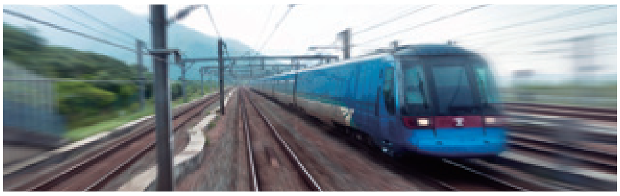
The first half of 2015 saw steady growth in MTR's businesses both at home and outside of Hong Kong, with several important milestones achieved. This in turn translated into good financial results, with solid growth from our recurrent businesses and strong contributions from property development.



Dear Shareholders and other Stakeholders,

The first half of 2015 saw steady growth in MTR's businesses both at home and outside of Hong Kong, with several important milestones achieved. This in turn translated into good financial results, with solid growth from our recurrent businesses and strong contributions from property development. However, against this backdrop, we continued to face challenges in our Hong Kong network expansion projects.

In Hong Kong, our world-class service performance continued during the first six months of 2015, with train service delivery and passenger journeys on-time in our Heavy Rail network maintained at 99.9%. A notable milestone achieved was the opening of Sai Ying Pun Station in March 2015, the last station to open for service on the Western extension of the Island Line. Well received by the local community, this extension brings more convenient access to the Western District of Hong Kong, with daily patronage now running at an average of about 160,000.

To enhance the customer experience, we continued to upgrade services and facilities in response to passengers' needs under our Listening • Responding programme. A total of 541 additional weekly services have been introduced on the Ma On Shan, Tseung Kwan O and Island lines as well as on some Light Rail routes since March 2015, increasing overall carrying capacity by about 420,000 passenger journeys per week. Station improvements continued to enhance both accessibility and comfort. These include the addition of new lifts connecting the street level with station concourses, wide ticket gates and public toilets. We have also invested to provide new and more inclusive forms of passenger communication.

To sustain high quality railway service, on an annual basis, we spend over HK$6 billion on maintaining and renewing our Hong Kong rail assets. Adding to our asset renewal programme, we recently committed HK$3.3 billion to replace the signalling systems for six Hong Kong commuter lines and the Airport Express, as well as HK$6 billion to replace all of the 93 first-generation 8-car trains operating in the urban areas.

Our property development business in Hong Kong benefited from the favourable primary residential market, with an active tendering programme in the first half of 2015. LOHAS Park Package 6, Tin Wing Stop site and LOHAS Park Package 7 were all awarded. Collectively these three developments could yield about 5,150 residential units when fully developed. As part of the tendering for LOHAS Park Package 7, MTR will retain the 44,500 square metre (gross floor area ("GFA")) shopping centre which is targeted to open in the fourth quarter of 2020. The Yuen Long Station property development, for which we act as agent for the relevant subsidiary of Kowloon-Canton

Railway Corporation ("KCRC"), was awarded to Success Keep Limited, a subsidiary of Sun Hung Kai Properties Limited on 6 August 2015. In our Hong Kong property sales, the presale of Hemera (LOHAS Park Package 3) was launched in April 2015 with all 1,648 units sold.

Outside of Hong Kong, our businesses continued to progress. In Shenzhen, the presale of Tiara, our first property development in the Mainland of China, met with an enthusiastic response. In Beijing, our joint venture company, Beijing MTR Corporation Limited ("BJMTR") opened Phase 2 of Beijing Metro Line 14 ("BJL14") at the end of last year and work progresses on Phase 3, with opening expected at the end of this year. BJMTR also initialled the Public-Private-Partnership ("PPP") concession agreement for Beijing Metro Line 16 ("BJL16"), another 50 km metro line in the capital city, the first phase of which is expected to open in 2016. In the UK, on 31 May 2015, London Overground Rail Operations Ltd ("LOROL") took over the operations of the West Anglia Inner routes, increasing the route network by 43 km, whilst on the same day MTR Corporation (Crossrail) Limited ("MTR Crossrail") started to operate the first phase of the London Crossrail services. In Sweden we launched the new MTR Express ("MTRX") service in March 2015, which links Stockholm with Gothenburg.

Reasonable progress has been made in the construction of the remaining four Hong Kong railway expansion projects. The two projects which are managed by MTR and owned by Government, namely the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link, saw a number of milestones achieved in the first half of 2015. For the Express Rail Link, these milestones include the breakthrough of the Ngau Tam Mei to Tai Kong Po Tunnels and the completion of permanent lateral support at the basement level B3, in the northern part of West Kowloon Terminus. For the Shatin to Central Link, the topping out of Hin Keng Station and the tunnel breakthrough from Kai Tak Station to the new Diamond Hill Station were significant events. The two railway projects owned by MTR, namely the South Island Line (East) and Kwun Tong Line Extension, also achieved a number of milestones. These included substantial completion of the excavation at Admiralty Station and commencement of train testing at the southern section for the South Island Line (East), and structural completion of the Ho Man Tin Station for the Kwun Tong Line Extension.

Despite the achievements and general progress of these projects, construction difficulties and challenges continue to be encountered. As a result, there have been further revisions to estimated project costs and/or estimated completion schedules.

For the Express Rail Link, as project manager, we had notified Government at the end of June 2015 of a revised estimated target completion timetable of the third quarter of 2018 (including programme contingency) together with a revised estimated project cost of HK$85.3 billion (including contingency, based on the revised timetable). Government is in the process of reviewing these estimates. As reported earlier, the Shatin to Central Link, which comprises two corridors, the East West Corridor and the North South Corridor, has been delayed. In the case of the East West Corridor, this is due to the archaeological finds at the To Kwa Wan Station site, while for the North South Corridor, it is the result of late site access at the future Exhibition Station caused by third party infrastructure works. We are reviewing the estimated target completion dates and estimated project cost for the Shatin to Central Link and expect to report our findings to Government early next year.

The South Island Line (East) is targeted to commence passenger service at the end of 2016. Construction cost escalations and other challenges have further increased the estimated project cost to HK$16.9 billion (before capitalised interest). The Kwun Tong Line Extension has been delayed due to the difficulties in building the platform tunnel at Whampoa Station. The revised estimated completion timetable is now the third or fourth quarter of 2016 and the revised estimated project cost is HK$7.2 billion (before capitalised interest).

Looking at our financial performance, total revenue in the first six months of 2015 increased by 3.8% over the same period last year to HK$20,210 million. Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment rose by 6.6% to HK$8,346 million. Excluding our Mainland of China and international subsidiaries, revenue increased by 6.9% and operating profit by 8.1%, with operating margin increasing by 0.6 percentage point to 57.0%. Post tax profit from property development was HK$2,311 million, coming mainly from the Hemera development (LOHAS Park Package 3). Including property development profit, net profit from underlying businesses attributable to equity shareholders increased by 55.5% to HK$6,827 million, representing earnings per share of HK$1.17. Gain from revaluation of the Company's investment properties was HK$1,362 million, as compared with HK$3,523 million in the first half of 2014. As a result, net profit attributable to equity shareholders was HK$8,189 million, equivalent to earnings per share of HK$1.40 after investment property revaluation. Your Board has declared an interim dividend of HK$0.25 per share, which is the same as last year. In line with our progressive dividend policy, your Board will review the total dividend for 2015 after the final results for the year are available.

Hong Kong Transport Operations

The Western extension of the Island Line opened in December 2014 with Kennedy Town and HKU stations operating, followed by Sai Ying Pun Station on 29 March 2015. This has brought the comfort and convenience of the MTR network to about 230,000 people working and living in the Western district of Hong Kong and has been warmly welcomed by such residents. The last remaining entrance of Sai Ying Pun Station, at Ki Ling Lane, has encountered some construction difficulties and will be opened in the first quarter of 2016.

