTR named first runner-up in the "Hong Kong's Most Attractive Employer 2018" by the Randstad Group, making it into the top five for the sixth time in a row.

The MTR Academy ("MTRA") was set up in 2016 to develop new talents for the railway industry of future in Hong Kong, the Mainland of China and "Belt and Road" countries. MTRA is now developing railway professionals at its campus here in Hong Kong. A Memorandum of Understanding ("MOU") was signed with Hangzhou Metro Group last year to set up a branch campus in Hangzhou. We have signed two more MOUs this year to collaborate with institutions in Jakarta, Indonesia and Manila, the Philippines. MTRA has also linked up with the University of Birmingham in the UK to offer distance learning programmes up to PhD level.

CONTRIBUTIONS TO THE COMMUNITY

As a company, we connect and grow communities through our various railway businesses. Our "Community Connect" platform brings this vision deeper into society and focuses on supporting young people in their journeys through life. We have set up the "STEM Challenge" programme to cultivate students' interest in science, technology, engineering and mathematics ("STEM") subjects. The programme has been strongly supported by Government, shown by the HKSAR Chief Executive's attendance at the inaugural MTR STEM Challenge Pitch Day. In the 2017-2018 academic year, MTR colleagues delivered talks to over 7,500 secondary school students to explain the application of STEM knowledge in the railway system.

Our active "Art in MTR" programme enriches the cultural life of people in Hong Kong through our extensive network of stations and shopping malls. This year, MTR collaborated with the Hong Kong Design Institute to showcase "Cream of the Crop" design works by graduating students. In July 2018, we launched "Uth Live Saturdays @ Living Arts", to offer young people a regular platform to demonstrate their talents.

A total of 145 volunteering projects was organised through our "More Time Reaching Community" Scheme, involving thousands of volunteer headcount. We also received the "10 Years Plus Caring Company Logo" from The Hong Kong Council of Social Service for the fourth consecutive year.

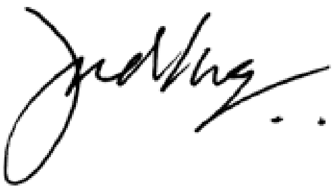
On environmental matters, in addition to our various initiatives to reduce energy consumption and other impacts, we have announced a new Green Finance Framework taking into account the recommendations of the Green Loan Principles issued by the Asia Pacific Loan Market Association. Under the existing Green Bond Framework and the new Green Finance Framework, we have issued a number of green bonds and arranged a green revolving credit facility to fund our investments in various green projects.

BOARD AND MANAGEMENT TRANSITION

At our Annual General Meeting on 16 May 2018, Mr Alasdair George Morrison retired as an Independent Non-executive Director. He had served on the Board for more than seven years and I thank him once again for his significant contributions. I would also like to warmly welcome Ms Rose Lee Wai-mun, who has become an Independent Non-executive Director effective from the same date.

On 7 August 2018, the Chief Executive Officer of the Company ("CEO"), Mr Lincoln Leong Kwok-kuen, notified the Company of his wish to retire early from his role as CEO and as a member of the Board, the Corporate Responsibility Committee and the Executive Directorate of the Company. The Board has mutually agreed with Mr Leong that his retirement will only be effective once a replacement CEO has reported for duty. The search for a new CEO will commence immediately. I wish to thank Mr. Leong for his leadership and valuable contribution since joining the Company in 2002 as Finance Director.

Last but not least, I want to thank all of my fellow Directors for their support, and all of our staff for their hard work and dedication. I am confident that together we can overcome the challenges.



Professor Frederick Ma Si-hang
Chairman
Hong Kong, 9 August 2018

CEO'S REVIEW OF OPERATIONS AND OUTLOOK

Dear Shareholders and other Stakeholders,

The first six months of 2018 saw solid financial results, as we continued to deliver on our three-pronged strategy to strengthen and grow our Hong Kong business, accelerate growth in our Mainland of China and international businesses, and enhance our corporate reputation. We are very proud that in February 2018, MTR was named the world's strongest transport brand by Brand Finance, the independent branded business valuation and strategy consultancy. Brand Finance noted that MTR is "one of the most efficient rapid transit systems on the planet" with a "focus on high-quality services".

The Hong Kong economy saw reasonable growth in the first six months of 2018, leading to our Hong Kong transport operations seeing patronage increase by 2.1% to 5.80 million passenger trips per weekday. Train frequency was increased, while both train service delivery and passenger journeys on-time in our heavy rail network were maintained at 99.9%. It was also MTR's best first half-year service performance in terms of passenger journeys on-time since the merger with the Kowloon-Canton Railway Corporation ("KCRC") in 2007. Our safety performance also remained world-class.

Hong Kong's retail sector continued its recovery in the first half of 2018, benefiting our station commercial and property rental businesses. Growth in these businesses was also supported by the new retail space on the seventh and eighth floors of Telford Plaza II and Maritime Square 2, both of which were opened in 2017, as well as the addition of 167 square metres of station shops in the first half of this year.

In the first six months of 2018, MTR's Hong Kong property development profit was mainly derived from sales of inventory units and car parking spaces, as well as agency fee income from West Rail property developments. Pre-sales for MALIBU (LOHAS Park Package 5) were launched in March 2018 and were very well received. Pre-sales also continued for the unsold units of Wings at Sea and Wings at Sea II (LOHAS Park Package 4). In our property tendering activities, we awarded the tender for the Yau Tong Ventilation Building site in May 2018, and we are very pleased to announce today the award of the third development package at Wong Chuk Hang Station.

Outside of Hong Kong, our rail businesses had mixed results, with challenges encountered by our Stockholm commuter rail and MTR Express businesses in Sweden, as well as the South Western Railway franchise in the UK. Our other rail businesses outside of Hong Kong performed in line with or above expectations. To grow our businesses outside Hong Kong, in Macau, we were awarded the operations and maintenance ("O&M") contract for the Macau Light Rapid Transit ("LRT") Taipa Line, while in the Mainland of China, we signed a Memorandum of Understanding ("MOU") to conduct joint studies for the integrated development of stations along Chengdu's metro lines as well as entered into an agreement to provide transit-oriented development ("TOD") technical assistance for a mixed use property development adjacent to Chencun Station in the Shunde district of Foshan, Guangdong province. In the UK, MTR Crossrail began operating rail services between London's Paddington Station and Heathrow Airport in May 2018, while in July 2018 we submitted our bid for the West Coast Partnership franchise.

In the near term, MTR's rail expansion in Hong Kong falls under "Rail Gen 2.0", our vision for the next generation of rail travel. Rail Gen 2.0 encompasses our remaining two new rail projects under construction, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link. These projects were respectively 99.9% and 86.0% complete by 30 June 2018.

Trial operations for the Guangzhou-Shenzhen-Hong Kong High Speed Rail (Hong Kong Section) ("High Speed Rail") service commenced in April 2018 and, following the enactment of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Co-location) Bill ("Co-location Bill") by the Legislative Council of the HKSAR ("LegCo") on 14 June 2018, we look forward to the opening of the new High Speed Rail service, in September 2018. We are in the final stage of discussions with Government regarding the arrangements for the future operations of this service.

The Shatin to Central Link continues to make progress, with all immersed tube tunnel units successfully installed in Victoria Harbour. We have faced allegations concerning workmanship and timely reporting on certain construction matters relating to three stations of this link. We have undertaken internal reviews to strengthen our project reporting and processes, and will co-operate fully with any Government investigation. On 7 August 2018, the Company announced that the report submitted by the Company to Government on 15 June 2018 in relation to the platform slab at Hung Hom Station extension of the Shatin to Central Link contained inaccuracies in respect of the construction methodology of the top side of the platform slab. The Company is investigating this issue and will provide updated information to Government in due course.

Rail Gen 2.0 also covers the major asset replacement programmes on our existing network, notably for trains and signalling systems, and these made further progress during the first six months of 2018. Government's strategy remains for rail to serve as the backbone of public transportation in Hong Kong and hence, seven new railway projects have been proposed under the Railway Development Strategy 2014 ("RDS 2014"). We have submitted proposals to Government for five of these projects, namely, the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station), the East Kowloon Line, the Tung Chung West Extension (and Tung Chung East Station) and the North Island Line.

Construction is progressing on the remaining two shopping centres under development at LOHAS Park and Tai Wai. Under our just completed tender for Wong Chuk Hang Station Package 3, a third new shopping centre at that station will be added to our portfolio in the future. We are also continuing to explore the proposed property development above our Siu Ho Wan depot in Lantau. Meanwhile, we are seeking further opportunities to leverage our railway assets to provide more housing for Hong Kong.

Outside of Hong Kong, we continue to pursue rail franchise opportunities in the Mainland of China, the Nordic countries, the UK and Australia, and are examining potential rail-related property developments in these markets. In addition we are examining a rail project opportunity in Canada.

Total revenue for the first six months of 2018 decreased by 12.1% to HK$26,373 million when compared with the comparable period of 2017, as we recognised significant revenue and profits from the Tiara development in Shenzhen in the first half of 2017, which was not repeated in 2018. However excluding the Tiara property development, revenue for the period would have increased by 13.9%. Operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment increased by 3.0% to HK$9,321 million. Excluding the Company's Mainland of China and international railway, property development, rental and management subsidiaries, revenue grew by 5.1% and operating profit by 3.7%, with operating margin decreasing by 0.8 percentage point to 56.0%. Recurrent profit attributable to equity shareholders, being net profit before property development profits (from both Hong Kong and the Mainland of China) and investment properties revaluation, was virtually the same as last year at HK$4,483 million. Post-tax profit from property developments was HK$165 million. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders declined by 20.5% to HK$4,648 million, with the decrease mainly due to Tiara development profits booked in 2017. Gain in revaluation of investment properties was HK$2,435 million, as compared to HK$1,632 million in the first six months of 2017. As a result, net profit attributable to equity shareholders was HK$7,083 million, equivalent to earnings per share of HK$1.18 after revaluation. Your Board has declared an interim dividend of HK$0.25 per share, unchanged from last year.

HONG KONG BUSINESSES

Leveraging our proven "Rail plus Property" business model, MTR's businesses in Hong Kong are centred on our rail network and also include station commercial activities, property rental and property developments over and adjacent to stations and depots.

TRANSPORT OPERATIONS

Highlights

- Safety maintained at world-class levels with the number of reportable events reduced by 6%
- Best first half-year performance in terms of passenger journeys on-time since the merger with KCRC in 2007
- Maintained world-class 99.9% train service delivery and passenger journeys on-time
- Total patronage growth of 2.3%, with average weekday patronage reaching 5.80 million

HK$ million	Half year ended 30 June		
	2018	2017	Inc./(Dec.) %
Hong Kong Transport Operations			
Fare Revenue	**9,243**	8,878	4.1
Other Rail-related Income	**85**	79	7.6
Total Revenue	**9,328**	8,957	4.1
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**4,101**	4,173	(1.7)
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**1,148**	1,320	(13.0)
EBITDA Margin (in %)	**44.0%**	46.6%	(2.6)% pts.
EBIT Margin (in %)	**12.3%**	14.7%	(2.4)% pts.

Total revenue of the Hong Kong transport operations increased by 4.1% to HK$9,328 million in the first six months of 2018, mainly due to an increase in patronage that was driven by economic growth. EBITDA decreased by 1.7% to HK$4,101 million, mainly as a result of an increase in staff costs due to an accounting provision for annual lump-sum awards; in the prior year such provision was not made in the same period. With the increase in depreciation and amortisation charges brought about by new assets being commissioned, as well as the increase in variable annual payment, EBIT decreased by 13.0% to HK$1,148 million for the period.

Safety

Safety remains an absolute priority for MTR and in the first six months of 2018 the number of reportable events on the Hong Kong heavy rail and light rail networks fell by 6% when compared with the comparable period in 2017.

A new initiative, the interactive MTR Safety Experience Zone, was launched in March 2018 at Tsing Yi Station to give children safety tips and educate them to behave appropriately when travelling on our network. Other safety initiatives during the first six months of the year centred on the Light Rail network, escalators, platform gaps and elderly passengers.

Patronage and Revenue

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

	Half year ended 30 June		
HK$ million	**2018**	2017	Inc./(Dec.) %
Fare Revenue			
Domestic Service	**6,531**	6,349	2.9
Cross-boundary Service	**1,723**	1,608	7.2
Airport Express	**559**	503	11.1
Light Rail and Bus	**358**	353	1.4
Intercity	**72**	65	10.8
Total Fare Revenue	**9,243**	8,878	4.1

In the first six months of 2018, total patronage of all of our rail and bus passenger services increased by 2.3%, to 997.8 million passenger trips. Average weekday patronage increased by 2.1% to 5.80 million.

For the Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail, Ma On Shan and South Island lines), total patronage for the period was 816.1 million, a 2.2% increase over the corresponding period of 2017. For the Cross-boundary Service to Lo Wu and Lok Ma Chau, patronage increased by 5.9% to 58.1 million, mainly due to a rebound in Mainland visitors. Patronage on the Airport Express rose by 6.1% to 8.5 million, supported by an increase in air passenger traffic.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong in the first five months of 2018 was 49.2%, compared to 48.8% in the same period of 2017. Within this total, the share of cross-harbour traffic was 69.2%, compared to 69.3%. MTR's share of the cross-boundary business for the first five months of 2018 rose from 50.2% to 51.8%. Our market share to and from the airport rose from 21.3% to 21.7%.

Fare Adjustments, Promotions and Concessions

In accordance with the Fare Adjustment Mechanism ("FAM"), fares were adjusted for 2018/2019 by +3.14%, effective 30 June 2018. Fares were not adjusted in 2017/2018 as the adjustment rate fell below the threshold level of 1.5% and hence the adjustment was rolled over to this year and included within the 3.14% adjustment.

On 28 May 2018, we announced our 2018/2019 fare promotions package, bringing fare savings of over HK$500 million to customers including:

- 3% Rebate for every Octopus trip for six months to 1 January 2019
- no price adjustment for "MTR City Saver", "Monthly Pass Extra" and "Tuen Mun-Nam Cheong Day Pass" in 2018
- a HK$0.3 discount for Octopus passengers interchanging between MTR and Green Minibus routes, effective 3 June 2018
- extension of the "Early Bird Discount Promotion" programme to 31 May 2019

Together with HK$2.6 billion of on-going fare concessions that MTR offers annually to different sectors of the community, including the elderly, children, eligible students and persons with disabilities, as well as other interchange discounts, we will therefore be providing customers with over HK$3 billion worth of fare concessions over the 12-month period to June 2019.

Operations Performance in the first half of 2018

Service Performance Item	Performance Requirement	Customer Service Pledge Target	**Actual Performance**
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on-time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	**99.9%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.8%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥ 5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	650,000	**3,440,146**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	650,000	**10,115,679**
Ticket reliability: smart ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	10,500	**57,226**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.8%**
– Light Rail	N/A	99.0%	**99.8%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.7%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.8%**
– West Rail Line	97.0%	99.0%	**99.6%**
– Light Rail	N/A	99.0%	**99.9%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability	N/A	99.0%	**99.9%**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.7%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26 °C	N/A	97.5%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27 °C for platforms and 29 °C for station concourses, except on very hot days	N/A	93%	**99.8%**
Cleanliness			
– Train compartment: cleaned daily	N/A	99.0%	**100.0%**
– Train exterior: washed every 2 days (on average)	N/A	99.0%	**100.0%**
Northwest transit service area bus service			
– Service Delivery	N/A	99.0%	**99.5%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within six working days	N/A	99.0%	**100.0%**

Service Performance

Train service delivery and passenger journeys on-time in our heavy rail network in the first six months of 2018 continued to achieve world-class results at 99.9%. This exceeds both the targets in our Operating Agreement and our own, more stringent, Customer Service Pledges. The first six months of 2018 was also MTR's best first half-year performance in terms of passenger journeys on-time since the merger with KCRC in 2007. During the period, more than 1.05 million train trips were made on our heavy rail network and more than 0.54 million trips on our light rail network. The first six months of 2018 saw only two delays on the heavy rail network and no delays on the light rail network lasting 31 minutes or more which were caused by factors within our control.

To make our customers' journeys more comfortable, a new round of train service enhancements began on 23 April 2018. An extra 238 train trips per week were added to the Tsuen Wan, Kwun Tong and Island lines, increasing frequency during off-peak hours, particularly in the evening.

Despite overall excellent service performance, we take very seriously any delays that cause inconvenience to our customers. On the morning of 11 January 2018, train service was disrupted on the East Rail Line due to a signalling fault. A detailed investigation was carried out jointly with experts from the signalling equipment supplier to identify the cause of the incident and a report was submitted to Government on 12 March 2018. The investigation confirmed that the failure was due to a hidden software coding error. An independent consultant employed by the Company reviewed the investigation results and concurred with the cause of the incident and the recommended improvement measures. To prevent recurrence, we have implemented several measures to address the specific cause, including downloading a new software patch rectifying the software coding error. In addition, we are seeking to improve the effectiveness of the dispatch of free shuttle buses and queuing plans, as well as enhancing passenger information and education.

STATION COMMERCIAL BUSINESSES

Highlights

- Performance driven by higher rentals at Duty Free and other station shops
- Positive rental reversions in our station shops
- Advertising revenue benefited from positive market sentiment

The performance of the Hong Kong station commercial businesses in the first six months of 2018 is summarised below.

HK$ million	Half year ended 30 June 2018	2017	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**2,154**	1,935	11.3
Advertising Revenue	**523**	479	9.2
Telecommunication Income	**338**	315	7.3
Other Station Commercial Income	**60**	59	1.7
Total Revenue	**3,075**	2,788	10.3
EBITDA	**2,807**	2,549	10.1
EBIT	**2,414**	2,202	9.6
EBITDA Margin (in %)	**91.3%**	91.4%	(0.1)% pt.
EBIT Margin (in %)	**78.5%**	79.0%	(0.5)% pt.

Total revenue of the Hong Kong station commercial businesses rose by 10.3% to HK$3,075 million in the first six months of 2018. We saw strong revenue growth in all our major station commercial businesses.

Our station retail rental revenue increased by 11.3% to HK$2,154 million, mainly due to higher rental at Duty Free Shops and favourable rental reversions at other station shops. As at 30 June 2018, there were 1,422 station shops, occupying 58,883 square metres of retail space, representing an increase of six shops and 167 square metres of lettable space when compared with 31 December 2017. The increases were due to the opening of

two new shops at Tai Po Station and three new shops at Hung Hom Station, as well as the re-opening of a shop at Shek Mun Station which was previously closed for renovation.

Advertising revenue increased by 9.2% to HK$523 million in the first six months of 2018. This was mainly attributable to positive market sentiment, driven by growth in retail spending and tourism, with the overall advertising spend starting to recover in the last quarter of 2017. The number of advertising units in stations and trains increased to 47,055 by 30 June 2018. To continue to leverage off the digital trend and engage our customers, during the period two new digital zones were unveiled at Central and Mong Kok stations. A total of 240 advertising panels in stations were also revamped, resulting in a brighter and more contemporary look to enhance the attraction of our advertising.

Revenue from telecommunications in the first six months of 2018 rose by 7.3% to HK$338 million. A new Commercial Telecom System for operators allowing more capacity is being installed at 31 stations, of which works have been completed at nine stations by 30 June 2018.

PROPERTY AND OTHER BUSINESSES

Highlights

- Awarded Yau Tong Ventilation Building site and Wong Chuk Hang Station Package 3
- Rental revenue increased by 3.4% despite negative rental reversion of 2.2% in our shopping mall portfolio in Hong Kong
- Grand opening of Maritime Square 2 in February 2018 following soft opening in December 2017

In the commercial sector, Grade-A offices in Central continued to perform well. Vacancy rates remained low and demand from Mainland enterprises remained strong, with the finance and professional services sectors continuing to expand. However, high rents in Central led to more relocations of tenants occupying large spaces to districts such as Island East and Kowloon. The retail segment showed signs of recovery in 2018 as both consumer sentiment and visitor arrivals improved. Nonetheless, the sector continues to face a number of uncertainties, including the continuing growth of e-commerce.

The residential property market remained buoyant in the first half of 2018 with strong demand from buyers. New developments sold out quickly, facilitated by developers' incentives and financing offers. The secondary market regained momentum, with prices rising and sales volumes reaching a three-year high during the first quarter of 2018. The Mass Centa-City Leading Index, which monitors the secondary market, increased from 166.73 at the end of 2017 to 189.54 by 30 June 2018.

Property Rental and Management Businesses

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

HK$ million	Half year ended 30 June 2018	2017	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**2,373**	2,296	3.4
Revenue from Property Management	**144**	136	5.9
Total Revenue	**2,517**	2,432	3.5
EBITDA	**2,136**	2,088	2.3
EBIT	**2,128**	2,080	2.3
EBITDA Margin (in %)	**84.9%**	85.9%	(1.0)% pt.
EBIT Margin (in %)	**84.5%**	85.5%	(1.0)% pt.

Property rental revenue increased by 3.4% to HK$2,373 million in the first six months of 2018, mainly due to rental increases in accordance with existing lease agreements and the opening of new retail space in the second half of 2017. Our shopping malls in Hong Kong recorded a 2.2% fall in rental reversion during the first six months of 2018, reflecting market adjustments from the peak rents achieved three years ago. As at 30 June 2018, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre were 100% let.

As at 30 June 2018, the Company's attributable share of investment properties in Hong Kong was 218,083 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of offices and 17,764 square metres of property for other use. Following a soft opening in December 2017, the grand opening of Maritime Square 2 was held on 7 February 2018. All the shops were fully opened within the first quarter of 2018. We continued to upgrade Paradise Mall, targeting to complete the revamp by the second half of 2018.

Hong Kong property management revenue in the first six months of 2018 increased by 5.9% to HK$144 million. As at 30 June 2018, MTR managed over 96,000 residential units and over 772,000 square metres of commercial space.

During the period, our malls won a number of prizes from various organisations. Two International Finance Centre, The Cullinan and Sorrento also won property management awards during the period.

Property Development

Hong Kong property development profit was HK$158 million, mainly derived from sales of inventory units and car parking spaces, as well as agency fee income from West Rail property developments (including Ocean Supreme, Cullinan West, Cullinan West II and PARC CITY). This was HK$464 million lower than first six months in 2017, when higher agency fees and further surplus proceeds arising from the finalisation of development costs for certain completed property development projects were recognised.

Pre-sales for MALIBU (LOHAS Park Package 5) were launched in March 2018, generating a very enthusiastic response from buyers. As at 30 June 2018, about 97% of the 1,600 units had been sold. Pre-sales continued for Wings at Sea and Wings at Sea II (LOHAS Park Package 4), which were launched in September and October 2017 respectively. By 30 June 2018, about 97% of the 1,040 units of Wings at Sea and about 63% of the 1,132 units of Wings at Sea II had been sold. In July 2018, we received the pre-sale consent for LP6 (LOHAS Park Package 6). This development has 2,392 units and pre-sales are expected to commence shortly.

For West Rail property development projects where we act as agent for the relevant subsidiaries of KCRC, pre-sales continued for THE PAVILIA BAY (the Tsuen Wan West Station (TW6) site), Ocean Pride and Ocean Supreme (the Tsuen Wan West Station (TW5) Bayside site) and The Spectra (the Long Ping Station (North) site). These projects were substantially sold by 30 June 2018.

Property Development Packages Completed during the period and Awarded

Location	Developers	Type	Gross floor area (sq. m.)	Tender award date	Expected completion date
Ho Man Tin Station					
Package 1	Goldin Financial Holdings Limited	Residential	69,000	December 2016	2022
LOHAS Park Station					
Wings at Sea and Wings at Sea II	Sun Hung Kai Properties Limited	Residential	122,302	April 2014	By phases from 2018 – 2019
MALIBU	Wheelock and Company Limited	Residential	102,336	November 2014	2019
LP6	Nan Fung Group Holdings Limited	Residential	136,970	January 2015	2020
Package 7	Wheelock and Company Limited	Residential Retail Kindergarten	70,260 44,500 1,160	June 2015	2022
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
Tai Wai Station					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	October 2014	2022
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	February 2015	2021
Wong Chuk Hang Station					
Package 1	Road King Infrastructure Limited and Ping An Real Estate Company Limited	Residential	53,600	February 2017	2022
Package 2	Kerry Properties Limited and Sino Land Company Limited	Residential	45,800	December 2017	2023
Package 3	CK Asset Holdings Limited	Residential Retail	92,000 47,000	August 2018	2024
Yau Tong Ventilation Building					
Yau Tong Ventilation Building	Sino Land Company Limited and CSI Properties Limited	Residential	30,225	May 2018	2025
Kam Sheung Road Station#					
Package 1	Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited	Residential	114,896	May 2017	2025
Long Ping Station#					
Long Ping (South)	Chinachem Group	Residential	41,990	June 2013	2019
Nam Cheong Station#					
Cullinan West	Sun Hung Kai Properties Limited	Residential Retail Kindergarten	214,700 26,660 1,000	October 2011	By phases from 2017 – 2019
Tsuen Wan West Station#					
PARC CITY	Chinachem Group	Residential Retail	66,114 11,210	January 2012	2018
Ocean Pride and Ocean Supreme	CK Asset Holdings Limited	Residential Retail Kindergarten	167,100 40,000 550	August 2012	2018
THE PAVILIA BAY	New World Development Co. Ltd. and Vanke Property (Overseas) Limited	Residential	62,711	January 2013	2018
Yuen Long Station#					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	August 2015	2022

\# *as a development agent for the relevant subsidiaries of KCRC*

* *excluding a bicycle park with cycle track*

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

Property Development Packages to be Awarded Notes 1 and 2

Location	Type	Gross floor area (sq. m.)	Period of package tenders	Expected completion date
LOHAS Park Station	Residential	About 320,000	2018 – 2021	2023 – 2026
Wong Chuk Hang Station	Residential	165,200		
Ho Man Tin Station	Residential	59,400		

Notes

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

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

In our property tendering activities, the Yau Tong Ventilation Building site on the Tseung Kwan O Line was awarded to Top Oasis Limited, a consortium formed by Sino Land Company Limited and CSI Properties Limited in May 2018. Today, we awarded our third package at Wong Chuk Hang Station to a subsidiary of CK Asset Holdings Limited. As part of this tender we will retain the ownership of the 47,000 square metres gross floor area ("GFA") shopping centre at Wong Chuk Hang Station when the mall is completed.

Other Businesses

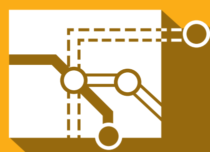
The Ngong Ping Cable Car and associated theme village ("Ngong Ping 360") benefited from the completion of the rope replacement programme which had impacted visitor numbers and revenue in the previous financial year. Hence revenue increased by 383.0% in the first six months of 2018 to HK$227 million, while visitor numbers for the period rose by 536% to about 0.88 million.

The Company's share of profit from Octopus Holdings Limited in the first six months of 2018 increased by 11.4% to HK$98 million. As at 30 June 2018, more than 13,000 service providers in Hong Kong accepted Octopus payments. Total cards and other stored-value Octopus products in circulation stood at 35.4 million, while average daily transaction volumes and value were 14.8 million and HK$204.4 million respectively.

HONG KONG BUSINESS GROWTH

Highlights

- Express Rail Link – 99.9% complete. Target commissioning remains September 2018
- Shatin to Central Link – 86.0% complete. The commissioning date of the Tai Wai to Hung Hom Section will depend, inter alia, on the verification of, and safety test on, the Hung Hom Station platform slab. Target completion remains 2021 for the Hung Hom to Admiralty Section
- RDS 2014: five proposals submitted to Government
- 14 MTR property development packages previously tendered out will provide over 20,000 residential units, with a total GFA of over 1.28 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 two new rail projects under construction, it also covers major upgrades and replacements to the existing rail network, as well as initiatives to enhance customer experience through the use of technology. Beyond Rail Gen 2.0, Government has announced that rail will continue to be the backbone of public transportation in Hong Kong, with projects under RDS 2014 having the potential to increase Hong Kong's rail network by a further 35 km. In the longer term, Government's "Strategic Studies on Railways and Major Roads beyond 2030" may expand the rail network even further.

Rail Gen 2.0

New Lines Project Managed by MTR

Our Hong Kong rail network currently extends to 230.9 km. The two railway projects under construction which are project managed by MTR, namely the Express Rail Link and the Shatin to Central Link, will add another 43 km route length to the overall Hong Kong rail network in the next few years.

Express Rail Link

The 26-km high-speed cross-boundary Express Rail Link will connect Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. It will be served by the approximately 400,000-square metre (usable floor area) Hong Kong West Kowloon Station, one of the largest underground high-speed rail stations in the world. MTR has been entrusted by Government to manage the construction of the Express Rail Link. As at the end of June 2018, the project was 99.9% complete.

A key milestone for the Express Rail Link was achieved when the main works were substantially completed in the first quarter of 2018. A ceremony to mark the occasion was held on 23 March 2018. At the ceremony, we unveiled the winning name in the High Speed Rail Train Naming Competition. Translated as "Vibrant Express", it best reflects Hong Kong's vibrancy and energy.

The structural works at Hong Kong West Kowloon Station are complete. Architectural Builder's Works and Finishes and Building Services works including the Customs, Immigration & Quarantine ("CIQ") and Mainland CIQ ("MCIQ") areas under the purview of the Company are substantially complete and in line with programme. However, the timely completion of all the MCIQ and CIQ facilities remains on the critical path. The Fire Services Department inspection for the Hong Kong West Kowloon Station was completed on 12 July 2018.

The trial operations of the High Speed Rail service began on 1 April 2018 and are now in full swing. The objectives of these trials are to identify any teething issues and to make improvements, particularly in the operations and integration of various systems such as rolling stock, signalling, power supply, rails, ticketing and fire services equipment, and to allow staff to become familiar with operational procedures. A number of drills and exercises simulating various operating scenarios are being carried out during the trial operation period.

The target opening date for the High Speed Rail service is September 2018. We are in the final stage of discussions with Government regarding the arrangements for the future operations of this service.

In accordance with the "Three-step Process" to implement the necessary CIQ arrangements, on 18 November 2017 the Government of the HKSAR and the People's Government of Guangdong Province signed the Co-operation Arrangement between the Mainland and the HKSAR on the Establishment of the Port at the Hong Kong West Kowloon Station for Implementing Co-location Arrangement ("Co-operation Arrangement") to kick-start the work required to implement the future clearance procedures for travellers on the Express Rail Link. The Co-operation Arrangement was subsequently approved by the Standing Committee of the National People's Congress on 27 December 2017. The passage of the Co-location Bill by LegCo on 14 June 2018 marked the completion of the "Three-step Process" of the co-location arrangement and the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Co-location) Ordinance was gazetted on 22 June 2018. The co-location arrangement will maximise service convenience for passengers and help realise the line's full transport, social and economic benefits.

Under the agreement with Government regarding the further funding arrangement for the Express Rail Link ("XRL Agreement"), Government will bear and finance the project cost up to HK$84.42 billion. If the project exceeds HK$84.42 billion, MTR will bear and finance any project costs exceeding HK$84.42 billion (if any) except in limited circumstances specified in the XRL Agreement.

Shatin to Central Link

The ten-station 17-km Shatin to Central Link, a project managed by MTR on behalf of Government, is a strategic railway that will extend the existing rail network and improve connectivity. The first phase is the 11-km Tai Wai to Hung Hom Section and the second phase is the 6-km Hung Hom to Admiralty Section. When the Tai Wai to Hung Hom Section is completed, it will extend the existing Ma On Shan Line from Tai Wai via six stations to the West Rail Line to form the "Tuen Ma Line". When the Hung Hom to Admiralty Section is completed, it will extend the existing East Rail Line across the harbour to Exhibition Centre Station and Admiralty Station through Hung Hom.

Upon completion, the Shatin to Central Link will connect several existing railway lines and enhance connectivity of the entire Hong Kong railway network. Travelling time will be reduced significantly between New Territories North, Kowloon and Hong Kong. Alternative routes will also become available so that customers will have more route choices, particularly in the busy cross-harbour section of the Tsuen Wan Line and the Tai Wai to Kowloon Tong section of the East Rail Line.

Overall, this project was 86.0% complete by 30 June 2018, with the Tai Wai to Hung Hom Section and Hung Hom to Admiralty Section, being 97.8% and 70.9% complete respectively.

In the Tai Wai to Hung Hom Section, structural works for all stations have been substantially completed. Test running covering the full length of the line between Hin Keng and Hung Hom stations commenced in June 2018 as planned.

At Hin Keng Station, building services works, electrical and mechanical ("E&M") works and the connecting elevated and at grade track works, have been completed. Relevant statutory inspections were also completed.

Structural works for both Sung Wong Toi and To Kwa Wan stations have been completed. Fitting-out, building services and E&M works for the station concourses and platforms are in full swing. For Kai Tak Station, fire services inspections have been completed and relevant statutory inspections are in progress.

At Hung Hom Station, construction of platform and structural works for the tunnel has been completed. Building services and E&M works inside the station are broadly on schedule.

For the Hung Hom to Admiralty Section, all 11 immersed tube cross-harbour tunnel units had been installed in Victoria Harbour as of April 2018.

At Exhibition Centre Station, the progress of the construction work has been affected by late site handover, incomplete entrusted works by other parties and unfavourable ground conditions. As at 30 June 2018, it was 64.2% complete. Excavation works are underway at the former Wan Chai Ferry Pier Public Transport Interchange and former Wan Chai Swimming Pool works sites. At the works site under the atrium of Hong Kong Convention and Exhibition Centre, tunnel excavation works continue, while structural works are being carried out progressively. At the former Harbour Road Sports Centre works site, excavation works for Exhibition Centre Station are also in progress.

Two unexploded wartime ordnances were discovered at the work sites of the former Wan Chai Swimming Pool area on 27 January and 31 January 2018, and a third was discovered at the former Harbour Road Sports Centre on 10 May 2018. They were found by the contractor's staff during excavation works in accordance with established work procedures. We thank the Hong Kong Police, who dealt with these unexploded ordnances in a very professional and effective manner.

Admiralty Station is being transformed into a major interchange hub for the Shatin to Central Link, Island, Tsuen Wan and South Island lines. Internal structural works, architectural finishes and building services installation for the station extension are underway.

The existing signalling system of the East Rail Line is being replaced under the Shatin to Central Link scope of work. Dynamic testing of the new signalling system using East Rail Line trains and new trains during non-traffic hours is underway on the whole of the East Rail Line, with target completion in the second half of 2019.

Concerns relating to construction works at Hung Hom, To Kwa Wan and Exhibition Centre stations

The quality and safety of railway projects has always been the Company's top priority. We understand the public's concern relating to recently reported issues in relation to the Shatin to Central Link project and take these matters very seriously. Where concerns have been raised we have taken immediate steps to investigate the issues, report our findings to Government, identify any rectification work required and reserve our position against relevant contractors and consultants.

The Company has successfully delivered many railway projects which provide efficient and safe services to the Hong Kong public every day. This has been achieved on the basis of the Company's well tested project management system and the concerted efforts of MTR colleagues. Our colleagues continue to work hard to deliver the Shatin to Central Link project.

The Company will continue to take steps to address public concerns and provide reassurance as to the quality of the construction works. To address the allegations relating to the platform at the Hung Hom Station extension, we have engaged an independent third party to perform a safety test of this platform (the results of which will be submitted to Government and made public once available). We will also co-operate fully with the Commission of Inquiry that has been appointed by the HKSAR Chief Executive in Council to investigate matters relating to the diaphragm wall and the platform slab at the Hung Hom Station extension as well as, amongst others, the adequacy of the Company's project management and supervision systems. On 7 August 2018, the Company announced that the report submitted by the Company to Government on 15 June 2018 in relation to the platform slab at the Hung Hom Station extension of the Shatin to Central Link contained inaccuracies in respect of the construction methodology of the top side of the platform slab. The Company is investigating this issue and will provide updated information to Government in due course.