Total revenue from Hong Kong transport operations in the first half of 2015 was HK$8,147 million, a 5.4% increase over the same period last year. Operating costs for our Hong Kong transport operations rose by 8.6% to HK$4,348 million, resulting in a 1.9% rise in operating profit to HK$3,799 million. Operating margin was 46.6%.

Safety

Safety remains our absolute priority and the first half of 2015 saw a 17% reduction in reportable events on our Hong Kong Heavy Rail network as compared with the same period last year. The project to standardise door chimes across the network was completed in the first quarter of 2015, helping to achieve a 40% reduction in door-related reportable incidents compared with the first six months of 2014. The safety enhancement initiatives for Light Rail have made good progress, with the improvement works at Tai Tong Road Stop completed, relieving congestion at peak hours.

To reinforce the safety awareness of passengers on escalators, new safety labels have been posted at all escalators across the network and yellow brushes are being progressively installed at the skirt panels of selected escalators, to remind passengers to stand safely on escalator steps.

Patronage

Total patronage of all our rail and bus passenger services in Hong Kong increased by 4.4% to 949.4 million in the first half of 2015. Excluding the Intercity service, total patronage also increased by 4.4% to 947.4 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 and Ma On Shan lines), total patronage reached 772.5 million in the first half of 2015, a 4.9% increase over the first half of 2014.

The Cross-boundary Service to Lo Wu and Lok Ma Chau reported a 3.2% increase in patronage to 56.2 million for the six-month period.

Passenger traffic on the Airport Express increased by 6.3% over the first half of 2014 to 7.6 million, supported by a moderate increase in air passenger traffic and more events being held at AsiaWorld-Expo.

Passenger volume on our Light Rail and Bus services for the first six months of 2015 was 111.1 million, a 1.7% rise from the same period of 2014. Patronage on the Intercity service was 4.4% lower at 2.0 million.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong increased by 4.2% to 5.51 million during the first half of 2015 (5.50 million excluding the Intercity service). The Domestic Service accounted for the majority of this average weekday patronage, rising by 4.7% to 4.53 million.

Market Share

The Company increased its overall share of the franchised public transport market in Hong Kong from 47% in the first five months of 2014 to 48.5% in the first five months of 2015. This was mainly the result of increased market share for our Domestic Service and within this total, our share of cross-harbour traffic was 68.7%. The Company's market share of the Cross-boundary business for the first five months of 2015 declined from 52.1% to 50.8%, whilst market share to and from the airport decreased to 21.6% from 22.2%, owing to continued competition from other modes of transport.

Fare Revenue, Promotions and Concessions

Total Hong Kong fare revenue in the first half of 2015 was HK$8,071 million, a 5.5% increase as compared with the comparable period of 2014. Of this total, the Domestic Service accounted for HK$5,684 million or 70%. Average fare per passenger on our Domestic Service rose by 0.8% to HK$7.36, the result of fare increases partially offset by fare concessions.

Fare revenue from the Cross-boundary Service in the first half of 2015 was HK$1,535 million, an increase of 5.2% over the first six months of 2014. Fare revenue from the Airport Express was 4.5% higher for the period at HK$460 million. Light Rail and Bus fare revenue in the first half of 2015 was HK$324 million, 5.2% higher than the first half of 2014, while fare revenue from the Intercity service was HK$68 million, a decrease of 4.2% which was due to a drop in leisure travellers.

Having a transparent and objective mechanism to adjust fares is critical to the long term sustainability of a capital intensive business like urban rail. For MTR, the Fare Adjustment Mechanism ("FAM") provides the basis of a stable source of income for funding the significant investments required to maintain and upgrade the rail network to maintain a high standard of service. In accordance with the FAM, an overall fare adjustment rate of 4.3% was implemented in June 2015. In conjunction with this adjustment, we are offering fare promotions estimated at over HK$500 million for the year 2015/2016, which is in addition to the annual HK$2.2 billion worth of ongoing fare concessions and promotions we already offer today.

The highlight of the 2015/2016 fare promotions package is the new "MTR Festive Discount" promotion. Following the positive response to our special promotion on the second and third days of Chinese New Year 2015, we will introduce the same promotion on six designated festive days over Christmas 2015, Chinese New Year 2016 and Easter 2016. On those days, adult Octopus holders traveling on MTR will enjoy concessionary fares equal to Child Octopus fares, while other concessionary Octopus holders will pay a flat fare of HK$1 per domestic journey. Other fare promotions include the "10% Same-Day Second-Trip Discount" from 21 June to 30 November 2015, using HK$220 million set aside under the "Profit-related Fare Concession Scheme" and the "Service Performance Arrangement" introduced in 2013 after the FAM review. The "MTR City Saver" promotion

Operations Performance in the first half of 2015

Service performance item	Performance Requirement	Customer Service Pledge Target	**Actual Performance**
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on-time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	**99.9%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.8%**
– 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, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	650,000	**2,322,457**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	650,000	**7,145,009**
Ticket reliability: Smart ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	8,000	**22,246**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	N/A	99.0%	**99.7%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.7%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.7%**
– West Rail Line	97.0%	99.0%	**99.8%**
– Light Rail	N/A	99.0%	**99.9%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability	N/A	99.0%	**99.9%**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.9%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.5%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	91.0%	**99.9%**
Cleanliness			
– Train compartment: cleaned daily	N/A	99.0%	**99.9%**
– Train exterior: washed every 2 days (on average)	N/A	99.0%	**100.0%**
Northwest Transit Service Area Bus Service			
– Service Delivery	N/A	99.0%	**99.8%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

has been extended for one year to 30 June 2016 and the "Early Bird Discount Promotion" has been extended for one year to 31 May 2016. In addition, passengers will receive a HK$50 MTR Shops Cash Coupon for each purchase of an "MTR City Saver" in July and August 2015 or when buying a July or August Monthly Pass Extra.

For our MTR Club members, we launched the annual Bonus Point Scheme between 11 May and 10 August 2015, allowing passengers to earn points on their journeys that can be redeemed for free tickets or gifts.

New fares on the Guangdong Line Through Train took effect on 15 July 2015, the first such adjustment since 1998. To promote the Guangzhou-Kowloon Through Train ("GZTT") service to Mainland travellers, we joined the Hong Kong Tourism Board's pavilion in the Guangzhou International Travel Fair 2015 in March 2015. The Company has also partnered with various hotels and tourist attractions in Hong Kong and Guangzhou to offer special travel package deals to GZTT passengers.

Service and Performance

Service performance in the first half of 2015 remained at world-class levels. Train service delivery and passenger journeys on-time in our Heavy Rail network achieved 99.9%, a standard that exceeds the targets set out in the Operating Agreement and our own more demanding Customer Service Pledge targets. During the period, we operated over 944,000 train trips on the Heavy Rail network, with five delays that lasted 31 minutes or more attributable to factors within MTR's control.

Recognition of our Service

Our high level of service again received local and international recognitions. During the first six months of 2015, MTR won the "Top Service Awards 2015 – Public Transportation" from Next Magazine, as well as winning in the Public Transport Category in the first ever "Tomo Brand Awards 2015" from Apple Daily Action News. We also won the "Hong Kong Service Awards 2015 – Public Transportation" category for the 11th consecutive year from East Week magazine and the "Public Transportation" category award in the "Sing Tao Service Awards 2014" for the ninth consecutive year from Sing Tao Daily News. GZTT was named one of the "Travellers' Most Trusted Brands in Hong Kong and Macau" by China Media in recognition of its excellent transport services. GZTT was also appointed the Official Rail of the 117th Canton Fair and the Official Rail of the 29th International Travel Expo.

Listening and Responding to Our Customers

Under our Listening • Responding programme, we continue to focus on making our passengers' journeys more comfortable, as well as improving station access and facilities, and enhancing communication.