To provide additional assurances and confidence to the public, the Capital Works Committee of the Board will review the processes and procedures for the Shatin to Central Link within the Company's project management system, assisted by an external consultant. The Board has also directed the Company's management to strengthen its monitoring and supervision over all Shatin to Central Link contracts.

Programme for Delivery

As previously reported, the programme for the delivery of the Shatin to Central Link has been impacted by certain key external events. For the Tai Wai to Hung Hom Section, the discovery of archaeological relics in the Sung Wong Toi Station area led to an 11-month delay. However, with the hard work by the teams involved and the successful implementation of a number of delay recovery measures, the length of the delay has been reduced. However the commissioning date of the Tai Wai to Hung Hom Section will depend, inter alia, on the verification of, and safety test on, the Hung Hom Station platform slab highlighted above.

For the Hung Hom to Admiralty Section, we had previously reported a nine-month delay due to a number of external factors, including the late handover by a third party of construction sites for the new Exhibition Centre Station. However, the Hung Hom to Admiralty Section is still targeted for completion in 2021.

Funding

Government is responsible for funding the Shatin to Central Link and the sum entrusted to the Company by Government for the main construction works under the 2012 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link ("SCL Entrustment Agreement") was HK$70,827 million. The Company has previously announced that, due to the continuing challenges posed by external factors and difficulties similar to those encountered by most major infrastructure projects in Hong Kong, the Shatin to Central Link 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 of HK$87,328 million was submitted to Government for review on 5 December 2017. Since submission of this estimate, which shows an increase of HK$16,501 million (or 23% of the cost of the main works), the Company has been liaising with Government to facilitate its review and verification process. Any significant adverse result from the verification of, or safety test on, the Hung Hom Station platform slab may potentially impact this latest estimated CTC. The Company has continued to exercise rigorous cost control with the objective of ensuring that construction costs are minimised so far as possible.

Major Asset Upgrades and Replacements on the Existing Network

Our investment in major asset upgrades and replacements in the Hong Kong rail network includes, amongst other projects, the purchase of new trains and light rail vehicles, and the replacement of signalling systems and air cooling systems.

A total of HK$6 billion is being spent on the purchase of 93 new, more comfortable 8-car trains for the replacement of those on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. The first 8-car train was delivered to Hong Kong in January 2018, with the final batch of trains due to be delivered in 2023. The new trains will undergo stringent testing and commissioning in Hong Kong before being put into service. Test runs began in March 2018 on the Tung Chung Line during non-traffic hours.

To meet the increasing demand for our light rail services, we are replacing 30 light rail vehicles and purchasing ten additional vehicles, at a total cost of HK$745 million. Production commenced in early 2018, with the target delivery for the first batch of light rail vehicles at the end of 2018. The vehicles will enter passenger service progressively between 2019 and 2023.

The existing signalling systems on the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express, are being replaced at a cost of HK$3.3 billion. Final installation works for the Tsuen Wan Line have been completed and dynamic tests, which cover the whole line, are underway. Although progress has been steady, there has been some delay in the implementation of this re-signalling project, with the new system targeted to commence operations in 2019. Steady progress is being made on installation and design of the new system on the Island and Kwun Tong lines. Overall programme completion for all lines is targeted in 2026. We are monitoring our overall programme closely, with the safety and reliability of the railway service being the top priority.

The programme to replace air coolers is progressing well. Installation works for the replacement of the first 29 air coolers in seven stations and two depots was completed in April 2018, and contractors are now preparing detailed design submissions for the next phase.

Under the Shatin to Central Link project, the original 28 7-car trains on the West Rail Line were all converted to 8-car trains by May 2018. This will enhance existing train services and serve the future Tuen Ma Line, creating a more comfortable travelling environment for passengers and increasing overall capacity by 14%.

Enhancing Customer Experience

Rail Gen 2.0 also aims to enhance our customers' experience through the application of new technologies that will help us provide more personalised services and smoother journeys for customers. To this end, we have launched a number of digital initiatives, including enhancements to the MTR Mobile app.

The MTR Mobile app, which has over one million active users per month, now offers a more personalised experience following the introduction in January 2018 of a "Chatbot" function which provides customers with route and exit information for their destination.

We have continued to roll out the new generation of Passenger Information Displays in all stations. These provide passengers with the latest train arrival times and other useful information.

Electronic payments have become increasingly popular, and a trial scheme to accept mobile payment at designated ticket machines at Lo Wu and Lok Ma Chau stations was launched in December 2017. It was extended to Tsim Sha Tsui, East Tsim Sha Tsui, Causeway Bay, Mong Kok East and Sha Tin stations during the first half of 2018. Customers can purchase Single Journey Tickets at these machines using four different mobile wallets, namely Alipay, AlipayHK, WeChat Pay and WeChat Pay HK.

To further enhance our customer experience, the Company plans to conduct a trial-run for QR code-based payments at existing Automatic Fare Collection ("AFC") gates, providing an additional payment option to passengers, especially tourists. The experience gained in the trial-run will be considered when we renew AFC assets in the future. The pre-qualification process for the tender for a service provider for QR code-based payments started in May 2018 and shortlisted tenderers were invited for tender submission in August 2018.

New Rail Projects beyond Rail Gen 2.0

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

As requested by Government we have provided supplementary information on the project proposals which we submitted for the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station) and the East Kowloon Line. We also submitted the project proposal for the Tung Chung West Extension (and Tung Chung East Station) in January 2018. We are liaising closely with Government departments to resolve the technical, operational and financial issues for implementation of these future rail projects. Our proposal for the North Island Line was submitted in July 2018.

Major transport corridors to meet the longer term demand for public transport with rail as its backbone are also envisaged in Government's "Strategic Studies on Railways and Major Roads beyond 2030" ("RMR 2030+") with reference to the vision depicted in "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030". The RMR 2030+, which is planned to commence later in 2018, will examine the strategic transport infrastructure network required to meet the transport needs beyond 2030. This will include the demand arising from the two strategic growth areas, namely the East Lantau Metropolis and New Territories North.

EXPANDING THE PROPERTY PORTFOLIO

The growth of our Hong Kong rail network presents further opportunities to develop residential and commercial properties.

Over the next few years, our investment properties portfolio in Hong Kong will expand considerably as we add 152,120 square metres GFA to our shopping centre portfolio, increasing attributable GFA by approximately 49%. Two projects are underway, namely the new LOHAS Park shopping centre and the Tai Wai shopping centre. Furthermore, under the tender for Wong Chuk Hang Station Package 3, which we have just awarded, we will retain the 47,000 square metres GFA shopping centre when that mall is completed.

The construction works for the LOHAS Park shopping centre were 40% complete as at 30 June 2018, while construction works for the Tai Wai shopping centre were 20% complete. The projects are targeted for completion by the end of 2020 and 2022 respectively.

In our residential property development, during the past four years or so, 14 MTR property development packages have been tendered out and are now in various stages of planning and construction. Over 20,000 residential units, with a total GFA of over 1.28 million square metres, will be completed in the next seven years or so.

To provide more private housing in Hong Kong, we are also seeking to develop property above certain existing rail facilities. The first of these is the development over our Yau Tong Ventilation Building, for which the tender was awarded in May 2018. Above our depot in Siu Ho Wan on Lantau Island around 14,000 residential units could be built, subject to the necessary zoning and other statutory approvals. The draft Siu Ho Wan Outline Zoning Plan was gazetted on 29 March 2018. At this preliminary stage there is no assurance that this project will be commercially viable.

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

Highlights

- Awarded O&M contract for Macau LRT Taipa Line
- MOU signed with Chengdu Rail Transit Group
- Cooperation Agreement signed to provide TOD technical assistance for a mixed use property development adjacent to Chencun Station in the Shunde district of Foshan, Guangdong province
- MTR Crossrail started operation of the Paddington to Heathrow services
- Bid submitted for West Coast Partnership in the UK

Outside of Hong Kong, we are leveraging our expertise and experience to build a growing portfolio of railway-related businesses in the Mainland of China, Europe and Australia. Our railway businesses outside of Hong Kong carried an average of around 6.77 million passengers per weekday in the first six months of 2018.

	Mainland of China and International – Recurrent Businesses								
	Mainland of China Railway, Property Rental and Property Management Businesses			International Railway Businesses			Total		
Half year ended 30 June HK$ million	**2018**	2017	Inc./ (Dec.) %	**2018**	2017	Inc./ (Dec.) %	**2018**	2017	Inc./ (Dec.) %
Subsidiaries									
Revenue	**451**	379	19.0	**10,002**	7,636	31.0	**10,453**	8,015	30.4
EBITDA	**111**	76	46.1	**299**	374	(20.1)	**410**	450	(8.9)
EBIT	**106**	72	47.2	**233**	312	(25.3)	**339**	384	(11.7)
EBIT (Net of Non-controlling Interests)	**106**	72	47.2	**145**	259	(44.0)	**251**	331	(24.2)
EBITDA Margin (in %)	**24.6%**	20.1%	4.5% pts.	**3.0%**	4.9%	(1.9)% pts.	**3.9%**	5.6%	(1.7)% pts.
EBIT Margin (in %)	**23.5%**	19.0%	4.5% pts.	**2.3%**	4.1%	(1.8)% pts.	**3.2%**	4.8%	(1.6)% pts.
Associates and Joint Venture									
Share of EBIT	**487**	336	44.9	**(41)**	(4)	(925.0)	**446**	332	34.3
Share of Profit/(Loss)	**224**	95	135.8	**(36)**	(2)	(1,700.0)	**188**	93	102.2
EBIT of Subsidiaries (Net of Non-controlling Interests) and Share of EBIT of Associates and Joint Venture	**593**	408	45.3	**104**	255	(59.2)	**697**	663	5.1

Mainland of China – Property Development HK$ million	Half year ended 30 June 2018	2017	Inc./(Dec.) %
Subsidiaries			
Revenue	**–**	6,844	(100.0)
EBITDA	**(17)**	2,186	N/A
EBIT	**(19)**	2,186	N/A
EBITDA Margin (in %)	**N/A**	31.9%	N/A
EBIT Margin (in %)	**N/A**	31.9%	N/A
Associate			
Share of EBIT	**–**	(1)	100.0
Share of Profit/(Loss)	**–**	(1)	100.0

Mainland of China and International – Recurrent Businesses and Property Development HK$ million	Half year ended 30 June 2018	2017	Inc./(Dec.) %
Profit for the Period attributable to Shareholders of the Company			
– Arising from Recurrent Businesses	**342**	363	(5.8)
– Arising from Mainland of China Property Development	**33**	851	(96.1)
Total	**375**	1,214	(69.1)
Number of passengers carried by our railway subsidiaries and associates outside of Hong Kong (in million)	**1,054**	909	16.0

In the Mainland of China, EBITDA for the first half of 2018 from our railway, property rental and property management subsidiaries increased by 46.1% to HK$111 million, mainly attributable to higher patronage of Shenzhen Metro Line 4 ("SZL4"). In our International businesses, EBITDA from our railway subsidiaries decreased by 20.1% to HK$299 million, mainly due to material losses incurred in our Stockholm commuter rail concession. This is partly offset by higher income from operations and project works in our Melbourne metropolitan rail service, as well as Sydney Metro Northwest ("SMNW"), for which the booking of project related profit started in the second half of 2017. Our share of profit from associates and joint venture increased by 102.2% to HK$188 million, mainly due to revenue improvement at Beijing MTR Corporation Limited ("BJMTR"). Excluding Mainland of China property development, our railway, property rental and management subsidiaries, and our associates and joint venture outside of Hong Kong contributed net after-tax profits of HK$342 million during the six months on an attributable basis, representing 7.6% of total recurrent profits.

Railway Businesses in the Mainland of China

Beijing

In Beijing, our 49% associate BJMTR operates four lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14") and Beijing Metro Line 16 ("BJL16"). On-time performance in the first six months of 2018 averaged 99.9% across the four lines.

For the period, the combined ridership of BJL4 and the Daxing Line was about 214 million passenger trips and average weekday patronage was more than 1.29 million, similar to the same period of 2017.

The first three phases of BJL14 recorded a combined 112 million passenger trips and average weekday patronage of about 717,000 in the first six months of 2018, an increase of 8% compared to the same period last year.

BJL16 is a Public Private Partnership ("PPP") project whose first phase, the 19.6-km Northern Section, commenced operation in December 2016. In the first six months of 2018 the line recorded 16 million passenger trips and average weekday patronage of about 99,000. Full line operation, which will mark the start of the operating concession, is targeted after 2019.

Shenzhen

SZL4, which is operated by MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), achieved patronage growth of 10.2% to 109 million, with average weekday patronage rising to 605,000 in the first six months of 2018. On-time performance remained at 99.9%.

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

Our consultancy subsidiary in Shenzhen entered into a project management agreement to supervise the construction of the Northern Extension of SZL4, which will be financed by the Shenzhen Municipal Government. The civil and E&M works are progressing according to programme, with the project targeted for completion by the end of 2020. MTR(SZ) is in discussion with the Shenzhen Municipal Government regarding the operational arrangements for this extension.

Hangzhou

Our 49% associate in Hangzhou, Hangzhou MTR Corporation Limited ("HZMTR"), operates Hangzhou Metro Line 1. Patronage on this line rose by 19.3% in the first six months of 2018 to 128 million, with average weekday patronage of 718,000. On-time train performance remained excellent, at 99.9%. Benefiting from continuous growth in patronage, in the first six months of 2018, share of profit from HZMTR amounted to HK$13 million, as compared to the loss of HK$29 million in the same period in 2017.

The 51.5 km Hangzhou Metro Line 5 ("HZL5"), another PPP project, which was awarded to our subsidiary in 2017, is an underground metro line running from Xiangzhanglu Station in Xiaoshan District to Lutinglu Station in Yuhang District, with a total of 38 stations. Tendering and construction works of the line are now in full swing.

Property Businesses in the Mainland of China

Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1 has a total developable GFA of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA). Over 98% of the residential units were sold and handed over to buyers. Fitting out of the retail centre is underway.

In March 2017, a framework agreement was signed with a subsidiary of Beijing Capital Land Limited for the disposal of our 49% interest in Tianjin TJ-Metro MTR Construction Company Limited, as well as the conditional future acquisition of an approximately 91,000 square metres GFA shopping centre to be developed on the Beiyunhe Station site. Relevant government approval was obtained in July 2017 for the disposal of our 49% interest and the Sale and Purchase Agreement for the shopping centre was signed on 26 January 2018.

The Company also manages self-developed and other third party properties in the Mainland of China which, as at 30 June 2018, had a total GFA of 390,000 square metres. Our shopping mall in Beijing, Ginza Mall, has completed a partial revamp and was 98% occupied as at 30 June 2018.

European Railway Businesses

United Kingdom

In London, MTR Corporation (Crossrail) Limited ("MTR Crossrail"), a wholly owned subsidiary of the Company, operates, under the "TfL Rail" brand, a 32.5-km, 14-station route between Liverpool Street Station and Shenfield being the first phase of the Crossrail operating concession. The second phase, providing services between Paddington Station and Heathrow Airport, commenced in May 2018. The TfL Rail service will be renamed the Elizabeth Line when the tunnel section through central London is completed and becomes operational. It will eventually extend to 118 km from Reading in the west and crossing to the east of London, serving 41 stations. New trains have been progressively introduced into operation since June 2017. Since taking over the concession in 2015, MTR Crossrail has been enhancing performance as measured by the Public Performance Measure Moving Annual Average on the routes that it operates, making TfL Rail one of the most reliable services in the UK.

Through our associate First MTR South Western Trains Ltd, as a 30% shareholder we have partnered with FirstGroup plc on the South Western Railway franchise. South Western Railway is one of the UK's largest rail networks, with a route length of 998 km serving 203 stations, covering London and south western England. Financial performance for the first half of 2018 has been impacted by a number of factors, including an industry-wide slowdown in growth in passenger numbers and underlying performance resulting primarily from a number of major incidents involving infrastructure that is under the control of a third party. An independent review was commissioned in April 2018 by the UK government, covering both South Western Railway and the related rail infrastructure, to see if all possible steps are being taken to improve performance and passenger experience. The Company has provided and will continue to provide support to the local operations through expertise sharing in order to achieve the promised service improvements.

Nordic Region

MTR is the largest rail operator in Sweden by passenger volume. We operate three key rail businesses in the country, namely Stockholm Metro, MTR Express and the Stockholm commuter rail.

In the first six months of 2018, Stockholm Metro delivered strong results, with high levels of operational performance and customer satisfaction. The total number of journeys for the first half of 2018 was 180 million and average weekday patronage was 1.3 million.

MTR Express (Sweden) AB is our wholly-owned subsidiary which operates the MTR Express intercity service between Stockholm and Gothenburg. The service was expanded to 110 trains per week in March 2018 and it continues to rank as the most punctual operator between the two cities. Although this has supported continued growth in passenger numbers, fare revenue has been below our original expectations and the line continued to be loss-making in the first six months of 2018.

Our wholly-owned subsidiary MTR Pendeltågen AB operates the Stockholm commuter rail service under a concession that runs for ten years to December 2026, with an option to extend for four more years. The concession includes the maintenance of rolling stock undertaken by Emtrain AB, a 50% owned associate together with EuroMaint Rail AB. Stockholm commuter rail serves the greater Stockholm area, with 53 stations and a total route length of 247 km.

The first half of 2018 was very challenging for MTR Pendeltågen AB, both operationally and financially. Issues relating to a nation-wide lack of drivers and train availability and maintenance, as well as a new, more complex timetable introduced in combination with poorly performing infrastructure which is under the control of a third party, led to an increase in operating costs as well as significant penalties relating to punctuality and customer satisfaction. As a result, a material loss was incurred in the first six months of 2018. We have taken immediate actions, including strengthening the local management team and providing support from Hong Kong. We are also implementing a turnaround plan to improve service levels and the financial position of the business, but it will likely remain in a loss making position for a number of years.

Australian Railway Businesses

In Melbourne, our 60% owned subsidiary Metro Trains Melbourne Pty. Ltd. ("MTM") operates the 390-km Melbourne metropolitan rail network. Operational performance was good in the first six months of 2018. Our stable track record over the term of the franchise led to the renewal of our concession for another seven years from November 2017, with options to extend for a maximum of three years. Under this renewed concession, we are committed to delivering even higher service levels in our railway operations and supporting the State Government in its infrastructure projects.

In Sydney, MTR is a member of a consortium which is responsible for the design, construction and financing, as well as the future operations and maintenance of the SMNW PPP project, which is the first stage of Sydney Metro. The 36-km SMNW line includes eight new metro stations and five existing stations upgraded to metro standards. All track laying work has been completed. Construction works for the depot and stations, as well as pre-operational planning, continue to progress in order to meet the target opening date in the first half of 2019. Train testing is underway.

Macau Railway Businesses

In Macau, our wholly owned subsidiary was awarded in April 2018 an MOP 5.88 billion (HK$5.71 billion) contract for O&M of Macau LRT Taipa Line. The contract covers an 80-month service period and includes the line's testing and trial run before opening, operation of train services, as well as maintenance of trains, the signalling system and other infrastructure. The 9.3-km Taipa Line will have 11 stations.

Growth Outside of Hong Kong

Mainland of China

We continue our co-operation with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and BJMTR in accordance with the previously signed Cooperation Framework Agreement to conduct joint preliminary studies on integrated property development above selected existing station and depot sites along BJL4 and the Daxing Line (including the Nanzhaolu Depot). This agreement was followed in January 2017 by a Letter of Intent ("LoI") with BIIC to extend our strategic co-operation to other, predominantly rail-related property development projects in Beijing in addition to investment in, construction and operation of other railway projects. In November 2017, the Company signed an LoI with the Daxing District People's Government of Beijing Municipality, BIIC and BJMTR for studies on the southward extension of the Beijing Daxing Line, Nanzhaolu Depot capacity expansion, and integrated property development above the depot. BJMTR is also seeking other opportunities in Beijing to expand its rail network.

In August 2017, we signed an LoI with Chengdu Rail Transit Group covering strategic cooperation on metro, metro related property development and metro operations management training. This was followed in May 2018 by the signing of an

MOU to conduct joint studies on the potential integrated development of stations along Chengdu's metro lines.

In Hangzhou, we are pursuing our third metro opportunity, as well as metro-related property development potentials.

In the Guangdong-Hong Kong-Macau Greater Bay Area, we will be providing TOD technical assistance to an associated company of Country Garden Group and Foshan Shunde District Metro Company Limited relating to a mixed use property development adjacent to Chencun Station in the Shunde district of Foshan, Guangdong province, which has a total GFA of approximately 391,500 square metres. We will continue exploring similar opportunities in other cities in the Mainland of China.

International

In the UK, together with Guangshen Railway Company Limited (an associated company of China Railway Corporation), we were shortlisted to bid for the West Coast Partnership franchise in the UK. The franchisee will operate railway services on the West Coast Main Line from 2019 until 2031. It will also act as the "shadow operator" to advise High Speed Two ("HS2") Limited and Department for Transport ("DfT") on the preparation and operation of the initial HS2 services between London and Birmingham, scheduled to commence in 2026. It is intended that the operator would then run both operations as an integrated service under a management contract to 2031. The invitation to tender was announced by DfT in March 2018 and our bid was submitted in July 2018. The bid for the Wales and Borders rail franchise which we submitted in December 2017 was not successful. We continue to explore further rail franchise and PPP opportunities and potential property developments over and around rail stations in the UK.

In the Nordic region, we submitted our first tender in Norway in March 2018 for the Traffic Package South (Trafikkpakke Sør) Operating Concession in the south of the country. Our bid has not been shortlisted to proceed to the next bidding stage. We will continue to explore further rail franchise opportunities and potential property developments in the region.

In Australia, we continue to prepare our proposal for the Sydney Metro City and Southwest ("SMCSW") project, a 30-km extension of SMNW running through the central business district, is targeted to open in 2024. The SMCSW Consortium, formed by MTR and other participants in SMNW, submitted a non-binding initial proposal to Transport for New South Wales ("TfNSW") in March 2017 and a commitment deed was entered into with TfNSW in December 2017. This will allow the SMCSW Consortium to submit an updated proposal in late 2018 to deliver and integrate trains and systems, as well as to operate the SMCSW line.

In Canada, MTR pre-qualified as a bidder for the operation of the Toronto Regional Express Rail project in December 2017. The project, which would be MTR's first in North America, would transform the existing GO Transit diesel-rail commuter system into an electrified railway network covering the Greater Toronto and Hamilton area. The project has been revised to a design-build-finance-operate-maintain project, and, as a result, we are preparing the pre-qualification bid together with a partner. The short-list of bidders is expected to be announced by the end of 2018.

FINANCIAL REVIEW

Profit and Loss

In the first half of 2018, the Group's revenue from recurrent businesses increased by 13.9% to HK$26,373 million, mainly reflecting the increase in franchise payments under the renewed concession, higher fare revenue and project revenue of MTM in Australia, growth in passenger volume of our transport operations in Hong Kong, and increase in rental income of our station commercial and property rental businesses in Hong Kong. Significant revenue was derived from the Tiara property development in Shenzhen in the first half of 2017 which was not repeated in 2018. Hence, total revenue of the Group therefore decreased by 12.1% to HK$26,373 million.

Operating profit from recurrent businesses (being operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment) increased by 3.0% to HK$9,321 million. The increase was mainly due to higher operating profits from Hong Kong station commercial and property rental and management businesses, resulting from the rental income growth of our Duty Free Shops, station shops and shopping malls, as well as higher contributions from Ngong Ping 360 following the completion of its cable car rope replacement programme in 2017. The above increases were partly offset by lower operating profits from the Hong Kong Transport Operations, due to higher staff costs whilst the fare adjustment in 2017/2018 was rolled over to 2018/2019 in accordance with the FAM. Operating margin from recurrent businesses decreased by 3.8 percentage points to 35.3%, mainly due to higher contributions from our Mainland of China and international businesses where the O&M operations carry lower operating margin, and such lower operating margin was further diluted by the material operating losses in MTR Pendeltågen AB. Excluding the Mainland of China and international subsidiaries, operating margin from recurrent businesses decreased by 0.8 percentage point to 56.0% mainly due to higher staff costs in Hong Kong Transport Operations.

Hong Kong property development profit was HK$158 million, mainly derived from sales of inventory units and car parking spaces, as well as agency fee income from West Rail property developments (including Ocean Supreme, Cullinan West, Cullinan West II and PARC CITY).

Depreciation and amortisation charges increased by 3.0% to HK$2,461 million. Variable annual payment to KCRC increased by 9.2% to HK$999 million, being 17.3% of the relevant revenue subject to this payment.

After taking into account Hong Kong property development profits, depreciation, amortisation and variable annual payment, operating profit before interest and tax therefore decreased by 29.8% to HK$6,002 million due to the lack of property development profit booking from Mainland China.

Interest and finance charges were HK$580 million, representing an increase of 43.9% over the same period in 2017, due to increased borrowings and higher interest rates, as well as the absence of the exchange gain recorded in the previous period. Investment property revaluation gain amounted to HK$2,435 million, mainly reflecting a slight yield compression in certain of our shopping malls and higher reversionary rentals in offices. Our share of profit from Octopus Holdings Limited increased by 11.4% to HK$98 million. Our share of profit from other associates and joint venture was HK$188 million, an increase of 104.3%. The increase was mainly due to profit improvement from BJMTR.

Net profit attributable to shareholders, after deducting income tax of HK$972 million and profits shared by non-controlling interests of HK$88 million, decreased by 5.3% to HK$7,083 million in the first half of 2018. Earnings per share therefore decreased 7.1% from HK$1.27 to HK$1.18. Excluding investment property revaluation, which is a non-cash accounting adjustment, the underlying profit attributable to shareholders decreased by 20.5% to HK$4,648 million, with underlying earnings per share of HK$0.77. Within this total, our recurrent profit amounted to HK$4,483 million which was at a similar level to that in 2017, while post-tax property development profit decreased from HK$1,370 million to HK$165 million.

Statement of Financial Position

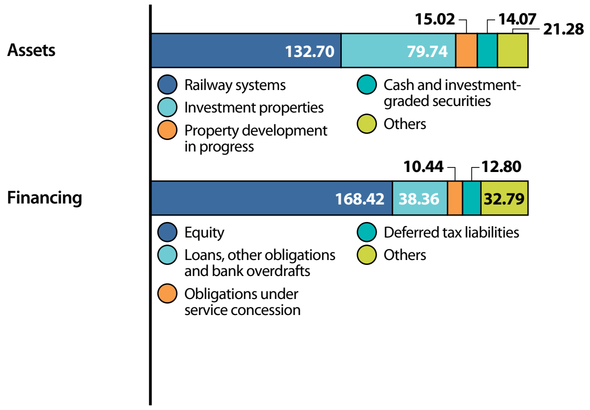
Our financial position remained strong. The Group's net assets increased by HK$1,992 million, from HK$166,426 million as at 31 December 2017 to HK$168,418 million as at 30 June 2018.

Total assets decreased slightly by HK$954 million to HK$262,814 million. This was mainly due to the decrease in cash balances after payment of the land premium in respect of Wong Chuk Hang Station Package 2 to Government, partly offset by the increase in fixed assets arising from revaluation

Simplified Consolidated Statement of Financial Position

(As at 30 June 2018)

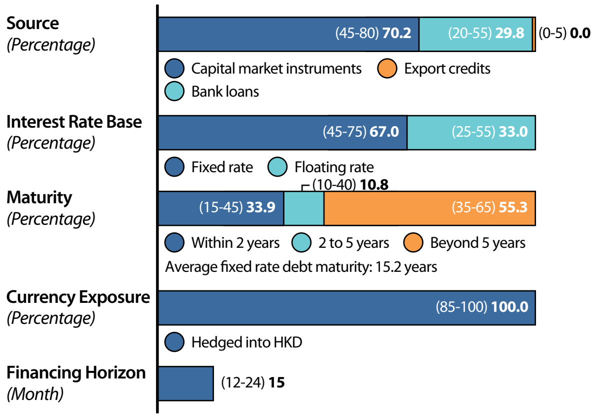
(HK$ billion)



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 2018)



gains on investment properties and renewal and upgrade works on our existing Hong Kong railway network.

Total liabilities decreased by HK$2,946 million to HK$94,396 million. This was mainly due to the decrease in creditors and other payables and the net repayment of borrowings, partly offset by the accrual for the 2017 final ordinary dividend.

The Group's net debt-to-equity ratio was 20.8% at 30 June 2018, a decrease of 2.9 percentage points from a pro-forma 23.7% as at 31 December 2017 (such pro-forma excluding cash received from the developer relating to the land premium payment for Wong Chuk Hang Station Package 2 which was paid to Government in 2018).

Cash Flow

Net cash generated from operating activities was HK$4,803 million in the first half of 2018, being mainly the cash inflow from operating profits net of the changes in working capital relating primarily to the settlement of land premium of Wong Chuk Hang Station Package 2 amounting to HK$5,214 million. Receipts from property developments were HK$1,089 million, mainly relating to the lump sum receipt from a developer and the agency fee received from West Rail property developments. Including other cash receipts of HK$271 million, net cash receipts amounted to HK$6,163 million in the first half of 2018. Net cash receipts were lower than those in the same period of 2017 by HK$3,448 million, mainly due to the settlement of land premium mentioned above.

Total capital expenditure was HK$3,497 million. This comprised HK$2,653 million for the purchase of assets for our Hong Kong existing railways and related operations, HK$233 million for the settlement of payables relating to the Hong Kong railway extension projects, HK$438 million for investment in Hong Kong property-related businesses and HK$173 million for investment in Mainland of China and overseas subsidiaries. Total capital expenditure was lower than that in the same period of 2017 by HK$583 million, due to higher payments in 2017 for the South Island Line and the Kwun Tong Line Extension.

The Group also paid HK$1,933 million in variable annual payment to KCRC in accordance with the Service Concession Agreement with KCRC. Taking into account the cash investment into the HZL5 joint venture of HK$585 million and other payments, total cash outflow amounted to HK$6,851 million in the first half of 2018.

Therefore, net cash outflow before financing amounted to HK$688 million. After net repayment of borrowings of HK$3,597 million and the effect of exchange rate changes on the cash position in foreign currencies, the Group's cash balance decreased by HK$4,517 million to HK$13,837 million at 30 June 2018.

Financing Activities

Global economic growth continued in the first half of 2018, with the US economy going into its ninth year of expansion, the third longest on record. Low unemployment and rising inflation rates in the US set the stage for the Federal Reserve to continue increasing interest rates in 2018. The Federal Funds Target Rate was raised by 25 basis points in each of March and June 2018 to a range of 1.75% – 2.00% p.a.

US Treasury yields rose markedly across the curve during the early part of the year but the shape of the yield curve continued to flatten. 10-year and 30-year US treasury yields rose from 2.41% p.a. and 2.74% p.a. at the beginning of this year to 2.86% p.a. and 2.99% p.a. respectively as at 30 June 2018. HKD interest rates followed their US counterpart with 5-year and 15-year swap rates rising from 2.12% p.a. and 2.47% p.a. to 2.72% p.a. and 2.95% p.a. respectively during the period.

In the first half of 2018, the Group issued several HK dollar fixed rate notes through private placement, with amounts totalling HK$1.5 billion and maturities ranging from 1 to 30 years. These notes provided cost effective funding for the Group while diversifying the Group's debt maturity profile. Several bilateral banking facilities were also arranged to replace existing banking facilities at a lower overall interest cost.

On the back of the successful Green Bond Framework set up in 2016, a Green Finance Framework was developed in June to include green loans and other green financing instruments under the new framework. In the first half of 2018, three green bonds with an aggregated amount of HK$1.0 billion and one HK$2.5 billion green bilateral revolving credit facility were concluded.

Due to higher interest rates on floating rate borrowings and a higher proportion of fixed rate borrowings, the weighted average borrowing cost of the Group increased to 2.7% p.a. for the first half of 2018 from 2.5% p.a. for the same period last year.

The Company's credit rating remained strong, on par with the HKSAR Government at AA+ and Aa2 as rated by Standard and Poor's and Moody's respectively.

HUMAN RESOURCES

The Company, together with our subsidiaries, employed 17,606 people in Hong Kong and 11,873 people outside of Hong Kong as at 30 June 2018. Our associates employed an additional 15,494 people in and outside of Hong Kong.

People are our most valuable asset, and we always strive to nurture our talent in line with the growth of our business. To cater for current and future operational needs, we actively search for the best candidates and reach out to them through different social media channels and community recruitment initiatives. In support of business growth in Hong Kong and overseas, we inspire our colleagues to be global leaders through cross-functional and cross-geographical rotations in our business hubs in the Mainland of China, UK, Sweden and Australia. We conduct robust talent assessment programmes to evaluate talent potential and offer a variety of quality training programmes to help employees enhance their competencies and fulfil their potential. We also offer ample opportunities for personal growth and career development. During the first six months of 2018, an average of 4.3 training days were provided for each employee in Hong Kong. More than 40 colleagues were assigned to cross-functional or cross-geographical rotations during the period. We place strong emphasis on strengthening the MTR culture by advocating "Participative Communication", "Collaboration", "Effectiveness & Innovation" and "Agility to Change" as our core cultural focuses.

Our dedicated efforts to engage and nurture our employees are reflected in our stable workforce, with the staff turnover rate remaining low at 4.8% in Hong Kong during the first half of 2018. During the period, we received several awards that recognised our commitment to inspiring, engaging and developing our people. MTR was the first runner-up in the "Hong Kong's Most Attractive Employer 2018" organised by the Randstad Group, the sixth year in a row we have been included in the top five. We were a "Grand Award Recipient" in the Employees Retraining Board's "Manpower Developer Award Scheme", in recognition of our efforts and commitment to fostering a learning culture designed to nurture professionals for sustainable corporate development.

MTR ACADEMY

The MTR Academy ("MTRA") is showing good progress in its development as a railway management and engineering centre offering high quality programmes that bring MTR's rail expertise to the Mainland of China and "Belt and Road" countries. MTRA is also offering a number of accredited programmes and short courses to nurture the next generation of railway professionals for the community. During the first six months of 2018, over 500 participants from Hong Kong and overseas attended the programmes.

MTRA is increasing its presence globally. PT Mass Rapid Transit Jakarta ("PT MRT Jakarta") is seeking support for its development of Indonesia's first mass transit system. In February 2018, PT MRT Jakarta signed a consultancy agreement with MTRA to set up Jakarta Transport Academy. In April 2018, an MOU was signed with Far East Air Transport Incorporated University in the Philippines, covering collaboration on developing local railway talents. Further afield, in April 2018, an MOU was signed with the University of Birmingham in the UK to offer distance learning programmes to students in Hong Kong and other countries.

OUTLOOK

Global economic growth remains solid in 2018 and Hong Kong's economy has strengthened, especially in the retail and tourism sectors. However, concerns over rising US interest rates and geopolitical and global trade uncertainties remain.

In the second half of the year, subject to finalising with Government the arrangements for the future operations for the High Speed Rail service, we look forward to the opening of this service, which is targeted for September. Strong economic growth and the rebound in tourist arrivals should underpin a further increase in passenger volume in our Hong Kong transport business. Recent trends in our station commercial and property rental businesses are expected to continue in line with improving market conditions.

The booking of development profits for Wings at Sea and Wings at Sea II at LOHAS Park Package 4 will be subject to receipt of Occupation Permits, which is currently expected at the end of 2018. Subject to market conditions, we aim to tender out two more property development packages over the next six months or so, our second package at Ho Man Tin Station and our eleventh package at LOHAS Park.

Outside of Hong Kong, we expect continued challenges in our Stockholm commuter rail and MTR Express businesses in Sweden, as well as the South Western Railway franchise in the UK whilst our other businesses should see performance in line with expectations.