To improve our customers' end-to-end journey experience, a new Customer Experience Development Section has been established. Its task is to understand what matters most to our customers and to formulate plans to bring about continuous enhancement. Our initial focus is on enhanced ways to communicate with our passengers, particularly during service delays, by gaining a better understanding of their needs.

Adding More Rail Services

Starting from March 2015, 541 additional weekly services have been gradually added on the Ma On Shan, Tseung Kwan O and Island lines as well as on some Light Rail routes. This has increased overall carrying capacity by about 420,000 passenger journeys per week. In addition, more coupled-set Light Rail vehicles have been deployed on nine routes to provide extra carrying capacity on both weekdays and at weekends.

Investing in Network Improvements

During 2015 we will again spend over HK$6 billion on maintaining, renewing and upgrading our network.

Adding to our asset replacement, in March 2015, a HK$3.3 billion contract was signed to replace signalling systems on the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express, to increase overall carrying capacity. In addition, we awarded a HK$6 billion contract in July 2015 to purchase 93 new 8-car trains to replace all existing first-generation train sets currently operating on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. These new trains will have more modern operating systems and equipment. Other asset replacement initiatives include about HK$200 million worth of new track maintenance vehicles to add advanced capabilities and additional working capacity to the existing fleet.

To upgrade our bus fleet, four new double decker buses were delivered in the first half of 2015 to replace buses that had reached the end of their useful life. In addition, a contract has been awarded for the purchase of six new buses to serve passengers in the Northwest New Territories. The older buses that they replace will be rotated out for standby use during service disruptions. To further add capacity, we are setting aside HK$300 million for the purchase of ten new Light Rail vehicles and ten new buses.

Upgrading Station Facilities

As part of our ongoing efforts to improve station environments, major works such as adding new lifts, wide ticket gates and toilets are continuing.

New external lifts at Lai Chi Kok Station and Prince Edward Station were opened for public use in February 2015 and May 2015 respectively to provide passengers with more convenient access between street level and the station concourse. A total of 24 hydraulic lifts in various stations are being replaced with new and more efficient traction lifts. Up to the end of June 2015, eight such lifts had been replaced. During 2015, we plan to install 30 additional wide ticket gates in 25 stations.

New public toilets at Mong Kok and Prince Edward stations were opened for public use in January 2015 and were welcomed by passengers. The toilet facilities in Ma On Shan Line stations are also under refurbishment, with target completion within 2015.

Enhancing Passenger Communication

We continue to enhance our communication with passengers and have paid particular attention to improving information flow during service delays or disruptions. Public announcements in stations and the Traffic News function on MTR Mobile are the two most important channels of communication and will be the focus of further improvement.

New LCD passenger information display systems have been installed on the Tung Chung Line and Airport Express, and will gradually be installed on the Island, Kwun Tong and Tsuen Wan lines to provide timely information.

The MTR Mobile app now has some 2.7 million users, more than 1.7 million of whom subscribe to real-time information via the Traffic News function.

To enhance the browsing experience for the visually impaired, accessibility features have been added to the MTR website and MTR Mobile. Several awards were received in the first half of 2015, including three gold awards and the "Most Favourite Mobile Apps Award" in the "Web Accessibility Recognition Scheme 2015" organised by the Office of the Government Chief Information Officer and the Equal Opportunities Commission.

At the "Mobile Excellence Awards 2015" organised by Marketing Magazine, the MTR Mobile app and MTR website won four awards. The MTR website also received the gold award at the "Best.HK Website Award" organised by Hong Kong Internet Registration Corporation Limited.

Increasing Support Staff in Stations

To improve platform management in stations, over 300 additional station assistants were added in 2015. They will aid the smooth flow of passengers through stations, especially during peak periods.

Hong Kong Station Commercial Businesses

Revenue from our Hong Kong station commercial businesses increased by 8.5% in the first half of 2015 to HK$2,579 million. The increase was driven mainly by higher rental income from station shops, resulting from rent renewals and increased turnover rents. Operating costs of our Hong Kong station commercial businesses rose by 9.3% to HK$247 million, resulting in operating profit increasing by 8.4% to HK$2,332 million, representing an operating margin of 90.4%.

Station retail revenue for the period increased 11.2% to HK$1,743 million. The increase reflects rental increases, higher turnover rent, particularly from the Lok Ma Chau Station Duty Free Shops, as well as rent earned from shops in the new stations of the Western extension of the Island Line.

To promote the MTR Shops brands and the convenience of transit shopping, a thematic campaign "Style to Go" featuring local artists was launched in early 2015. Posters displayed across the MTR network also featured new brands opening in MTR Shops.

As at 30 June 2015, there were 1,356 station shops covering 55,768 square metres of retail space. Nine new shops were added at Sai Ying Pun Station in March 2015, while renovation works were underway at Fo Tan, Yau Ma Tei, Tseung Kwan O, Lo Wu and Hung Hom stations, with a temporary loss of 186 square metres of retail space.

Timely sales packages supported a 2.3% increase in advertising revenue in the first half of 2015 to HK$497 million. The number of advertising units in stations and trains reached 45,284. To attract and retain advertisers, during the six months, new 40" digital escalator panels were introduced, replacing the existing 32" models.

Revenue from telecommunications in the first half of 2015 increased by 5.0% to HK$252 million, owing mainly to revenue from more mobile data capacity enhancement projects by mobile network operators for 4G services.

Hong Kong Property and Other Businesses

The residential property market for both first and second hand sales remained stable during the first six months of 2015 due primarily to continuing low interest rates. Additional mortgage restrictions were imposed by the Hong Kong Monetary Authority on residential property in February 2015, resulting in lower transaction volumes in secondary home sales, although prices remained stable. The market continued to focus on primary launches of mass residential projects, which benefited from competitive pricing and discount packages offered by developers. The office leasing market was stable, but the retail sector began to feel the impact of the lower spending, particularly on luxury goods, by visitors.

Property Development in Hong Kong

Profit from Hong Kong property developments in the first six months of 2015 was HK$2,811 million comprising mainly the booking of profits from Hemera (LOHAS Park Package 3), which were sold out soon after presale started in April 2015.

Our property tenders were well received by the market. LOHAS Park Package 6 was awarded in January 2015 to Great Team Development Limited, a subsidiary of Nan Fung Group Holdings Limited. In February 2015, the Tin Wing Stop property development was awarded to Best Vision Development Limited, a subsidiary of Sun Hung Kai Properties Limited, and LOHAS Park Package 7 was awarded in June 2015 to Ventures Smart Limited, a subsidiary of Wheelock and Company Limited. MTR will share development profits with the developers for all these developments. In addition, MTR will make a contribution of HK$4.98 billion to the LOHAS Park Package 7 development in return for which we will retain and fit out the 44,500 square metre (GFA) shopping mall. The Yuen Long Station

Property Development Packages Completed during the period and Awarded

Location	Developers	Type	Gross floor area (sq. m.)	Period of package tenders	Expected completion date
LOHAS Park Station					
Package Four	Sun Hung Kai Properties Limited	Residential	122,302	Awarded in April 2014	2020
Package Five	Wheelock and Company Limited	Residential	102,336	Awarded in November 2014	2020
Package Six	Nan Fung Group Holdings Limited	Residential	136,970	Awarded in January 2015	2021
Package Seven	Wheelock and Company Limited	Residential Retail Kindergarten	70,260 44,500 1,160	Awarded in June 2015	2022
Tai Wai Station					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	Awarded in October 2014	2022
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	Awarded in February 2015	2021
Nam Cheong Station#					
Nam Cheong	Sun Hung Kai Properties Limited	Residential Retail Kindergarten	214,700 26,660 1,000	Awarded in October 2011	By phases from 2017 – 2019
Long Ping Station#					
Long Ping (North)	K. Wah International Holdings Limited and Sino Land Company Limited	Residential	48,675	Awarded in October 2012	2018
Long Ping (South)	Chinachem Group	Residential	41,990	Awarded in June 2013	2019
Tsuen Wan West Station#					
TW5 Cityside	Chinachem Group	Residential Retail	66,114 11,210	Awarded in January 2012	2018
TW5 Bayside	Cheung Kong Property Holdings Limited	Residential Retail Kindergarten	167,100 40,000 550	Awarded in August 2012	2018
TW6	New World Development Company Limited and Vanke Property (Overseas) Limited	Residential	62,711	Awarded in January 2013	2018
Yuen Long Station#					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	Awarded in August 2015	2022