I take this opportunity to thank Mr Morris Cheung, who retired as President of MTRA on 17 July 2018, after more than 35 years of service at MTR and, in particular, for his work in establishing MTRA. Ms Margaret Cheng, Human Resources Director, has been appointed to oversee the operation of MTRA until a new President is in place. Dr Philco Wong has resigned as Projects Director effective 7 August 2018 after serving MTR for nearly seven years. Dr Jacob Kam, Managing Director – Operations and Mainland Business has assumed managerial oversight of the Projects Division until a new Projects Director is appointed.

I have notified, and the Board has agreed, that I will take early retirement from MTR, such retirement to be effective once a replacement Chief Executive Officer has been appointed and reported for duty. It has been a privilege working for MTR all these years and I cannot thank enough all my colleagues for their support, professionalism, dedication and hard work. They are truly the heroes of MTR.

Lincoln Leong Kwok-kuen
Chief Executive Officer
Hong Kong, 9 August 2018

KEY FIGURES

	Half year ended 30 June		
	2018	2017	Inc./(Dec.) %
Financial highlights *(in HK$ million)*			
Revenue			
– Hong Kong transport operations	**9,328**	8,957	4.1
– Hong Kong station commercial businesses	**3,075**	2,788	10.3
– Hong Kong property rental and management businesses	**2,517**	2,432	3.5
– Mainland of China and international railway, property rental and management subsidiaries	**10,453**	8,015	30.4
– Mainland of China property development	**–**	6,844	(100.0)
– Other businesses	**1,000**	968	3.3
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	**9,304**	11,232	(17.2)
Profit on Hong Kong property development	**158**	622	(74.6)
Operating profit before depreciation, amortisation and variable annual payment	**9,462**	11,854	(20.2)
Profit attributable to shareholders of the Company arising from underlying businesses	**4,648**	5,848	(20.5)
Total assets	**262,814**	263,768^	(0.4)
Loans, other obligations and bank overdrafts	**38,355**	42,043^	(8.8)
Obligations under service concession	**10,439**	10,470^	(0.3)
Total equity attributable to shareholders of the Company	**168,242**	166,304^	1.2
Financial ratios			
Operating margin *(in %)*	**35.3**	37.4	(2.1)% pts.
Operating margin (excluding Mainland of China and international subsidiaries) *(in %)*	**56.0**	56.8	(0.8)% pt.
Net debt-to-equity ratio* *(in %)*	**20.8**	20.6^#	0.2% pt.
Interest cover *(times)*	**11.6**	18.4	(6.8) times
Share information			
Basic earnings per share *(in HK$)*	**1.18**	1.27	(7.1)
Basic earnings per share arising from underlying businesses *(in HK$)*	**0.77**	0.99	(22.2)
Ordinary dividend per share *(in HK$)*	**0.25**	0.25	–
Share price at 30 June *(in HK$)*	**43.40**	43.95	(1.3)
Market capitalisation at 30 June *(HK$ million)*	**260,822**	259,921	0.3
Operations highlights			
Total passenger boardings in Hong Kong *(million)*			
– Domestic Service	**816.1**	798.3	2.2
– Cross-boundary Service	**58.1**	54.8	5.9
– Airport Express	**8.5**	8.0	6.1
– Light Rail and Bus	**113.2**	112.5	0.7
Average number of passengers *(thousand)*			
– Domestic Service *(weekday)*	**4,802**	4,700	2.2
– Cross-boundary Service *(daily)*	**320.8**	303.0	5.9
– Airport Express *(daily)*	**47.0**	44.2	6.1
– Light Rail and Bus *(weekday)*	**647.1**	642.6	0.7
Fare revenue per passenger *(in HK$)*			
– Domestic Service	**8.00**	7.95	0.6
– Cross-boundary Service	**29.67**	29.32	1.2
– Airport Express	**65.77**	62.87	4.6
– Light Rail and Bus	**3.16**	3.14	0.8
Proportion of franchised public transport boardings (January to May) *(in %)*	**49.2**	48.8	0.4% pt.

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

\# *If the cash received from the developers relating to the land premium payment for Wong Chuk Hang Station Package 2 (which was paid to Government in 2018) was excluded from the cash balance, the Group's net debt-to-equity ratio as at 31 December 2017 would have been 23.7%.*

^ *Figures as at 31 December 2017*

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 9 August 2018)

		Board Committees					
	Executive Committee	Audit Committee	Nominations Committee	Remuneration Committee	Capital Works Committee	Risk Committee	Corporate Responsibility Committee
Members of the Board							
Non-executive Directors							
Professor Frederick Ma Si-hang (Chairman)			M	M			C
James Henry Lau Jr (Secretary for Financial Services and the Treasury)			M	M			
Secretary for Transport and Housing (Frank Chan Fan)			M	M			
Permanent Secretary for Development (Works) (Hon Chi-keung)					M[1]	M	
Commissioner for Transport (Mable Chan)		M				M	
Independent Non-executive Directors ("INED")							
Andrew Clifford Winawer Brandler		M				C	
Dr Pamela Chan Wong Shui			M				M
Dr Dorothy Chan Yuen Tak-fai				C	M		
Vincent Cheng Hoi-chuen				M			M
Anthony Chow Wing-kin				M	M		
Dr Eddy Fong Ching		C	M				
James Kwan Yuk-choi					M	M	
Lau Ping-cheung, Kaizer					M		M
Rose Lee Wai-mun		M				M	
Lucia Li Li Ka-lai		M					M
Abraham Shek Lai-him			C		M		
Benjamin Tang Kwok-bun				M		M	
Dr Allan Wong Chi-yun			M		C		
Johannes Zhou Yuan		M				M	
Executive Director							
Lincoln Leong Kwok-kuen[2] (Chief Executive Officer)	C						M
Members of the Executive Directorate							
Lincoln Leong Kwok-kuen[2] (Chief Executive Officer)	C						M
Dr Jacob Kam Chak-pui[3] (Managing Director-Operations and Mainland Business)	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

Notes

1. *Note 4 on page 118 of the Annual Report 2017 reported that the number of Capital Works Committee meetings attended by the Alternate Director of Mr Hon Chi-keung in 2017 was one when, in fact, he attended two meetings during that period.*
2. *Mr Lincoln Leong Kwok-kuen notified the Company on 7 August 2018 of his wish to retire early from his role as Chief Executive Officer and as a Member of the Board, the Corporate Responsibility Committee and the Executive Directorate of the Company. The Board has mutually agreed with Mr Leong that his retirement will only be effective once a replacement Chief Executive Officer has reported for duty.*
3. *With effect from 7 August 2018, Dr Jacob Kam Chak-pui has taken up managerial oversight of the Projects Division of the Company until such time as a new Projects Director is appointed and has reported for duty.*

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

CORPORATE GOVERNANCE CODE COMPLIANCE

During the six month period ended 30 June 2018, 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. Following a regular review in 2017, the revised Code of Conduct has been released to all staff in early May 2018. Education programmes including seminars and mandatory computer-based training programs 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 will be briefed on the Code of Conduct as part of the staff induction programmes. The Code of Conduct is also uploaded onto the Company's website (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 2018.

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

CHANGES DURING THE PERIOD FROM 1 JANUARY 2018 TO 9 AUGUST 2018

Changes in Composition of the Board

1. Mr Andrew Clifford Winawer Brandler, an INED of the Company and a Member of each of the Audit Committee and the Risk Committee of the Company, was appointed as the Chairman of the Risk Committee of the Company, with effect after the conclusion of the Annual General Meeting held on 16 May 2018 (the "2018 AGM").
2. Ms Rose Lee Wai-mun was elected as a new Board Member and has become an INED of the Company after the conclusion of the 2018 AGM, and has been appointed by the Board as a Member of each of the Audit Committee and the Risk Committee of the Company with effect from the same time.
3. Mr Alasdair George Morrison retired as an INED of the Company, and ceased to be the Chairman of the Risk Committee and a Member of the Audit Committee of the Company, with effect after the conclusion of the 2018 AGM.

Changes in Composition of the Executive Directorate

1. Mr Morris Cheung Siu-wa ceased to be the President of MTR Academy and a Member of the Executive Directorate of the Company, upon expiry of his service contract with the Company, with effect from 17 July 2018.
2. Dr Philco Wong Nai-keung resigned as Projects Director and ceased to be a Member of the Executive Directorate of the Company, with effect from 7 August 2018.

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	Changed Information	Nature and Effective Date of Change
Members of the Board		
Professor Frederick Ma Si-hang	Chief Executive's Council of Advisers on Innovation and Strategic Development (Hong Kong) • Non-official Member	Appointment (21 March 2018)
	New Frontier Corporation • Director Nominee (Independent)	Appointment (27 June 2018)
James Henry Lau Jr	The Hong Kong Mortgage Corporation Limited • Non-executive Director	Appointment (19 April 2018)
Secretary for Transport and Housing (Frank Chan Fan)	The Hong Kong Mortgage Corporation Limited • Non-executive Director	Appointment (19 April 2018)
Permanent Secretary for Development (Works) (Hon Chi-keung)	Gold Bauhinia Star medal awarded by the Chief Executive of the Hong Kong Special Administrative Region (the "HKSAR")	Award (1 July 2018)
Dr Pamela Chan Wong Shui	City University of Hong Kong • Chairman of the Advisory Committee of the Department of Social Behavioural Sciences	Appointment (1 January 2018)
	The Insurance Complaints Bureau (Hong Kong) • Chairman	Appointment (16 January 2018)
	Judicial Officers Recommendation Commission (Hong Kong) • Member	Appointment (1 July 2018)
Vincent Cheng Hoi-chuen	China Minsheng Banking Corp., Ltd. • Independent Non-executive Director	Cessation (21 June 2018)
Anthony Chow Wing-kin	Ping An Healthcare and Technology Company Limited • Independent Non-executive Director	Appointment (4 May 2018)
Lau Ping-cheung, Kaizer	Chinese People's Political Consultative Conference of Shanghai • Member	Cessation (January 2018)
	National Committee of the Chinese People's Political Consultative Conference • Member	Appointment (March 2018)
	Economic Development Commission (Hong Kong) • Member	Cessation (March 2018)
Rose Lee Wai-mun	Hang Seng Management College • Chairman of the Board of Governors	Cessation (1 July 2018)
Lucia Li Li Ka-lai	Public Service Commission of the Government of the HKSAR • Member	Cessation (1 February 2018)
Abraham Shek Lai-him	Everbright Grand China Assets Limited • Independent Non-executive Director	Appointment (16 January 2018)
	Midas International Holdings Limited • Independent Non-executive Director	Cessation (26 January 2018)
	CSI Properties Limited • Independent Non-executive Director	Appointment (20 July 2018)
Benjamin Tang Kwok-bun	Independent Commission Against Corruption (Hong Kong) • Chairman of the Operations Review Committee • Member of the Advisory Committee on Corruption	Appointment (1 January 2018) Appointment (1 January 2018)
Members of the Executive Directorate		
Lincoln Leong Kwok-kuen	The Community Chest of Hong Kong • Member of the Board of Directors	Cessation (26 June 2018)
Dr Jacob Kam Chak-pui	The Community Chest of Hong Kong • Member of the Board of Directors	Appointment (26 June 2018)
Margaret Cheng Wai-ching	The Standing Committee on Disciplined Services Salaries and Conditions of Service of the Government of the HKSAR • Chairman of the Police Sub-Committee	Appointment (1 January 2018)
	Labour and Welfare Bureau (Hong Kong) • Member of the Manpower Development Committee	Cessation (1 April 2018)
	Hong Kong Institute of Human Resource Management • President of the Executive Council • Vice President of the Executive Council	Appointment (13 July 2018) Cessation (13 July 2018)
Adi Lau Tin-shing	Ngong Ping 360 Limited • Chairman of the board	Cessation (1 January 2018)
Gillian Elizabeth Meller	The Hong Kong Institute of Chartered Secretaries • Vice-President	Appointment (1 March 2018)
Dr Philco Wong Nai-keung (Resigned on 7 August 2018)	Construction Industry Council • Council Member	Cessation (1 February 2018)
	The Hong Kong Institution of Engineers • President of the Council • Senior Vice-President of the Council	Appointment (21 June 2018) Cessation (21 June 2018)
Jeny Yeung Mei-chun	Ngong Ping 360 Limited • Chairman of the board	Appointment (1 January 2018)
	Hong Kong Cyberport Management Company Limited • Director	Cessation (1 April 2018)

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

(ii) Changes in Directors' Remuneration

Mr Andrew Brandler has become the Chairman (previously a member) of the Company's Risk Committee with effect from 16 May 2018. Accordingly, the annual fee receivable by him has changed from HK$450,000 to HK$500,000 with effect from the same date. The actual fees receivable by him for the year ending 31 December 2018 will be calculated on a pro rata basis.

INDUCTION PROGRAMME, TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

On appointment, each new Member of the Board (including Government nominated Directors), Alternate Director and Member of the Executive Directorate is given a comprehensive, formal and tailored induction programme 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.

Both induction and familiarization programmes have been provided to Ms Rose Lee Wai-mun, the new Board Member.

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, Board training and materials on the subject of corporate governance are also provided 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 seven meetings (three Regular Meetings, two Special Meetings and two Private Meetings) during the six month period ended 30 June 2018.

Regular Meetings

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

- Corporate Governance matters, including:
  - Approval of Directors' Manual updates;
  - Review of the structure, size and composition of the Board;
  - Review of the Board's corporate governance functions;
  - Review of Enterprise Risk Management Annual Report 2017;
  - Review of 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 MTR Academy Council meeting;
  - Receipt of shareholder analysis and investors' feedback;
  - Approval of Sustainability Report 2017; and
  - Receipt of Corporate Safety Governance Annual Report 2017;
- 2018 AGM:
  - Recommendation of the election / re-election of Retiring Members of the Board; and
  - Recommendation of the election of a new Member of the Board;
- Operations:
  - Receipt of updates on proposed enhancements to the operations of certain railway lines;
  - Receipt of updates on signalling replacement and Works Management Office projects; and
  - Approval of asset replacement and upgrading projects;

- Projects:
  - Approval of the Company's proposals to Government for various railway projects under the Railway Development Strategy 2014;
- Mainland China and International Business:
  - Receipt of updates on business opportunities in Mainland China;
  - Approval of tender submission for a railway project in overseas; and
  - Approval of additional investment in an Australian project;
- Property:
  - Approval of a property development tender award in Hong Kong;
- Commercial and Marketing:
  - Review of the principles for revising the Company's fares under the Fare Adjustment Mechanism (the "FAM");
  - Approval of the Controlled Fares for 2018 under the FAM;
  - Approval of tender award for Duty Free Shops at West Kowloon Station; and
  - Approval of entry into a contract for the Operations and Maintenance of Macau Light Rapid Transit Taipa Line;
- Financial:
  - Approval of 2017 Annual Report and Accounts; and
  - Receipt of Ngong Ping 360 Limited 2017 annual results.

Special Meetings

Two special meetings were held to consider matters relating to the Shatin to Central Link project.

Private Meetings

A private meeting was held in March 2018 to review the management organization of the Executive Directorate, which the Chief Executive Officer, the Legal and European Business Director and the Human Resources Director were invited to attend.

Another private meeting was held in June 2018 to consider matters relating to the Shatin to Central Link project, which the Chief Executive Officer, the Projects Director and the Corporate Affairs Director were invited to attend.

COMMUNICATION WITH SHAREHOLDERS

Annual General Meeting

The Company's 2018 AGM was held on 16 May 2018. The Chairman continued his practice of proposing separate resolutions for each substantially separate matter.

A total of 12 resolutions were passed at the 2018 AGM (with resolution no. 3 comprising six separate resolutions), each supported by over 99% of the votes cast. The full text of the resolutions is set out in the 2018 AGM Circular (which comprised Notice of the 2018 AGM) dated 12 April 2018.

All resolutions at the 2018 AGM were passed by way of a poll, and the poll results were posted on the websites of both the Company (www.mtr.com.hk) and The Stock Exchange of Hong Kong Limited (the "HKSE") on the same day after the 2018 AGM.

For the benefit of the Company's shareholders who did not attend the 2018 AGM, the whole proceedings were webcast and posted on the Company's website (www.mtr.com.hk) in the same evening.