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

* excluding a bicycle park with cycle track

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

Property Development Packages to be Awarded Notes 1 and 2

Location	Type	Gross floor area (sq. m.)	Period of package tenders	Expected completion date
LOHAS Park Station	Residential	About 600,000	2015 – 2020	2020 – 2024
Wong Chuk Hang Station	Residential Retail	357,500 47,000		
Ho Man Tin Station	Residential	128,400		

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

property development, for which we act as agent for the relevant subsidiary of KCRC, was awarded to Success Keep Limited, a subsidiary of Sun Hung Kai Properties Limited on 6 August 2015.

In response to the demand for residential property, we continue to examine other possible development sites along our railway lines in order to increase housing supply in Hong Kong.

Property Rental and Management Businesses in Hong Kong

Revenue from the Hong Kong property rental and property management business in the first six months of 2015 rose by 11.3% to HK$2,255 million. Operating costs increased by 7.9% to HK$357 million, resulting in operating profit rising 12.0% to HK$1,898 million, with operating margin at 84.2%.

Total property rental income in Hong Kong was HK$2,129 million, 11.5% higher than the same period in 2014. Our shopping malls achieved an average 12% rental reversion increase in the period. As at 30 June 2015, MTR shopping malls in Hong Kong and our 18 floors at Two International Finance Centre ("Two ifc") remained close to 100% let.

As at 30 June 2015, the Company's attributable share of investment properties in Hong Kong was 212,500 square metres of lettable floor area of retail properties, 41,006 square metres of lettable floor area of offices and 14,282 square metres of property for other use.

Our investment properties received several awards during the first half of 2015. Elements made the Hong Kong Economic Times' "Top 10 – My Favourite Shopping Mall Awards 2014-2015" and received a "Certificate of Excellence 2015" from TripAdvisor. Telford Plaza received the "Hong Kong Service Award – Shopping Mall Award" given by East Week magazine, while the Smart Telford Program mobile app won two awards from the Hong Kong Wireless Technology Industry Association.

Hong Kong property management revenue in the first half of 2015 increased by 8.6% to HK$126 million. As at 30 June 2015, the number of residential units under the Company's management in Hong Kong had increased by 2,293 to a total of 93,727, following the addition of units from City Point and The Austin. The area of managed commercial space was unchanged from 2014 at 763,018 square metres.

Our property management operations gained numerous awards in the period, including "Property / Facility Management Team of the Year" for Two ifc at the "RICS Hong Kong Awards 2015" organised by the Royal Institution of Chartered Surveyors and several recognitions for our safety management in the "2nd Best Property Safety Management Award" organised by the Occupational Safety and Health Council, the Labour Department and the Hong Kong Association of Property Management Companies.

Other Businesses

The Ngong Ping Cable Car and associated themed village ("Ngong Ping 360") reported an 8.3% decrease in revenue in the first half of 2015 to HK$165 million. This was mainly due to a decline in the number of overnight tourists and fewer operating days resulting from additional rope maintenance. Visitor numbers for the period were approximately 800,000, while service reliability remained excellent at 99.9%. Promotions targeting local visitors were launched, including a Chinese New Year promotion in collaboration with a local artist, free cable car rides for local children in April 2015, and weekday discounts for local seniors for cable car rides in June 2015. Ngong Ping 360 garnered numerous awards and recognitions during the period, including being named "10 of the World's Most Amazing Cable Car Experiences" by CNN.com USA in February 2015.

We continue to leverage our experience as one of the world's leading railway operators to offer consultancy services to clients in Hong Kong and overseas. Revenue from our consultancy business in the first half of 2015 was HK$90 million, 8.4% higher than the same period last year.

The Company's share of Octopus' net profit for the first half of 2015 rose by 12.5% to HK$117 million. By 30 June 2015, more than 6,000 service providers in Hong Kong were using Octopus. Total Octopus cards and other stored-value Octopus products in circulation during the period reached 28.8 million. Average daily transaction volumes and value reached 13.5 million and HK$159.7 million respectively.

Income from providing project management services to Government, predominately for the Express Rail Link and Shatin to Central Link, was HK$780 million in the first half of 2015, 9.2% higher than the same period in 2014. Such income is currently booked on a cost recovery basis.

Mainland of China and International Businesses

In the first half of 2015, revenue from our Mainland of China and International railway and property related subsidiaries was HK$6,181 million, a 2.7% decrease as compared to the same period last year, due mainly to adverse currency movements.

Revenue from our railway related subsidiaries outside of Hong Kong, namely MTR Corporation (Shenzhen) Limited, Metro Trains Melbourne Pty. Ltd. ("MTM"), MTR Stockholm AB ("MTRS"), MTR Express (Sweden) AB, MTR Crossrail, Metro Trains Sydney Pty. Limited ("MTS") and the Joint Venture for the design and delivery of the Sydney Metro North West ("JV-SMNW"), was HK$6,104 million. This represents a decrease of 2.7% over the first half of 2014. Operating costs for these businesses decreased by 2.2% to HK$5,727 million, resulting in a 10.5% decrease in operating profit to HK$377 million, with an operating profit margin of 6.2%. On a constant exchange rate basis, revenue from railway subsidiaries (excluding the new start-up operations of MTR Express (Sweden) AB, MTR Crossrail, MTS and JV-SMNW) would have increased by 8.3%, operating cost by 8.3%, and operating profit would have increased by 9.2%.

Our rail associates outside of Hong Kong contributed profit of HK$49 million in the first half of 2015, as compared with a profit of HK$24 million in same period last year, due to improved performance from our Beijing and Hangzhou railway associates.

Our rail subsidiaries and associates outside of Hong Kong carried approximately 755 million passengers in the first six months of 2015, an increase of 6.9% compared with 706.7 million in the first half of 2014.

Railway Businesses in the Mainland of China

Beijing Metro Line 4 ("BJL4") and the Daxing Line exceeded their service performance targets. Combined ridership in the first half of 2015 was 203.2 million passenger trips, with average weekday patronage of more than 1.18 million. Phases 1 and 2 of BJL14 recorded 25.6 million passenger trips during the period and an average weekday patronage of over 161,000. Phase 1 has seven stations, running for 12.4 km. The Phase 2 East Section, which started service in December 2014, covers 12 stations, of which two are currently bypassed, and runs for 14.8 km.

On 28 December 2014, a fare increase was applied across the entire Beijing metro system, the first such increase in seven years. Although an 8% drop in the combined ridership of BJL4 and Daxing Line was recorded in the first half of 2015, patronage has stabilised. The financial impact of the fare increase on BJMTR is positive due to the inelastic nature of the business.

The operational performance of the Shenzhen Metro Longhua Line ("SZL4") also exceeded targets. Ridership for the period was 89.6 million, with average weekday patronage reaching over 496,500. Capacity has been increased by 50% through converting all the trains in service from 4-car to 6-car trains, a project that was completed in February 2015.

Hangzhou Metro Line 1 achieved a 25% increase in passenger numbers to 84.1 million in the first half of 2015, benefiting from the opening of other new metro lines in the city. Average weekday patronage reached over 450,000.