CONSTITUTIONAL DOCUMENT

The Company's Articles of Association (in both English and Chinese) are available on the websites of both the Company (www.mtr.com.hk) and the HKSE. During the six month period ended 30 June 2018, 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 2018, 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 Director/ Members of the Executive Directorate	No. of Ordinary Shares held				No. of Share Options#	No. of Share Awards#		
	Personal interests*	Family interests†	Other interests	Corporate interests	Personal interests*	Personal interests*	Total interests	Percentage of aggregate interests to total no. of voting shares in issue^Δ
Professor Frederick Ma Si-hang	–	270,000 (Note 1)	270,000 (Note 1)	–	–	–	270,000	0.00449
Lincoln Leong Kwok-kuen	1,517,467	–	–	23,000 (Note 2)	–	457,468	1,997,935	0.03325
Dr Pamela Chan Wong Shui	9,051	1,675 (Note 3)	–	–	–	–	10,726	0.00018
Vincent Cheng Hoi-chuen	1,675	1,675 (Note 4)	–	–	–	–	3,350	0.00006
Lucia Li Li Ka-lai	–	1,614 (Note 5)	2,215 (Note 5)	–	–	–	3,829	0.00006
Mak Shing-cheung	558	8,058 (Note 6)	–	–	–	–	8,616	0.00014
Dr Raymond So Wai-man	–	1,675 (Note 7)	–	–	–	–	1,675	0.00003
Dr Jacob Kam Chak-pui	258,121	–	–	–	–	97,884	356,005	0.00592
Margaret Cheng Wai-ching	57,204	–	–	–	–	126,969	184,173	0.00306
Morris Cheung Siu-wa (Note 8)	86,827	–	–	–	–	23,134	109,961	0.00183
Dr Peter Ronald Ewen	37,599	–	–	–	–	72,734	110,333	0.00184
Herbert Hui Leung-wah	32,861	2,233 (Note 9)	–	–	–	74,784	109,878	0.00183
Adi Lau Tin-shing	73,776	–	–	–	26,000	81,500	181,276	0.00302
Gillian Elizabeth Meller	87,029	–	–	–	–	83,068	170,097	0.00283
Linda So Ka-pik	56,235	–	–	–	–	80,318	136,553	0.00227
David Tang Chi-fai	169,396	–	–	–	–	84,784	254,180	0.00423
Dr Philco Wong Nai-keung (Note 10)	95,197	–	–	–	55,000	92,285	242,482	0.00403
Jeny Yeung Mei-chun	646,786	–	–	–	–	85,884	732,670	0.01219

Notes

1 *The 270,000 shares were indirectly held by The Ma Family Trust established by Professor Frederick Ma Si-hang for himself and his family of which his spouse was also a beneficiary.*

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

3 *The 1,675 shares were held by Dr Pamela Chan Wong Shui's spouse.*

4 *The 1,675 shares were held by Mr Vincent Cheng Hoi-chuen's spouse.*

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

6 *The 8,058 shares were held by Mr Mak Shing-cheung's spouse.*

7 *The 1,675 shares were held by Dr Raymond So Wai-man's spouse.*

8 *Mr Morris Cheung Siu-wa ceased to be the President of MTR Academy and a Member of the Executive Directorate of the Company, with effect from 17 July 2018.*

9 *The 2,233 shares were held by Mr Herbert Hui Leung-wah's spouse.*

10 *Dr Philco Wong Nai-keung resigned as Projects Director and ceased to be a Member of the Executive Directorate of the Company, with effect from 7 August 2018.*

\# *Details of the Share Options and Share Awards are set out in the sections headed "2007 Share Option Scheme" and "Executive Share Incentive Scheme" respectively on pages 43 to 45*

* *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 2018 was 6,009,714,802*

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

A as at 30 June 2018, 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 2018, no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Set out below is the name of the party which was interested in 5% or more of all the Company's voting shares in issue and the number of shares in which it was interested as at 30 June 2018 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to all the voting shares in issue[Δ]
The Financial Secretary Incorporated ("FSI") (in trust on behalf of Government)	4,517,196,134	75.16%

Δ *The Company's total number of voting shares in issue as at 30 June 2018 was 6,009,714,802*

The Company has been informed by the Hong Kong Monetary Authority that, as at 30 June 2018, approximately 0.42% 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 2018, 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 2018 are set out below:

Members 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 2018	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2018	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Adi Lau Tin-shing	30/5/2014	80,000	23/5/2015 – 23/5/2021	26,000	–	–	–	28.65	26,000	–
Dr Philco Wong Nai-keung (Note 4)	30/5/2014	83,000	23/5/2015 – 23/5/2021	55,000	–	–	–	28.65	55,000	–
Other eligible employees	30/3/2012	15,868,500	23/3/2013 – 23/3/2019	1,793,500	–	–	292,000	27.48	1,501,500	43.63
	6/5/2013	20,331,500	26/4/2014 – 26/4/2020	4,014,500	–	–	378,000	31.40	3,636,500	43.69
	30/5/2014	19,812,500	23/5/2015 – 23/5/2021	7,905,000	–	–	1,267,500	28.65	6,637,500	43.92

Notes

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

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

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

4 *Dr Philco Wong Nai-keung resigned as Projects Director and ceased to be a Member of the Executive Directorate of the Company, with effect from 7 August 2018.*

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 taking into account the individual performance of the relevant eligible employee 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 share 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 scheme features on a regular basis to ensure continued relevance and effectiveness. In 2017, the Company appointed an independent consultant to conduct a review of the Executive Share Incentive Scheme and obtained the Remuneration Committee's approval on certain refinements which have come into effect on 1 January 2018. Changes include the renaming of the 2014 Share Incentive Scheme to become "Executive Share Incentive Scheme" and entitlement of award holders to cash dividends accrued in respect of unvested Restricted Shares that are granted on or after 1 January 2018. Certain administrative provisions of the scheme rules have also been updated to streamline the administration of the Executive Share Incentive Scheme.

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").

During the six month period ended 30 June 2018, the Performance Shares awarded for the previous Performance Period (2015 to 2017) were vested to the eligible employees and new Performance Shares were awarded to the eligible employees in April 2018 for the Performance Period from 2018 to 2020. For the six month period ended 30 June 2018, a total of 4,061,850 Award Shares (2017: 2,357,400 Award Shares) were awarded under the Executive Share Incentive Scheme. As at 30 June 2018, a total of 6,212,053 Award Shares (2017: 6,321,463 Award Shares) were neither vested, lapsed nor had been forfeited, representing 0.11% of the issued ordinary shares of the Company (2017: 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: Restricted Shares	Types of Award Shares granted: Performance Shares	Award Shares outstanding as at 1 January 2018	Award Shares vested during the period	Award Shares lapsed and/or forfeited during the period	Award Shares outstanding as at 30 June 2018
Lincoln Leong Kwok-kuen	27/4/2015	60,200	255,000	275,068	252,803	22,265	–
	8/4/2016	64,850	–	43,234	21,616	–	21,618
	10/4/2017	63,900	–	63,900	21,300	–	42,600
	16/3/2018	80,000	–	–	–	–	80,000
	10/4/2018	73,300	239,950	–	–	–	313,250
Dr Jacob Kam Chak-pui	27/4/2015	22,050	57,600	64,950	59,920	5,030	–
	8/4/2016	21,550	–	14,367	7,183	–	7,184
	10/4/2017	22,050	–	22,050	7,350	–	14,700
	10/4/2018	25,550	50,450	–	–	–	76,000
Margaret Cheng Wai-ching	19/8/2016	71,428	–	47,619	–	–	47,619
	10/4/2017	16,950	30,400	47,350	33,395	2,655	11,300
	10/4/2018	17,600	50,450	–	–	–	68,050
Morris Cheung Siu-wa (Note 1)	27/4/2015	–	28,800	28,800	26,285	2,515	–
	8/4/2016	14,950	–	9,967	4,983	–	4,984
	10/4/2017	13,950	–	13,950	4,650	–	9,300
	10/4/2018	8,850	–	–	–	–	8,850
Dr Peter Ronald Ewen	8/4/2016	–	35,700	35,700	32,583	3,117	–
	10/4/2017	15,050	–	15,050	5,016	–	10,034
	10/4/2018	12,250	50,450	–	–	–	62,700
Herbert Hui Leung-wah	10/4/2017	15,200	30,400	45,600	32,811	2,655	10,134
	10/4/2018	14,200	50,450	–	–	–	64,650
Adi Lau Tin-shing	27/4/2015	8,600	12,550	15,418	14,322	1,096	–
	8/4/2016	8,400	–	5,600	2,800	–	2,800
	10/4/2017	17,700	25,050	42,750	28,762	2,188	11,800
	10/4/2018	16,450	50,450	–	–	–	66,900
Gillian Elizabeth Meller	27/4/2015	16,950	57,600	63,250	58,220	5,030	–
	8/4/2016	17,300	–	11,534	5,766	–	5,768
	10/4/2017	16,200	–	16,200	5,400	–	10,800
	10/4/2018	16,050	50,450	–	–	–	66,500

Members of the Executive Directorate and eligible employees	Date of award	Types of Award Shares granted: Restricted Shares	Types of Award Shares granted: Performance Shares	Award Shares outstanding as at 1 January 2018	Award Shares vested during the period	Award Shares lapsed and/or forfeited during the period	Award Shares outstanding as at 30 June 2018
Linda So Ka-pik	8/4/2016	16,400	44,050	54,984	45,669	3,847	5,468
	10/4/2017	15,300	–	15,300	5,100	–	10,200
	10/4/2018	14,200	50,450	–	–	–	64,650
David Tang Chi-fai	27/4/2015	18,450	57,600	63,750	58,720	5,030	–
	8/4/2016	17,950	–	11,967	5,983	–	5,984
	10/4/2017	17,250	–	17,250	5,750	–	11,500
	10/4/2018	16,850	50,450	–	–	–	67,300
Dr Philco Wong Nai-keung (Note 2)	27/4/2015	21,700	57,600	64,834	59,804	5,030	–
	8/4/2016	21,200	–	14,134	7,066	–	7,068
	10/4/2017	19,900	–	19,900	6,633	–	13,267
	10/4/2018	21,500	50,450	–	–	–	71,950
Jeny Yeung Mei-chun	27/4/2015	19,350	57,600	64,050	59,020	5,030	–
	8/4/2016	18,850	–	12,567	6,283	–	6,284
	10/4/2017	17,700	–	17,700	5,900	–	11,800
	10/4/2018	17,350	50,450	–	–	–	67,800
Other eligible employees	27/4/2015	2,172,750	1,051,650	1,524,228	1,389,491	134,737	–
	8/4/2016	2,199,700	107,450	1,420,417	766,905	20,308	633,204
	10/4/2017	1,994,050	26,350	1,958,750	687,027	29,686	1,242,037
	10/4/2018	1,954,800	1,028,450	–	7,250	–	2,976,000

Notes

1 *Mr Morris Cheung Siu-wa ceased to be the President of MTR Academy and a Member of the Executive Directorate of the Company, with effect from 17 July 2018.*

2 *Dr Philco Wong Nai-keung resigned as Projects Director and ceased to be a Member of the Executive Directorate of the Company, with effect from 7 August 2018.*

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 2018. 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 5,351,600 ordinary shares of the Company for a total consideration of approximately HK$240 million during the same period (2017: Nil).

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

As at 30 June 2018, the Group had borrowings of HK$30,761 million (2017: HK$35,369 million) with maturities ranging from 2018 to 2055 and undrawn committed banking facilities of HK$18,077 million (2017: HK$12,100 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 2018 interim dividend, the Register of Members of the Company was closed from 24 August 2018 to 29 August 2018 (both dates inclusive) during which no transfer of shares in the Company were effected. To qualify for the 2018 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 23 August 2018 (Hong Kong time). The 2018 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 12 October 2018 to shareholders whose names appeared on the Register of Members of the Company as at the close of business on 29 August 2018.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

in HK$ million	Note	**Half year ended 30 June 2018 (Unaudited)**	Half year ended 30 June 2017 (Unaudited)
Revenue from Hong Kong transport operations		**9,328**	8,957
Revenue from Hong Kong station commercial businesses		**3,075**	2,788
Revenue from Hong Kong property rental and management businesses		**2,517**	2,432
Revenue from Mainland of China and international railway, property rental and management subsidiaries	2	**10,453**	8,015
Revenue from other businesses		**1,000**	968
		26,373	23,160
Revenue from Mainland of China property development subsidiary	2	**–**	6,844
		26,373	30,004
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses		**(2,854)**	(2,530)
– Energy and utilities		**(759)**	(705)
– Operational rent and rates		**(127)**	(119)
– Stores and spares consumed		**(264)**	(252)
– Maintenance and related works		**(679)**	(665)
– Railway support services		**(144)**	(136)
– General and administration expenses		**(249)**	(223)
– Other expenses		**(151)**	(154)
		(5,227)	(4,784)
Expenses relating to Hong Kong station commercial businesses		**(268)**	(239)
Expenses relating to Hong Kong property rental and management businesses		**(381)**	(344)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	2	**(10,043)**	(7,565)
Expenses relating to other businesses		**(919)**	(1,023)
Project study and business development expenses		**(214)**	(159)
		(17,052)	(14,114)
Expenses relating to Mainland of China property development subsidiary	2	**(17)**	(4,658)
Operating expenses before depreciation, amortisation and variable annual payment		**(17,069)**	(18,772)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment			
– Arising from recurrent businesses		**9,321**	9,046
– Arising from Mainland of China property development		**(17)**	2,186
		9,304	11,232
Profit on Hong Kong property development	3	**158**	622
Operating profit before depreciation, amortisation and variable annual payment		**9,462**	11,854
Depreciation and amortisation		**(2,461)**	(2,390)
Variable annual payment		**(999)**	(915)
Operating profit before interest and finance charges		**6,002**	8,549
Interest and finance charges	4	**(580)**	(403)
Investment property revaluation	11	**2,435**	1,632
Share of profit or loss of associates and joint venture	5	**286**	180
Profit before taxation		**8,143**	9,958
Income tax	6	**(972)**	(2,425)
Profit for the period		**7,171**	7,533
Attributable to:			
– Shareholders of the Company		**7,083**	7,480
– Non-controlling interests		**88**	53
Profit for the period		**7,171**	7,533
Profit for the period attributable to shareholders of the Company:			
– Arising from recurrent businesses		**4,483**	4,478
– Arising from property development		**165**	1,370
– Arising from underlying businesses		**4,648**	5,848
– Arising from investment property revaluation		**2,435**	1,632
		7,083	7,480
Earnings per share:	8		
– Basic		**HK$1.18**	HK$1.27
– Diluted		**HK$1.18**	HK$1.26

The notes on pages 51 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 2018 (Unaudited)**	Half year ended 30 June 2017 (Unaudited)
Profit for the period		**7,171**	7,533
Other comprehensive income for the period (after taxation and reclassification adjustments):			
Item that will not be reclassified to profit or loss:			
– Surplus on revaluation of self-occupied land and buildings		**324**	85
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of overseas subsidiaries, associates and joint venture		**(247)**	423
– non-controlling interests		**(6)**	20
– Cash flow hedges: net movement in hedging reserve		**136**	(314)
		(117)	129
	10	**207**	214
Total comprehensive income for the period		**7,378**	7,747
Attributable to:			
– Shareholders of the Company		**7,296**	7,674
– Non-controlling interests		**82**	73
Total comprehensive income for the period		**7,378**	7,747

The notes on pages 51 to 71 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in HK$ million	Note	**At 30 June 2018 (Unaudited)**	At 31 December 2017 (Audited)
Assets			
Fixed assets			
– Investment properties	11	**79,739**	77,086
– Other property, plant and equipment	12	**102,602**	102,889
– Service concession assets	13	**30,096**	29,797
		212,437	209,772
Property management rights		**26**	26
Goodwill		**58**	63
Property development in progress	15	**15,024**	14,810
Deferred expenditure		**1,192**	710
Interests in associates and joint venture		**7,694**	6,838
Deferred tax assets	22	**73**	69
Investments in securities		**232**	443
Properties held for sale	16	**1,311**	1,347
Derivative financial assets	17	**189**	168
Stores and spares		**1,624**	1,540
Debtors and other receivables	18	**7,034**	7,058
Amounts due from related parties	19	**2,083**	2,570
Cash, bank balances and deposits		**13,837**	18,354
		262,814	263,768
Liabilities			
Bank overdrafts		**–**	4
Short-term loans		**3,961**	325
Creditors and other payables	20	**25,271**	28,166
Current taxation		**1,442**	1,080
Amounts due to related parties	19	**5,597**	2,226
Loans and other obligations	21	**34,394**	41,714
Obligations under service concession		**10,439**	10,470
Derivative financial liabilities	17	**351**	451
Loan from holders of non-controlling interests		**144**	146
Deferred tax liabilities	22	**12,797**	12,760
		94,396	97,342
Net assets		**168,418**	166,426
Capital and reserves			
Share capital	23	**52,382**	52,307
Shares held for Executive Share Incentive Scheme	23	**(266)**	(173)
Other reserves		**116,126**	114,170
Total equity attributable to shareholders of the Company		**168,242**	166,304
Non-controlling interests		**176**	122
Total equity		**168,418**	166,426

The notes on pages 51 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: Fixed assets revaluation reserve	Other reserves: Hedging reserve	Other reserves: Employee share-based capital reserve	Other reserves: Exchange reserve	Retained profits	Total equity attributable to shareholders of the Company	Non-controlling interests	Total equity
30 June 2018 (Unaudited)											
Balance as at 1 January 2018		**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**
31 December 2017 (Audited)											
Balance as at 1 January 2017		47,929	(227)	3,043	150	182	(1,008)	99,392	149,461	95	149,556
Changes in equity for the half year ended 30 June 2017:											
– Profit for the period		–	–	–	–	–	–	7,480	7,480	53	7,533
– Other comprehensive income for the period		–	–	85	(314)	–	423	–	194	20	214
– Total comprehensive income for the period		–	–	85	(314)	–	423	7,480	7,674	73	7,747
– Special dividend	7	–	–	–	–	–	–	(20)	(20)	–	(20)
– 2016 final ordinary dividend	7	–	–	–	–	–	–	(4,848)	(4,848)	–	(4,848)
– Vesting and forfeiture of award shares of Executive Share Incentive Scheme	23F	1	56	–	–	(61)	–	1	(3)	–	(3)
– Ordinary dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	(54)	(54)
– Employee share-based payments		–	–	–	–	61	–	–	61	–	61
– Employee share options exercised	23C	282	–	–	–	(26)	–	–	256	–	256
Balance as at 30 June 2017		48,212	(171)	3,128	(164)	156	(585)	102,005	152,581	114	152,695
Changes in equity for the half year ended 31 December 2017:											
– Profit for the period		–	–	–	–	–	–	9,349	9,349	3	9,352
– Other comprehensive income for the period		–	–	168	165	–	558	838	1,729	(4)	1,725
– Total comprehensive income for the period		–	–	168	165	–	558	10,187	11,078	(1)	11,077
– 2016 final ordinary dividend	7	–	–	–	–	–	–	4	4	–	4
– Shares issued in respect of scrip dividend of 2016 final ordinary dividend		3,863	(4)	–	–	–	–	–	3,859	–	3,859
– 2017 interim ordinary dividend	7	–	–	–	–	–	–	(1,500)	(1,500)	–	(1,500)
– Shares issued in respect of scrip dividend of 2017 interim ordinary dividend		137	(1)	–	–	–	–	–	136	–	136
– Vesting and forfeiture of award shares of Executive Share Incentive Scheme		1	3	–	–	(2)	–	1	3	–	3
– Ordinary dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	(48)	(48)
– Increase in non-controlling interests arising from shares issued by a subsidiary		–	–	–	–	–	–	–	–	57	57
– Employee share-based payments		–	–	–	–	58	–	–	58	–	58
– Employee share options exercised		94	–	–	–	(9)	–	–	85	–	85
Balance as at 31 December 2017		52,307	(173)	3,296	1	203	(27)	110,697	166,304	122	166,426