International Railway Businesses

In the UK, LOROL was named "Rail Operator of the Year" at the "2015 London Transport Awards". LOROL took over management of the West Anglia Inner routes on 31 May 2015 from the current Greater Anglia franchise operator. The staff, stations and fleet were migrated to LOROL, which will operate the routes until November 2016, when the current operating contract expires. LOROL's expanded network now covers 111 stations and 167 km of track. Ridership grew by 19% during the six months to reach 66.5 million.

Also in London, MTR Crossrail started to operate the first section of Crossrail, called "TfL Rail", on 31 May 2015. TfL Rail currently has 11 stations and when it enters full service in 2019 it will serve 40 stations and 118 km of track. During this initial stage, MTR Crossrail has taken over the existing fleet, staff and stations from the Greater Anglia concession. Going forward, MTR Crossrail will operate a new, modern fleet which will come into service from 2017.

In Stockholm, MTRS' services delivered good operational performance in the first half of 2015, with the punctuality of all lines above the contractual targets. MTRS received the prestigious "2014 Swedish Quality Award" in recognition of the improvements made to the service. Ridership for the period was 170.6 million, with average weekday patronage reaching 1.2 million.

MTRX started services between Stockholm and Gothenburg on 21 March 2015. Positive feedback has been received from customers and full service is planned for August 2015, providing approximately 90 weekly train trips.

In Australia, the patronage on MTM in Melbourne, based on a revised counting method from Public Transport Victoria, grew to 115.5 million in the first six months of 2015, an increase of 4.8% over the first half of 2014. The increase was primarily due to the introduction of a new fare structure over the last 12 months. Operational performance and customer satisfaction continue to exceed contractual requirements.

Also in Australia, our consortium that won the bid for the Operations, Trains and Systems Contract for the Sydney Metro North West, won the "Government Partnership Excellence Award" at the "National Infrastructure Awards" in Sydney in March 2015, organised by Infrastructure Partnership Australia. This is our first international PPP project.

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

Our property development project Tiara, at Shenzhen Metro Longhua Line Depot Site Lot 1, has a total developable gross floor area of approximately 206,167 square metres, comprising 1,698 residential units and a 10,000 square metre (GFA) shopping centre. During the first half of 2015, two batches of presale were launched for 708 units, with over 99% of the units offered for sale being sold. Further batches of presale are expected in the second half of this year. Construction of the development continues to make good progress.

Tianjin TJ-Metro MTR Construction Company Limited ("TJMTR"), the joint-venture company in which we have a 49% interest, continues to advance the property project at Beiyunhe Station on Tianjin Metro Line 6. The total developable gross floor area of the site is approximately 278,650 square metres (GFA) and the site is being developed for residential and commercial use. Construction is targeted to commence in the second half of 2015.

Revenue from our property rental and property management businesses in the Mainland of China increased by 2.7% to HK$77 million in the first half of 2015. Our shopping mall in Beijing, Ginza Mall, had an occupancy rate of 99% as at 30 June 2015.

The Company's managed gross floor area in the Mainland of China at the end of June 2015 remained unchanged at 230,000 square metres. This comprised AO City Fortune Centre in Beijing, with 24,000 square metres of commercial and 58,000 square metres of residential space, and the North Star Shopping Center and offices in Beijing with 148,000 square metres of commercial space.

Future Growth

In the first six months of 2015, we continued to pursue and develop growth initiatives in our rail and property businesses both in and outside of Hong Kong.

Growth in Hong Kong

Enlarging the rail network in Hong Kong has been a key growth initiative for MTR. In the first half of 2015, reasonable construction progress was achieved for the new lines which are owned by MTR (namely the South Island Line (East) and the Kwun Tong Line Extension) as well as those lines which are entrusted to MTR as project manager (namely the Express Rail Link and the Shatin to Central Link). Despite this progress, significant difficulties and challenges remain and have led to further revisions of estimated completion dates as well as estimated project costs. Growth in our Hong Kong property investment business will come from the two new shopping centres currently under development as well as the expansion of the Maritime Square and Telford Plaza shopping malls. When completed, the new additions will add about 120,620 square metres (GFA) to the attributable gross floor area of our existing retail portfolio.

Hong Kong New Railway Projects

New Rail Lines Owned by MTR

South Island Line (East)

The 7-km South Island Line (East) will extend MTR services from Admiralty Station to the Southern District of Hong Kong Island, with a train depot located in Wong Chuk Hang. As at 30 June 2015, the project was 87% complete, with the current estimated completion at the end of 2016. It will be the first metro service to the Southern District, serving an estimated residential and working population of 350,000 in 2016.

At Admiralty Station, excavation works for the station cavern and platforms are mostly completed and structural works are in progress. Cut-and-cover excavation for the Admiralty Station extension and the difficult underpinning works beneath the existing Island Line running tunnels are substantially complete. Construction of the Nam Fung Tunnel lining is complete and track installation is in progress. At the southern viaduct section, the installation of the noise barrier, overhead line and trackside auxiliaries is substantially complete. Limited train testing between Wong Chuk Hang Station and South Horizons Station commenced in April 2015.

The works for Ocean Park and Wong Chuk Hang stations have been substantially completed and statutory inspections have commenced, with inspection by the Fire Services Department completed at both stations.

At Ap Lei Chau, a new covered footbridge and lift at the junction of Ap Lei Chau Bridge Road and Yi Nam Road was opened in January 2015, providing a convenient barrier-free connection between the population centres of South Horizons and the Ap Lei Chau Estate. At Lei Tung and South Horizons stations, the structural works are substantially complete while construction of the entrances is in progress.

The complexity of works and continued labour shortages have resulted in a further revision of the estimated cost of this project, which has increased by HK$1.7 billion to HK$16.9 billion (before capitalised interest).

Kwun Tong Line Extension

The 2.6-km Kwun Tong Line Extension will extend the Kwun Tong Line from its current terminus at Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa.

As at 30 June 2015, the project was 81% complete and upon completion, the extension will provide rail service to communities in the Ho Man Tin and Whampoa areas, serving an estimated residential and working population of 192,000 in 2016.

The Ho Man Tin Station structure was completed in June 2015 and track work is progressing towards Whampoa, with over 55% of the track laid. Construction of Whampoa Station is in progress, with structural works for both concourses 46% complete. The challenging excavation of the platform tunnel at Whampoa Station achieved a milestone in July 2015 with partial breakthrough of the tunnel despite difficult ground conditions and the congested site. Building services and electrical and mechanical ("E&M") works are in progress and were 50% complete as at 30 June 2015.

The complexity of construction, particularly the platform tunnel at Whampoa Station, has resulted in a delay in the overall project with completion timetable for the Kwun Tong Line Extension now targeted for the third or fourth quarter of 2016. This delay, together with construction challenges and labour shortages, has also resulted in an increase in the estimated cost of this project, to HK$7.2 billion (before capitalised interest).

New Rail Lines Entrusted to MTR as Project Manager by the Government

Express Rail Link

The 26-km Express Rail Link will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. It will be served by the West Kowloon Terminus. As at 30 June 2015, the project was 71% complete. The Company's project management responsibilities are embodied in two Entrustment Agreements with Government. The first Entrustment Agreement ("XRL Preliminary Entrustment Agreement") covers, among other things, preliminary and detailed design and site investigation, while the second Entrustment Agreement ("XRL Entrustment Agreement") covers, among other things, completion of detailed design, construction and commissioning into service of the Express Rail Link. Under the XRL Entrustment Agreement, Government is responsible for funding the construction of the Express Rail Link.