The notes on pages 51 to 71 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT

in HK$ million	Note	**Half year ended 30 June 2018 (Unaudited)**		Half year ended 30 June 2017 (Unaudited)	
Cash flows from operating activities					
Cash generated from operations	25	**4,845**		8,747	
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		**645**		588	
Purchase of tax reserve certificates		**(6)**		(155)	
Current tax paid					
– Hong Kong Profits Tax paid		**(274)**		(5)	
– Mainland of China and overseas tax paid		**(407)**		(211)	
Net cash generated from operating activities			**4,803**		8,964
Cash flows from investing activities					
Capital expenditure					
– Purchase of assets for Hong Kong transport and related operations		**(2,653)**		(2,310)	
– Shenzhen Metro Longhua Line Project and related operations		**(44)**		(45)	
– Hong Kong railway extension projects		**(233)**		(801)	
– Hong Kong and Shenzhen property development		**(298)**		(402)	
– Investment property projects and fitting out work		**(218)**		(464)	
– Other capital projects		**(51)**		(58)	
Variable annual payment		**(1,933)**		(1,787)	
Receipts in respect of Hong Kong and Shenzhen property development		**1,089**		452	
Increase in bank deposits with more than three months to maturity when placed or pledged		**(982)**		(1,451)	
Purchase of investments in securities		**(31)**		(118)	
Proceeds from sale or redemption of investments in securities		**239**		53	
Proceeds from disposal of fixed assets		**2**		4	
Loan from holders of non-controlling interests		**5**		–	
Investments in associate and joint venture		**(669)**		–	
Net cash used in investing activities			**(5,777)**		(6,927)
Cash flows from financing activities					
Proceeds from shares issued under share option schemes		**56**		256	
Purchase of shares for Executive Share Incentive Scheme		**(239)**		–	
Proceeds from loans and capital market instruments		**11,224**		15,590	
Repayment of loans and capital market instruments		**(14,817)**		(13,535)	
Interest and finance charge paid		**(621)**		(455)	
Interest received		**136**		84	
Dividends paid to holders of non-controlling interests		**(28)**		(54)	
Net cash (used in)/generated from financing activities			**(4,289)**		1,886
Net (decrease)/increase in cash and cash equivalents			**(5,263)**		3,923
Cash and cash equivalents at 1 January			**13,939**		7,037
Effect of exchange rate changes			**(232)**		302
Cash and cash equivalents at 30 June			**8,444**		11,262
Analysis of the balances of cash and cash equivalents					
Cash, bank balances and deposits on the consolidated statement of financial position			**13,837**		26,008
Bank deposits with more than three months to maturity when placed or pledged			**(5,393)**		(14,704)
Bank overdrafts			**–**		(42)
Cash and cash equivalents in the consolidated cash flow statement			**8,444**		11,262

The notes on pages 51 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 2017 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 2017 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 2017 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 number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's accounts:

- HKFRS 9, *Financial Instruments*
- HKFRS 15, *Revenue from Contracts with Customers*
- Amendments to HKFRS 2, *Classification and Measurement of Shared-based Payment Transactions*
- Amendments to HKAS 40, *Investment Property: Transfers of Investment Properties*

The adoption of these new HKFRSs and amendments to HKFRSs does not have a significant impact on the financial results and the financial position of the Group.

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 2017 annual accounts, except for the accounting policy changes that are expected to be reflected in the 2018 annual accounts. Details of any changes in accounting policies are set out in notes 1 (a) and (b) below as a result of the adoption of HKFRS 9 and HKFRS 15.

(a) HKFRS 9, *Financial Instruments*

HKFRS 9 replaces HKAS 39, *Financial Instruments: Recognition and Measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(i) Classification of Financial Assets and Financial Liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's four classification categories: held-to-maturity investments, loans and receivables, available-for-sale and financial assets measured at FVPL.

The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. The adoption of HKFRS 9 does not affect the measurement basis, and hence the carrying amounts, of the Group's financial assets as at 1 January 2018.

HKFRS 9 largely retains the existing requirements in HKAS 39 for the classification and measurement of financial liabilities. Hence, the adoption of HKFRS 9 does not affect the carrying amounts of the Group's financial liabilities as at 1 January 2018.

The Group did not designate or de-designate any other financial assets or financial liabilities at FVPL at 1 January 2018.

1 Basis of Preparation *(continued)*

(ii) Credit Losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than the "incurred loss" accounting model in HKAS 39. The ECL model applies to the Group's financial assets measured at amortised cost, but not to the Group's financial assets measured at fair value.

For the Group's debtors and other receivables, the loss allowance is measured at an amount equal to "lifetime ECLs" (which are the losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies). For the Group's other financial assets measured at amortised cost, the loss allowance is measured at an amount equal to "12-month ECLs" (which are losses that are expected to result from possible default events within the 12 months after the reporting date) unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to "lifetime ECLs".

There is no significant change in the amount of provision for impairment losses recognised as at 1 January 2018 as a result of the adoption of the ECL model.

(iii) Hedge Accounting

The Group has adopted the new general hedge accounting requirements in HKFRS 9. Depending on the complexity of the hedge, the new accounting requirements allow a more qualitative approach to assessing hedge effectiveness as compared to HKAS 39, and the assessment is forward looking. The adoption of HKFRS 9 does not have a significant impact on the Group's accounts in this regard.

(b) HKFRS 15, *Revenue from Contracts with Customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction Contracts*, which specified the accounting for construction contracts.

Previously under HKAS 18 and HKAS 11, revenue arising from provision of services and construction contracts was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had been passed to the customers.

Under HKFRS 15, revenue is recognised when a performance obligation is satisfied. This is when the customer obtains control of the promised goods or services in the contract, which may be at a single point in time or over time.

HKFRS 15 identifies certain situations in which control of the promised goods or services is regarded as being transferred over time, then the entity recognises revenue for the sale of that goods or services over time. If the contract terms and the entity's activities do not fall into any of those situations, then the entity recognises revenue for the sale at a single point in time, being when control has been passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue.

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

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

	Half year ended 30 June 2018		Half year ended 30 June 2017	
in HK$ million	Revenue	Expenses	Revenue	Expenses
Railway-related subsidiaries outside of Hong Kong				
– Melbourne Train	**5,842**	**5,527**	4,177	3,968
– MTR Nordic*	**2,485**	**2,622**	2,350	2,239
– London Crossrail	**793**	**751**	542	510
– Shenzhen Metro Longhua Line	**373**	**280**	313	249
– Sydney Metro Northwest	**780**	**701**	476	478
– Macau Light Rapid Transit Taipa Line	**102**	**102**	91	67
	10,375	**9,983**	7,949	7,511
Property rental and management businesses in Mainland of China	**78**	**60**	66	54
	10,453	**10,043**	8,015	7,565
Property development in Mainland of China	**–**	**17**	6,844	4,658
Total Mainland of China and international subsidiaries	**10,453**	**10,060**	14,859	12,223

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

3 Pre-tax Profit on Hong Kong Property Development

Pre-tax profit on Hong Kong property development comprises:

in HK$ million	**Half year ended 30 June 2018**	Half year ended 30 June 2017
Share of surplus from property development	**128**	359
Agency fee and other income from West Rail property development	**52**	286
Overheads and miscellaneous studies	**(22)**	(23)
	158	622

4 Interest and Finance Charges

Interest and finance charges comprise:

in HK$ million	**Half year ended 30 June 2018**		Half year ended 30 June 2017	
Interest expenses	**916**		830	
Finance charges	**31**		31	
Exchange (gain)/loss	**(19)**		164	
		928		1,025
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(54)**		(64)
Derivative financial instruments:				
– Fair value hedges	**22**		(7)	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**(7)**		6	
– transferred from hedging reserve to offset exchange gain/(loss)	**74**		(196)	
– Hedge of net investments:				
– ineffective portion	**(1)**		1	
– Derivatives not adopted hedge accounting	**(32)**		–	
		56		(196)
Interest expenses capitalised		**(182)**		(177)
		748		588
Interest income in respect of deposits with banks		**(168)**		(185)
		580		403

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 2018**	Half year ended 30 June 2017
Share of profit or loss before taxation	**434**	287
Share of income tax expenses	**(148)**	(107)
	286	180

6 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	**Half year ended 30 June 2018**	Half year ended 30 June 2017
Current tax		
– Hong Kong Profits Tax	**920**	944
– Mainland of China and overseas tax	**146**	1,523
	1,066	2,467
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(32)**	(24)
	1,034	2,443
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**4**	(5)
– depreciation allowances in excess of related depreciation	**(56)**	(1)
– provisions and others	**(10)**	(12)
	(62)	(18)
	972	2,425

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2018 is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the period after deducting accumulated tax losses brought forward, if any. Current taxes for the Mainland of China and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant Mainland of China tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions. During the half year ended 30 June 2018, no Land Appreciation Tax (2017: HK$758 million) was charged to profit or loss.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2017: 16.5%), while those arising in the Mainland of China and overseas are calculated at the appropriate current rates of taxation ruling in the relevant countries.

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

7 Dividends

Dividends paid and proposed to shareholders of the Company comprise:

in HK$ million	**Half year ended 30 June 2018**	Half year ended 30 June 2017
Ordinary dividends payable attributable to the period		
– Interim ordinary dividend declared after the reporting period of HK$0.25 (2017: HK$0.25) per share	**1,526**	1,501
Ordinary dividends paid attributable to the previous year		
– Final ordinary dividend of HK$0.87 (2017: HK$0.82 per share attributable to year 2016) per share approved and payable/paid during the period	**5,228**	4,848

The Company has recognised 2017 final ordinary dividend payable of HK$3,930 million to the Financial Secretary Incorporated (the "FSI") of the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") and HK$1,298 million to other shareholders in the amounts due to related parties (note 19) and creditors and accrued charges (note 20) respectively in the consolidated statement of financial position as at 30 June 2018.

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 2018 of HK$7,083 million (2017: HK$7,480 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 2018	Half year ended 30 June 2017
Issued ordinary shares at 1 January	**6,007,777,302**	5,905,290,065
Effect of share options exercised	**858,630**	3,099,360
Less: Shares held for Executive Share Incentive Scheme	**(4,463,901)**	(5,361,987)
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 30 June	**6,004,172,031**	5,903,027,438

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 2018 of HK$7,083 million (2017: HK$7,480 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 2018	Half year ended 30 June 2017
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 30 June	**6,004,172,031**	5,903,027,438
Effect of dilutive potential shares under the share option scheme	**4,248,298**	7,031,502
Effect of shares awarded under Executive Share Incentive Scheme	**5,786,864**	5,690,330
Weighted average number of shares (diluted) at 30 June	**6,014,207,193**	5,915,749,270

C Both basic and diluted earnings per share would have been HK$0.77 (2017: HK$0.99) if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$4,648 million (2017: HK$5,848 million).

9 Segmental Information

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

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

(i) Hong Kong transport operations: The provision of passenger operation and related services on the urban mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with the border of Mainland of China at Lo Wu and Lok Ma Chau, light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of China.

(ii) Hong Kong station commercial businesses: Commercial activities including the letting of advertising, retail and car parking space at railway stations, the provision of telecommunication and bandwidth services in railway premises and other commercial activities within the Hong Kong transport operations network.

(iii) Hong Kong property rental and management businesses: The letting of retail, office and car parking space and the provision of estate management services in Hong Kong.

(iv) Hong Kong property development: Property development activities at locations near the railway systems in Hong Kong.

(v) Mainland of China and international railway, property rental and management businesses: The construction, operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail spaces and provision of estate management services in the Mainland of China.

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

(vii) Other businesses: Businesses not directly relating to transport operations or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business and the provision of project management services to the HKSAR Government.

9 Segmental Information *(continued)*

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

in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates		Other businesses	Un-allocated amount	Total
					Mainland of China and international railway, property rental and management businesses	Mainland of China property development			
Half year ended 30 June 2018									
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 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 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 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 for the half year ended 30 June 2018	**1,148**	**2,414**	**4,563**	**132**	**430**	**33**	**146**	**(1,695)**	**7,171**
Half year ended 30 June 2017									
Revenue	8,957	2,788	2,432	–	8,015	6,844	968	–	30,004
Operating expenses	(4,784)	(239)	(344)	–	(7,565)	(4,658)	(1,023)	–	(18,613)
Project study and business development expenses	–	–	–	–	–	–	–	(159)	(159)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	4,173	2,549	2,088	–	450	2,186	(55)	(159)	11,232
Profit on Hong Kong property development	–	–	–	622	–	–	–	–	622
Operating profit before depreciation, amortisation and variable annual payment	4,173	2,549	2,088	622	450	2,186	(55)	(159)	11,854
Depreciation and amortisation	(2,208)	(79)	(6)	–	(66)	–	(31)	–	(2,390)
Variable annual payment	(645)	(268)	(2)	–	–	–	–	–	(915)
Operating profit before interest and finance charges	1,320	2,202	2,080	622	384	2,186	(86)	(159)	8,549
Interest and finance charges	–	–	–	–	(11)	68	–	(460)	(403)
Investment property revaluation	–	–	1,632	–	–	–	–	–	1,632
Share of profit or loss of associates	–	–	–	–	93	(1)	88	–	180
Income tax	–	–	–	(103)	(50)	(1,402)	–	(870)	(2,425)
Profit for the half year ended 30 June 2017	1,320	2,202	3,712	519	416	851	2	(1,489)	7,533

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 2018**	Half year ended 30 June 2017
Hong Kong (place of domicile)	**15,891**	15,121
Australia	**6,622**	4,654
Mainland of China	**472**	7,240
Sweden	**2,485**	2,350
United Kingdom	**798**	546
Other countries	**105**	93
	10,482	14,883
	26,373	30,004

10 Other Comprehensive Income

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

	Half year ended 30 June 2018			Half year ended 30 June 2017		
in HK$ million	**Before-tax amount**	**Tax expense**	**Net-of-tax amount**	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries, associates and joint venture	**(247)**	**–**	**(247)**	423	–	423
– Non-controlling interests	**(6)**	**–**	**(6)**	20	–	20
	(253)	**–**	**(253)**	443	–	443
Surplus on revaluation of self-occupied land and buildings	**388**	**(64)**	**324**	102	(17)	85
Cash flow hedges: net movement in hedging reserve (note 10B)	**163**	**(27)**	**136**	(375)	61	(314)
Other comprehensive income	**298**	**(91)**	**207**	170	44	214

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 2018**	Half year ended 30 June 2017
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	**103**	(191)
Amounts transferred to initial carrying amount of hedged items	**(5)**	1
Amounts transferred to profit or loss:		
– Interest and finance charges (note 4)	**67**	(190)
– Other expenses	**(2)**	5
Deferred tax on the above items	**(27)**	61
	136	(314)

11 Investment Properties

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

Based on the valuations performed by Jones Lang LaSalle Limited, the Group recognised the net increase in fair value of HK$2,435 million for the half year ended 30 June 2018 (2017: HK$1,632 million) under investment property revaluation in the consolidated profit and loss account. Investment properties are revalued semi-annually and future market condition changes may result in further gains or losses to be recognised through the profit and loss account in subsequent periods.

12 Other Property, Plant and Equipment

A Acquisitions and Disposals

During the half year ended 30 June 2018, the Group acquired or commissioned assets at a total cost of HK$1,388 million (2017: HK$1,023 million). Assets with a net book value of HK$13 million (2017: HK$17 million) were disposed of during the same period, resulting in a net loss on disposal of HK$10 million (2017: HK$14 million).

B Valuation

All of the Group's self-occupied land and buildings are held in Hong Kong under medium-term leases and carried at fair value. All self-occupied land and buildings were revalued by using primarily the direct comparison approach assuming sale of properties in their existing state with vacant possession at the reporting date by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuation resulted in a revaluation surplus of HK$388 million (2017: HK$102 million), which, net of deferred tax provision of HK$64 million (2017: HK$17 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 2018, the Group incurred HK$1,093 million (2017: HK$1,064 million) of expenditure for the replacement and upgrade of the rail and bus system leased from the Kowloon-Canton Railway Corporation ("KCRC") ("Additional Concession Property") under the service concession arrangement in the Rail Merger and HK$4 million (2017: HK$9 million) of expenditure for asset additions in respect of Shenzhen Metro Longhua Line.

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

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

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

(b) XRL Entrustment Agreement: In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the XRL on the understanding that the Company would subsequently be invited to undertake the operation of the XRL under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the XRL (the "XRL Entrustment Agreement"). Pursuant to the XRL Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the XRL and the HKSAR Government, as owner of XRL, is responsible for bearing and financing the full amount of the total cost of such activities (the "Entrustment Cost") and for paying to the Company a fee in accordance with an agreed payment schedule (the "Project Management Fee") (subsequent amendments to these arrangements are described below). As at 30 June 2018 and up to the date of this interim report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

The HKSAR Government has the right to claim against the Company if the Company breaches the XRL Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the XRL Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the XRL Entrustment Agreement or any breach of the XRL Entrustment Agreement by the Company. Under the XRL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the XRL Preliminary Entrustment Agreement and the XRL Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the Project Management Fee and any other fees that the Company receives under the XRL Entrustment Agreement and certain fees received by the Company under the XRL Preliminary Entrustment Agreement (the "Liability Cap"). Up to the date of this interim report, no claim has been received from the HKSAR Government.

In April 2014, the Company announced that the construction period for the XRL project needed to be extended, with the target opening of the line for passenger service revised to the end of 2017.

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

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

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

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

As a result of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "Revised Cost Estimate").

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

(iii) The Company will pay a Special Dividend in cash of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share in cash in each tranche). The first tranche was paid on 13 July 2016 and the second tranche was paid on 12 July 2017;

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

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

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

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

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

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

(d) Future operations of XRL: The target opening date for the XRL is September 2018. The Company is in the final stage of discussions with the HKSAR Government regarding the arrangements for the future operations of the XRL.

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

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

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

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe there is any need to revise further the XRL Revised Programme or the Revised Cost Estimate of HK$84.42 billion. The final project cost can only be ascertained upon finalisation of all contracts which may take several years after the commencement of commercial operations;

(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 XRL Agreement, cannot take place until after commencement of commercial operations on the XRL) (as of 30 June 2018 and up to the date of this interim report); b) the Company has the benefit of the Liability Cap; and c) as a result of the XRL Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and

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

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

(f) During the half year ended 30 June 2018, project management fee of HK$222 million (2017: HK$368 million) was recognised in the consolidated profit and loss account. As at 30 June 2018, the total project management fee recognised to date in the consolidated profit and loss account amounted to HK$6,290 million (as at 31 December 2017: HK$6,068 million).

B Shatin to Central Link ("SCL") Project

(a) SCL Preliminary Entrustment Agreement: On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the SCL ("SCL Preliminary Entrustment Agreement"). Pursuant to the SCL Preliminary Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible to fund directly the total cost of such activities.

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

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. The additional funding of HK$848 million was approved by Legislative Council Finance Committee in June 2017.

(c) SCL Entrustment Agreement: On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("SCL Entrustment Agreement"). Pursuant to the SCL Entrustment Agreement, the HKSAR Government is responsible to bear all the work costs specified in the SCL Entrustment Agreement including costs to contractors and costs to the Company ("Interface Works Costs") except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The Company is responsible to carry out or procure the carrying out of the works specified in the SCL Preliminary Entrustment Agreement, the SCL Advance Works Entrustment Agreement and the SCL Entrustment Agreement (together, the "SCL Agreements") for a total project management fee of HK$7,893 million. As at 30 June 2018 and up to the date of this interim report, the Company has received payments of the project management fee from the HKSAR Government in accordance with the original agreed payment schedule.

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.

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

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

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 project management cost 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.

Towards the end of the first half of 2018, the Company has faced allegations concerning workmanship and timely reporting of certain construction matters relating to three stations of the SCL. The Company has taken immediate steps to investigate the issues, report the Company's findings to the HKSAR Government, identify any rectification work required and reserve the Company's position against relevant contractors and consultants. The Company will continue to take steps to address public concerns and provide reassurance as to the quality of the construction works. To address the allegations relating to the platform at the Hung Hom Station extension, the Company has engaged an independent third party to perform a safety test of this platform. Any significant adverse result from the verification of, or safety test on, the Hung Hom Station platform may potentially impact the latest estimate mentioned above. The Company will also co-operate fully with the Commission of Inquiry that has been set up by the HKSAR Chief Executive in Council to investigate matters relating to the diaphragm wall and the platform slab at the Hung Hom Station extension as well as, amongst others, the adequacy of the Company's project management and supervision systems. On 7 August 2018, the Company announced that the report submitted by the Company to the HKSAR Government on 15 June 2018 in relation to the platform slab at the Hung Hom Station extension contained inaccuracies in respect of the construction methodology of the top side of the platform slab. The Company is investigating this issue and will provide updated information to the HKSAR Government in due course.

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 suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the relevant SCL Agreement or any 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. Up to the date of this interim report, no claim has been received from the HKSAR Government.

(d) Given:

(i) the SCL Agreements provide that the HKSAR Government shall bear and finance the full amount of the relevant costs to the extent described above;

(ii) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company in relation to any SCL Agreement (as of 30 June 2018 and up to the date of this interim report); and

(iii) where applicable, the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any) arising from the matters described above,

no provision has been made in the Company's accounts in respect of SCL.

(e) During the half year ended 30 June 2018, project management fee of HK$445 million (2017: HK$457 million) was recognised in the consolidated profit and loss account. As at 30 June 2018, the total project management fee recognised to date in the consolidated profit and loss account amounted to HK$6,025 million (as at 31 December 2017: HK$5,580 million).

Additionally, during the half year ended 30 June 2018, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK$196 million (2017: HK$596 million). As at 30 June 2018, 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$1,229 million (31 December 2017: HK$1,318 million).

15 Property Development in Progress

Movements of property development in progress of the Group during the half year ended 30 June 2018 and the year ended 31 December 2017 are as follows:

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to properties held for sale	Transfer out to profit or loss	Exchange differences	Balance at 30 June/ 31 December
At 30 June 2018 (Unaudited)							
Hong Kong Property Development Projects	**14,810**	**226**	**(12)**	**–**	**–**	**–**	**15,024**
At 31 December 2017 (Audited)							
Hong Kong Property Development Projects	14,479	483	(152)	–	–	–	14,810
Shenzhen Property Project	3,005	272	–	(178)	(3,194)	95	–
	17,484	755	(152)	(178)	(3,194)	95	14,810

16 Properties Held for Sale

in HK$ million	**At 30 June 2018 (Unaudited)**	At 31 December 2017 (Audited)
Properties held for sale		
– at cost	**1,080**	1,099
– at net realisable value	**231**	248
	1,311	1,347
Representing:		
Hong Kong property development	**844**	876
Mainland of China property development	**467**	471
	1,311	1,347

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 2018 are stated net of provision of HK$18 million (31 December 2017: HK$38 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:

	At 30 June 2018 (Unaudited)		At 31 December 2017 (Audited)	
in HK$ million	Notional amount	Fair value	Notional amount	Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– cash flow hedges	**147**	**5**	225	13
– not qualified for hedge accounting	**1,033**	**34**	209	7
Cross currency swaps				
– fair value hedges	**775**	**7**	775	3
– cash flow hedges	**2,612**	**88**	2,612	98
Interest rate swaps				
– fair value hedges	**623**	**1**	600	10
– cash flow hedges	**1,350**	**54**	1,350	37
	6,540	**189**	5,771	168
Derivative Financial Liabilities				
Foreign exchange forwards				
– cash flow hedges	**1,163**	**14**	1,107	4
– hedges of net investments	**2,140**	**14**	2,140	22
– not qualified for hedge accounting	**282**	**5**	1,520	15
Cross currency swaps				
– fair value hedges	**388**	**1**	388	3
– cash flow hedges	**8,601**	**251**	8,601	367
– hedges of net investments	**64**	**2**	64	9
Interest rate swaps				
– fair value hedges	**1,988**	**64**	1,550	28
– cash flow hedges	**100**	**–**	600	3
	14,726	**351**	15,970	451
Total	**21,266**		21,741	

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 operations is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.

(ii) Fare revenue from Shenzhen Metro Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTR Express is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month.

(iii) Franchise revenue in Melbourne is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue from operations in Stockholm is collected in the transaction month with the remainder being collected in the following month. Concession revenue for MTR Crossrail is collected once every 4 weeks.

(iv) Rentals, advertising and telecommunications service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

(v) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.

(vi) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.

(vii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.

(viii) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing analysis of debtors based on due date is as follows:

in HK$ million	**At 30 June 2018 (Unaudited)**	At 31 December 2017 (Audited)
Amounts not yet due	**2,470**	2,322
Overdue by 30 days	**144**	359
Overdue by 60 days	**45**	47
Overdue by 90 days	**23**	62
Overdue by more than 90 days	**27**	16
Total debtors	**2,709**	2,806
Other receivables	**4,325**	4,252
	7,034	7,058

Included in other receivables as at 30 June 2018 was HK$440 million (31 December 2017: HK$381 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.

In the prior year, the Inland Revenue Department of Hong Kong ("IRD") issued notices of assessment/additional assessment for the years of assessment 2010/2011 to 2016/2017 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 purchase of tax reserve certificates ("TRCs") amounting to HK$1,816 million during the year ended 31 December 2017. The purchase of TRCs does 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 75.16% of the Company's issued share capital on trust for the HKSAR Government as at 30 June 2018, 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 2018, 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 2018 (Unaudited)**	At 31 December 2017 (Audited)
Amounts due from:		
– HKSAR Government	**1,903**	2,378
– KCRC	**6**	6
– associates	**174**	186
	2,083	2,570
Amounts due to:		
– HKSAR Government	**4,006**	78
– KCRC	**1,440**	1,997
– an associate	**151**	151
	5,597	2,226

As at 30 June 2018, the amount due from the HKSAR Government mainly related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of South Island Line 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 2018 related to the 2017 final ordinary dividend payable (note 7) amounting to HK$3,930 million as well as land administrative fees in relation to railway extensions.

The amount due from KCRC related to the recoverable cost for certain capital works and property enabling works in accordance with the agreements in relation to the Rail Merger. The amount due to KCRC related to the accrued portion of fixed annual payment and variable annual payment arising from the Rail Merger.

The amount due from associates as at 30 June 2018 included mainly receivables in relation to the daily Octopus card transactions with Octopus Cards Limited, and the outstanding balances of loans to Emtrain AB as well as staff secondment and other support services fees receivable from Beijing MTR Corporation Limited ("BJMTR"). The amount due to an associate as at 30 June 2018 related to the amount payable for the equity contribution to NRT Holdings 2 Pty Ltd..

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. Under a supplemental agreement signed in June 2018, the Company and the HKSAR Government agreed to extend the timeframe for the repayment mechanism to not later than 31 March 2019.

Details of major related party transactions entered into by the Group with the HKSAR Government in prior years that are still relevant for the current period and those with KCRC in respect of the Rail Merger were described in the Group's audited accounts for the year ended 31 December 2017.

19 Material Related Party Transactions *(continued)*

During the half year ended 30 June 2018, the Group had the following transactions with its associates, namely Octopus Holdings Limited and its subsidiaries ("Octopus Group"), BJMTR and NRT Pty. Limited ("NRT"):

in HK$ million	**Half year ended 30 June 2018**	Half year ended 30 June 2017
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	**77**	74
– Fees received or receivable in respect of load agent, Octopus card issuance and refund services, computer equipment and relating services and warehouse storage space provided to Octopus Group	**20**	20
BJMTR		
– Fees received or receivable in respect of staff secondment, information technology and other support services provided to BJMTR	**–**	21
NRT		
– Fees received or receivable in respect of the design and delivery of electrical and mechanical systems and rolling stock services provided to NRT	**734**	510

20 Creditors and Other Payables

The analysis of creditors by due dates is as follows:

in HK$ million	**At 30 June 2018 (Unaudited)**	At 31 December 2017 (Audited)
Due within 30 days or on demand	**6,293**	11,274
Due after 30 days but within 60 days	**1,613**	1,290
Due after 60 days but within 90 days	**679**	1,332
Due after 90 days	**5,134**	4,766
	13,719	18,662
Rental and other refundable deposits	**3,076**	3,946
Accrued employee benefits	**2,781**	2,079
Dividend payable to other shareholders	**1,298**	–
Total creditors and accrued charges	**20,874**	24,687
Other payables	**4,397**	3,479
	25,271	28,166

21 Loans and Other Obligations

Notes issued by the Group during the half year ended 30 June 2018 and 2017 comprise:

	Half year ended 30 June 2018		Half year ended 30 June 2017	
in HK$ million	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	**1,491**	**1,488**	3,954	3,913

During the half year ended 30 June 2018, notes of HK$1,491 million (2017: HK$2,400 million and AUD145 million (or HK$852 million)) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited, while the Company did not issue any of its notes (2017: USD90 million (or HK$702 million)). The notes issued by the subsidiary are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the half year ended 30 June 2018, the Group did not redeem any of its listed securities (2017: USD550 million (or HK$4,268 million)). The Group redeemed HK$500 million of its unlisted debt securities (2017: HK$500 million and AUD50 million (or HK$417 million)).

22 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2018 and the year ended 31 December 2017 are as follows:

in HK$ million	Deferred tax arising from: Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
At 30 June 2018 (Unaudited)						
Balance as at 1 January 2018	**12,158**	**648**	**(107)**	**–**	**(8)**	**12,691**
(Credited)/charged to consolidated profit and loss account	**(56)**	**–**	**(10)**	**–**	**4**	**(62)**
Charged to reserves	**–**	**64**	**–**	**27**	**–**	**91**
Exchange difference	**(1)**	**–**	**5**	**–**	**–**	**4**
Balance as at 30 June 2018	**12,101**	**712**	**(112)**	**27**	**(4)**	**12,724**
At 31 December 2017 (Audited)						
Balance as at 1 January 2017	11,795	599	(314)	32	(12)	12,100
Charged to consolidated profit and loss account	361	–	45	–	4	410
Charged/(credited) to reserves	–	49	166	(32)	–	183
Exchange difference	2	–	(4)	–	–	(2)
Balance as at 31 December 2017	12,158	648	(107)	–	(8)	12,691

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

in HK$ million	**At 30 June 2018 (Unaudited)**	At 31 December 2017 (Audited)
Net deferred tax assets	**(73)**	(69)
Net deferred tax liabilities	**12,797**	12,760
	12,724	12,691

23 Share Capital and Shares Held for Executive Share Incentive Scheme

A Share Capital

	At 30 June 2018 (Unaudited)		At 31 December 2017 (Audited)	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**6,007,777,302**	**52,307**	5,905,290,065	47,929
Shares issued in respect of scrip dividend of 2016 final ordinary dividend	**–**	**–**	87,794,562	3,863
Shares issued in respect of scrip dividend of 2017 interim ordinary dividend	**–**	**–**	3,032,675	137
Vesting of shares of Executive Share Incentive Scheme	**–**	**14**	–	2
Shares issued under share option schemes	**1,937,500**	**61**	11,660,000	376
At 30 June/31 December	**6,009,714,802**	**52,382**	6,007,777,302	52,307

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 2018 comprise:

	Number of shares	Weighted average exercise price HK$
Employee share options exercised:		
– 2007 Share Option Scheme	**1,937,500**	**29.01**

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

	Half year ended 30 June 2018	Half year ended 30 June 2017
	2007 Share Option Scheme	2007 Share Option Scheme
Outstanding at 1 January	**13,794,000**	25,605,000
Exercised during the period	**(1,937,500)**	(8,736,000)
Forfeited during the period	**–**	(67,500)
Outstanding at 30 June	**11,856,500**	16,801,500
Exercisable at 30 June	**11,856,500**	16,801,500

D During the half year ended 30 June 2018, 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 1,772,900 Performance Shares (2017: 112,200) and 2,208,950 Restricted Shares (2017: 2,245,200) were awarded and accepted by the grantees on 10 April 2018 (2017: 10 April 2017). The fair value of these awarded shares was HK$42.80 per share (2017: HK$44.45 per share).

E During the half year ended 30 June 2018, 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 5,351,600 Ordinary Shares (2017: nil) of the Company for a total consideration of approximately HK$239 million (2017: HK$nil).

F During the half year ended 30 June 2018, 3,741,766 shares (2017: 1,486,069) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$146 million (2017: HK$56 million). During the half year ended 30 June 2018, HK$14 million (2017: HK$1 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 2018, 250,219 award shares (2017: 74,467) 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 2018 (Unaudited)**	**Fair value measurements as at 30 June 2018** Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**39**	**–**	**39**
– Cross currency swaps	**95**	**–**	**95**
– Interest rate swaps	**55**	**–**	**55**
	189	**–**	**189**
Investments in securities	**232**	**232**	**–**
	421	**232**	**189**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**33**	**–**	**33**
– Cross currency swaps	**254**	**–**	**254**
– Interest rate swaps	**64**	**–**	**64**
	351	**–**	**351**

in HK$ million	Fair value at 31 December 2017 (Audited)	Fair value measurements as at 31 December 2017 Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	20	–	20
– Cross currency swaps	101	–	101
– Interest rate swaps	47	–	47
	168	–	168
Investments in securities	443	443	–
	611	443	168
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	41	–	41
– Cross currency swaps	379	–	379
– Interest rate swaps	31	–	31
	451	–	451

There are no Level 3 measurements of financial instruments. During the half year ended 30 June 2018 and the year ended 31 December 2017, 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 2018 and 31 December 2017 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

	At 30 June 2018 (Unaudited)		At 31 December 2017 (Audited)	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**24,351**	**25,553**	23,451	25,881
Other obligations	**919**	**1,081**	950	1,172

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

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 2018 (Unaudited)**	Half year ended 30 June 2017 (Unaudited)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses	**9,321**	9,046
Adjustments for:		
– Loss on disposal of fixed assets	**16**	24
– Amortisation of deferred income from transfers of assets from customers	**(11)**	(10)
– Decrease in fair value of derivative instruments	**14**	98
– Unrealised loss/(gain) on revaluation of investment in securities	**3**	(1)
– Employee share-based payment expenses	**52**	61
– Exchange (gain)/loss	**(5)**	21
Operating profit before working capital changes	**9,390**	9,239
Decrease in debtors and other receivables	**45**	104
Increase in stores and spares	**(100)**	(48)
Decrease in creditors and other payables	**(4,490)**	(548)
Cash generated from operations	**4,845**	8,747

26 Capital Commitments

A Outstanding capital commitments as at 30 June 2018 not provided for in the accounts were as follows:

in HK$ million	Hong Kong transport operations, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas operations	Total
At 30 June 2018 (Unaudited)					
Authorised but not yet contracted for	**8,507**	**–**	**2,620**	**14**	**11,141**
Authorised and contracted for	**13,678**	**228**	**5,118**	**35**	**19,059**
	22,185	**228**	**7,738**	**49**	**30,200**
At 31 December 2017 (Audited)					
Authorised but not yet contracted for	6,246	–	1,868	22	8,136
Authorised and contracted for	13,758	298	5,497	30	19,583
	20,004	298	7,365	52	27,719

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

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 30 June 2018 (Unaudited)				
Authorised but not yet contracted for	**5,800**	**67**	**2,640**	**8,507**
Authorised and contracted for	**10,087**	**–**	**3,591**	**13,678**
	15,887	**67**	**6,231**	**22,185**
At 31 December 2017 (Audited)				
Authorised but not yet contracted for	3,081	614	2,551	6,246
Authorised and contracted for	9,767	79	3,912	13,758
	12,848	693	6,463	20,004

27 Approval of Interim Financial Report

The interim financial report was approved by the Board on 9 August 2018.

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 46 to 71 which comprises the consolidated statement of financial position of MTR Corporation Limited as of 30 June 2018 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 2018 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
9 August 2018

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SHAREHOLDER SERVICES

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