Excavation of the Ngau Tam Mei to Tai Kong Po tunnels was completed in March 2015, which marked the completion of the 12.9 km of drill-and-blast tunnel excavation works for the project. Overall tunnel excavation was 97% complete as at 30 June 2015. Also as of that date, with the permanent lateral support at the basement level B3 completed in a critical area located in the northern part, the West Kowloon Terminus was 53% complete, with overall excavation 97% complete and with 53% of the concrete structure having been cast. Structural works for the Station Entrance Building, other building services and E&M works continue to progress.

Construction difficulties and challenges continue to impact progress of the Express Rail Link. The most critical of these challenges are the remaining construction works of the West Kowloon Terminus particularly concreting works and the Station Entrance Building, and the progress of the cross-boundary tunnel running from the boundary with the Mainland of China to Mai Po. Construction difficulties have led to a further revised estimate of the completion timetable, to the third quarter 2018 (including contingency). The revised estimated total project cost has also been increased to HK$85.3 billion (including contingency, based on the revised timetable) due primarily to the longer programme, labour shortages and construction difficulties. These revised estimates were reported to Government on 30 June 2015 and are currently being reviewed by Government. The Company has advised Government that these revised estimates are based on a number of assumptions, including timely funding arrangements, and will require the cooperation of various parties and certain approvals from Government.

Under the XRL Entrustment Agreement, if a material modification to the programme for the execution of the entrustment activities is likely to result in a material increase or decrease in the Company's project management responsibilities or costs, the Company and Government are to negotiate in good faith to agree an increase or, as the case may be, decrease in the Project Management Fee (currently set at HK$4,590 million). As of the date of this interim report, such negotiations have not yet commenced and accordingly at this stage there is no certainty as to whether the fee will be increased. If the Company does not receive an increase in the Project Management Fee, we may not be able to recover the increased internal cost we will incur in performing our obligations under the XRL Entrustment Agreement.

Government has the right to claim against the Company if the Company breaches the XRL Entrustment Agreement or if Government suffers a loss as a result of the Company's negligence in performing its obligations under the XRL Entrustment Agreement. The Company's total aggregate liability to 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. Up to the date of this interim report, no claim has been received from Government.

The board of directors of the Company has authorised the Chairman and Chief Executive Officer of the Company to engage with Government with a view to enabling the Express Rail Link to commence operations in accordance with the revised completion timetable and to report further to the Board in due course on the outcome thereof.

Shatin to Central Link

The 17-km Shatin to Central Link links up the existing railway lines to form an East West Corridor and a North South Corridor. Together, they will have ten stations, including six interchange stations linking existing railway lines with these two new corridors. The lines will provide much needed new links across the New Territories, serving an estimated residential and working population of 640,000 in 2021. Overall progress on the project was about 37% complete as at 30 June 2015, with the East West Corridor and North South Corridor being 50% and 15% complete respectively. As with the Express Rail Link, Government is responsible for funding the construction of the Shatin to Central Link.

Reasonable progress has been made on the Shatin to Central Link. The up-track tunnel leading from Kai Tak to Diamond Hill successfully broke through in March 2015, an important milestone marking the completion of the excavation of the first tunnel section for the project. Following this, excavation for the up-track tunnel between Diamond Hill and Ma Chai Hang was also completed in June 2015.

Our project team and the local community celebrated a major achievement on 30 April 2015 with the topping-out of the first Shatin to Central Link station, Hin Keng Station. A ceremony was held to signify the completion of civil works at the station and the start of E&M and other fitting out works, as well as track laying. Shortly thereafter on 16 July 2015, the new Kai Tak Station was also topped out.

Despite reasonable construction progress, and as reported previously, the programme for delivery of the Shatin to Central Link has been impacted by two key events. Firstly, on the East West Corridor the time taken in confirming actions to be undertaken relating to archaeological finds at the To Kwa Wan Station site has led to an 11-month delay in this corridor, with the estimated completion now in 2019. Secondly, the anticipated late hand-over of a construction site for the new Exhibition Station on the North South Corridor, due to infrastructure works by other parties, has already caused a six month delay in that corridor. Any further delay in site hand-over will result in an equivalent additional delay to the completion of the North South Corridor.

Given the above delays, we are reviewing again the project cost estimate and the target completion date. Taking into account the continued difficulties and challenges, including those described above, the Company expects that the cost estimate will be revised upwards. In addition, mainly as a result of the increase in the estimated project costs relating to Admiralty Station, where the Shatin to Central Link will interchange with, amongst other lines, the South Island Line (East), we have notified Government of an increase in the expected cost of the Shatin to Central Link advance works. The Company expects that the programme and cost review in respect of the project as a whole will be completed in early 2016, after which the Company will formally report the findings to Government. Thereafter, the Company will continue to monitor and review the project cost and completion date.

New Railway Projects Under Discussion

In September 2014, Government issued the Railway Development Strategy 2014, which outlined the agenda for railway expansion in Hong Kong up to 2031, proposing seven new railway projects. Government's Policy Agenda, issued in January 2015, stated that Government would take forward these new railway proposals in phases, starting with detailed planning for the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station), and the East Kowloon Line. The Company has provided technical input to Government on these new railway projects and will continue to support Government in the delivery of new railways for the community.

Hong Kong Property Investment Projects

To continue to strengthen our investment properties business, we are investing in our shopping centre portfolio in the form of new additions and the enhancement of existing centres. These projects will add a total of about 120,620 square metres (GFA) to our property investment portfolio, an increase of approximately 40% in the attributable gross floor area of our existing retail portfolio.

Two future additions to our shopping centre portfolio will be retail malls in Tai Wai and LOHAS Park. The future Tai Wai shopping centre will have 60,620 square metres (GFA) and is targeted to open in the third quarter of 2021. The Company has contributed HK$7.5 billion to the development, retain ownership of the mall and will also bear the fit-out costs.

The LOHAS Park centre will have 44,500 square metres (GFA) and is targeted to open in the fourth quarter of 2020. The Company will contribute HK$4.98 billion to the development, retain ownership and fit out the shopping centre.

The enhancement underway at Maritime Square in Tsing Yi will increase the retail area by 12,100 square metres (GFA) at a cost of approximately HK$2.4 billion. Following a ground breaking ceremony held on 12 June 2015, construction works are progressing, with the extension targeted to open in the fourth quarter of 2017.

To meet growing demand for retail services in East Kowloon, two floors of offices above Telford Plaza will be converted to retail use, adding a further 3,400 square metres (GFA) to the shopping centre. The estimated project cost is HK$550 million and opening is targeted for the second quarter of 2017.

Mainland of China and International Growth

In Beijing, BJMTR is moving forward with the construction of Phase 3 of BJL14. When the full line opens, it will run for 47.3 km and have 37 stations, including ten interchange stations. Under this PPP project, BJMTR is responsible for the provision of E&M systems and rolling stock, as well as the operation and maintenance of the line over a term of 30 years. MTR will invest approximately RMB2.45 billion of additional capital into BJMTR to partially finance this PPP.

The Concession Agreement for BJL16, another PPP project, was initialled on 8 February 2015. The line will run for 50 km from Beianhe to Wanping, encompassing 29 stations. Under the agreement, BJMTR will provide E&M systems as well as rolling stock. BJMTR will also undertake the operation and maintenance of the lines for 30 years starting after 2017 as currently scheduled. Construction works have begun and first phase operation is expected to commence in 2016. To support BJMTR on BJL16, MTR will invest additional capital of up to approximately RMB2.45 billion in BJMTR.

In the UK, we have been short-listed by Transport for London ("TfL") to bid for the future London Overground concession that will run from 13 November 2016 for 7.5 years, with an option to extend for up to two years at TfL's discretion.

In Sweden, we submitted a bid for the Stockholm Commuter Rail Systems (Stockholms Pendeltåg) in August 2015.

In Melbourne, the Rail Transformation Consortium, of which MTR is a shareholder, will not pursue the upgrade of the Cranbourne-Pakenham Rail Corridor further because the Government of the State of Victoria has adopted a different approach to continue with the project. Nevertheless, MTM will continue to participate in relevant works as tasked by the government in its role as the current Melbourne Metro franchise operator.

Financial Review

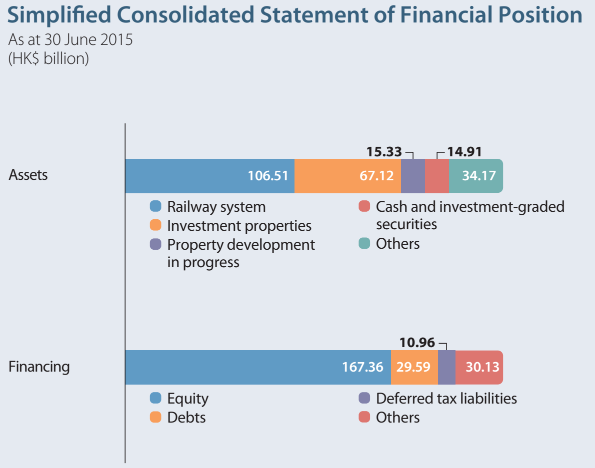
In the first half of 2015, the Group achieved good financial results, with solid growth in our recurrent businesses as well as higher property development profit. Compared to the same period last year, total revenue and total operating expenses increased by 3.8% and 1.9% to HK$20,210 million and HK$11,864 million, respectively. Revenue from Hong Kong transport operations was HK$8,147 million, an increase of 5.4%, due to higher total patronage from all our transport services and adjustments to fares that were partly offset by fare concessions. The related expenses grew by 8.6% to HK$4,348 million to support increases in train trips, higher energy charges and an increase in front line operational staff. Revenue from station commercial businesses increased by 8.5% to HK$2,579 million in the first half of 2015, mainly due to higher station shop rental rates as well as turnover rents. The related expenses were 9.3% higher at HK$247 million, mainly due to higher Government rent and rates. Property rental and management businesses recorded revenue of HK$2,255 million, up 11.3%, as our shopping mall portfolio achieved favourable rental reversion in the first half of 2015. An occupancy rate of close to 100% was achieved for our shopping malls and the office space at Two ifc. The related expenses increased by 7.9% to HK$357 million during the same period due also to higher Government rent and rates. Affected by adverse exchange rate movements, our Mainland of China and international subsidiaries recorded revenue of HK$6,181 million and expenses of HK$5,836 million, 2.7% and 1.5% lower than the first half of 2014, respectively. On a constant exchange rate basis and excluding the impact of marketing expenses incurred in the presale of our property development in Shenzhen, the revenue and expenses would have increased by 13.6% and 14.3%, respectively, with operating profit increasing by 3.2% against the same period last year. Other businesses in Hong Kong reported revenue of HK$1,048 million, up 6.0% against the first half of 2014, due to a higher level of project management work performed for Government, which is recognised on cost recovery basis, partly offset by lower revenue from Ngong Ping 360. The related expenses increased by 9.5% to HK$981 million, mainly due to a higher level of project management work for Government. Including project study and business development expenses of HK$95 million, the resulting operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment increased by 6.6% to HK$8,346 million, with operating margin increasing by 1.1 percentage points to 41.3%.

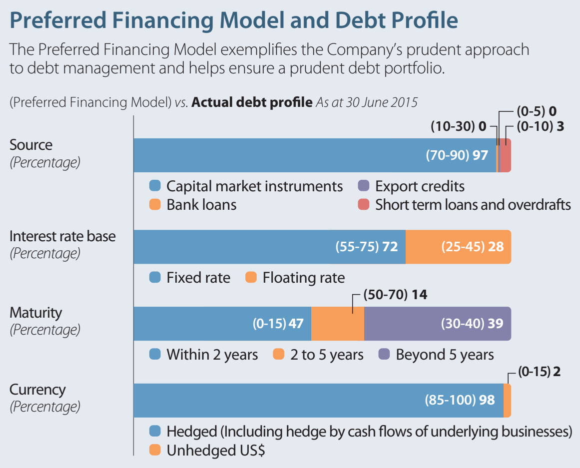
Hong Kong property development profit was HK$2,811 million in the first half of 2015, HK$2,566 million higher than the same period last year, and was derived mainly from profit recognition from the presale of Hemera. Depreciation and amortisation charges increased by 11.4% to HK$1,880 million, due to the additional depreciation of the construction costs of the Western extension of the Island Line. Variable annual payment to KCRC increased by 12.1% to HK$786 million as a higher portion of revenue is charged under the highest progressive rate of 35%. Operating profit before interest and tax therefore increased by 49.3% to HK$8,491 million.

Net interest and finance charges were HK$295 million in the first half of 2015, an increase from HK$274 million for the same period last year. Investment property revaluation gain amounted to HK$1,362 million. Our share of profit from Octopus Holdings Limited increased from HK$104 million to HK$117 million. Our share of result from other associates was HK$49 million, as compared to a profit of HK$25 million in the same period last year, and was mainly due to improvements in the results of Hangzhou MTR Corporation Limited and BJMTR.

Net profit attributable to shareholders, after deducting income tax of HK$1,446 million and profits shared by non-controlling interests of HK$89 million, increased by 3.5% to HK$8,189 million for the first half of 2015. Earnings per share therefore increased from HK$1.36 to HK$1.40. Excluding investment property revaluation, the underlying profit attributable to equity shareholders was HK$6,827 million for the first half of 2015, up 55.5% over the same period in 2014, with underlying earnings per share also increasing from HK$0.76 to HK$1.17. Underlying profit from our recurrent businesses grew by 7.9% to HK$4,516 million, while post-tax property development profits increased from HK$203 million to HK$2,311 million in the first half of 2015.

Our statement of financial position remains strong, as the Group's net assets increased by 2.4% from HK$163,482 million as at 31 December 2014 to HK$167,355 million as at 30 June 2015. Total assets increased by HK$10,886 million to HK$238,038 million as a result of investment property revaluation gains, capitalisation of further construction costs of the Island Line extension, South Island Line (East) and Kwun Tong Line Extension, as well as our property development-in-progress in respect of contribution paid for the Tai Wai Station property development project. Total liabilities have increased by HK$7,013 million since 31 December 2014 to HK$70,683 million as at 30 June 2015 as a result of the recognition of final dividends for 2014





payable to shareholders and sales proceeds received in advance in respect of Tiara in Shenzhen. The Group's net debt-to-equity ratio increased from 7.6% at 31 December 2014 to 9.1% at 30 June 2015.

Cash generated from operations, net of taxes paid and working capital movements was HK$9,074 million in the first half of 2015, an increase of 7.6% over the same period in 2014 mainly due to the increase in operating profit. Receipts from property developments of HK$2,440 million in the first half of 2015 were 33.0% lower than the same period last year, and mainly relate to proceeds from the Grand Austin in Hong Kong and Tiara in Shenzhen. Including the Shenzhen government subsidy for SZL4 of HK$653 million and other cash receipts of HK$386 million, net cash receipts decreased from HK$12,733 million in the first half of 2014 to HK$12,553 million in the first half of 2015. Total capital expenditure for railway operations paid during the first half of 2015 was HK$4,988 million, including HK$1,876 million for the purchase of assets for our Hong Kong transport operations' existing railways and related operations, HK$2,395 million for the construction of the Hong Kong railway extension projects, HK$555 million for SZL4 railway operations and HK$162 million for other overseas transport operations. For property related businesses, total capital expenditure paid was HK$8,069 million, including HK$7,717 million in respect of Hong Kong property development projects, mainly for contribution paid in relation to the Tai Wai Station property development project, HK$272 million for Shenzhen property development projects and HK$80 million for property renovation and fitting out works for our Hong Kong investment properties. The Group paid variable annual payment to KCRC amounting to HK$1,472 million. Taking into account cash investment into BJMTR and TJMTR totalling HK$161 million, net interest payment of HK$278 million, dividends to holders of non-controlling interests of HK$31 million and other payments, net cash payments increased from HK$8,233 million in the first half of 2014 to HK$15,149 million in the first half of 2015. After these items and net loan repayment of HK$1,944 million during the first half of 2015, the Group's cash balance decreased from HK$18,893 million at 31 December 2014 to HK$14,353 million at 30 June 2015.

Financing Activities

US Treasury yields fell sharply in January 2015, along with European sovereign bond yields, as the Greek debt crisis intensified and the European Central Bank announced a sizeable quantitative easing programme to boost the Eurozone economies. Following this, US Treasury yields moved higher, as the US economy continued to improve and expectation increased for the Federal Reserve to raise the federal funds rate before end of 2015.

10-year and 30-year Treasury yields rose from 2.17% p.a. and 2.75% p.a. at the end of 2014 to 2.35% p.a. and 3.12% p.a. on 30 June respectively, while the 3-month USD-LIBOR rate rose slightly from 0.26% p.a. to 0.28% p.a. During the same period, the 10-year HK dollar swap rate declined from 2.25% p.a. to 2.20% p.a. while the 3-month HKD-HIBOR rate rose from 0.38% p.a. to 0.39% p.a.

Taking advantage of the drop in long-term interest rates in January 2015, the Group issued its debut 40-year note in HK dollars. With a low coupon rate of 3.15%, the HK$500 million note issued via private placement helped further lengthen and diversify the Group's debt maturity profile whilst locking in attractive long-term fixed-rate funding.

At the end of June 2015 the Group had total cash and bank deposits of HK$14,353 million and total undrawn committed banking facilities of HK$7,670 million. At the Company level, total cash and bank deposits was HK$11,881 million, which together with total undrawn committed banking facilities of HK$5,900 million, should provide very comfortable forward coverage of our funding needs well into 2016.

At the end of June 2015, 72% of the Company's total debt outstanding was at a fixed rate, with the remaining 28% at a floating rate, indicating modest exposure to interest rate risk. 47% of total debt outstanding had a maturity of less than 2 years, 14% between 2 and 5 years, and 39% beyond 5 years, reflecting modest refinancing risk. Foreign exchange rate risk was well managed, with 98% of debt outstanding either denominated in or hedged into HK dollars, or hedged by foreign currency cash flows from underlying business. The remaining balance of 2% was in US dollars.

During the period, the Company's weighted average borrowing cost decreased slightly to 2.9% p.a. from 3.0% p.a. during the same period last year, mainly due to the higher proportion of floating rate funding. At the Group level, the weighted average borrowing cost decreased slightly to 3.6% p.a. from 3.7% p.a. mainly due to lower interest expense from project loans in the Mainland of China because of the reduction in the People's Bank of China reference lending rates.

The Company's credit ratings remained strong and on a par with those of the Hong Kong SAR Government, with Moody's Investors Service affirming the Group's issuer and senior unsecured debt ratings at "Aa1" and short term rating at "P-1" with a stable outlook in June 2015.

Human Resources

The Company, together with its controlled subsidiaries, employed 16,864 people in Hong Kong and 8,047 outside of Hong Kong as at 30 June 2015. During the first six months of 2015, 784 new staff members were recruited and 657 people were promoted internally, while staff turnover remained low, at 4.1%, in Hong Kong.

Developing an engaged and collaborative workforce is crucial for strengthening our core businesses and helping us serve the community. To achieve this goal, MTR has a variety of recruitment, training, leadership development, motivational and communications programmes designed to attract and retain talented people at all levels.

Various manpower resourcing initiatives were launched, including intensive recruitment activities and new advertising channels for a more targeted recruitment of job seekers and high calibre graduates. We also recognise the importance of personal development in support of the Company's business success. In the first half of 2015, 3,546 courses were held, providing 3.3 training days per Hong Kong employee, in addition to courses overseas. Cross-functional and geographical job rotations, mentoring by executives and senior managers, as well as experiential learning and study trips were also provided. Our achievements in training and development were recognised by the awards received for the MTR Apprenticeship Scheme and " 'Train' for Life's Journeys" programme in the "Association for Talent Development Excellence in Practice Award 2014".

Forming part of our continuous learning and improvement culture, MTR's Work Improvement Team ("WIT") programme has enabled us to share best practices across the Company for more than 26 years. To reinforce the WIT culture across our businesses worldwide, a Global WIT Conference was held in June 2015 in Hong Kong with participants from our operations in Hong Kong, Shenzhen, Hangzhou, Beijing, Melbourne, London and Stockholm.

Community Engagement

We make every effort to engage with our communities and consider their needs, both in the course of our day-to-day operations and in relation to the construction of new railway lines and property projects.

Open communication channels such as the customer service hotline, suggestion forms at stations, online feedback via our website, "Voice of Customers" surveys and radio phone in programmes, all help to ensure we stay abreast of public concerns so as to react quickly to changing needs. For the Western extension of the Island Line, "Welcome Your Opinion" sessions were held in February 2015 at HKU and Kennedy Town stations to build a stronger bond with the community, while the project working group has continued to manage and monitor issues. A well-attended Open Day was held at Sai Ying Pun Station on 21 March 2015 for local residents to familiarise themselves with the station layout and facilities. The "MTR Society Link" programme, aimed at engaging a wide range of stakeholders and exploring opportunities for continuous improvement in building community-friendly facilities, received an "Outstanding Award for Social Inclusion" under the Caring Company Scheme organised by the Hong Kong Council of Social Service. This was in recognition of its efforts to promote corporate social responsibility through commitment to care for the community.

In our property business, we aim to create value for our business and the community. Following extensive dialogue with local residents and the District Council, the new facilities in the Maritime Square Extension development in Tsing Yi will address many of the suggestions raised by the local community. MTR Malls supported a wide variety of activities, from youth development to art, community service, charitable and environmental protection activities in the first half of 2015.

To facilitate two-way dialogue with the wider community during the delivery of our network expansion projects, we have established Community Liaison Groups that hold meetings with local residents, District Council members and representatives from Government. Community and Government relations activities and site visits were also held. Stakeholders have been invited to attend meetings and access up-to-date progress information throughout project delivery, using our project hotlines and information centres.

Outlook

Looking ahead to the second half of 2015, in Hong Kong, further economic growth as well as the full year effect of the opening of the Western extension of the Island Line will drive continued growth in patronage in our transport business. Results of our station retail and property rental businesses are affected by rental renewals and reversions, which will depend on market conditions. In our recurrent businesses outside of Hong Kong, results may be impacted by currency movements.

In our property development business, in Hong Kong we have no MTR project subject to presale in the second half and hence development profits, if any, may only come from sundry sources such as the sale of units in inventory. In Shenzhen, presale will continue at Tiara, although profit booking will only take place when the sold units are handed over to buyers.

In our property tendering activities, subject to market conditions, we aim to tender out two or three more packages at LOHAS Park, for a total number of about 4,300 residential units, over the next six months or so.

There have been some changes to the Executive Directorate with Mr Morris Cheung, formerly Human Resources Director, taking up a role as European Business Director with effect from 15 June 2015. Mr Daniel Shim has taken over as Acting Human Resources Director and the recruitment of a Human Resources Director is underway. Ms Linda So will join MTR as Corporate Affairs Director in September 2015.

I am honoured to have been appointed by the Board as Chief Executive Officer in March 2015 and look forward to working with all our stakeholders to take MTR forward. I wish to thank Board Members for their wise counsel and, importantly, the hard working women and men of MTR for their dedication and support.

Lincoln Leong Kwok-kuen, *Chief Executive Officer*
Hong Kong, 13 August 2015