

# Sharing Journeys Delivering Growth

Interim Report 2015





# Highlights

## Financial

- Total revenue increased 3.8% to HK\$20,210 million; revenue excluding the Mainland of China and international subsidiaries increased 6.9% to HK\$14,029 million
- Post-tax underlying profit
 

– Recurrent business profit	HK\$4,516 million	up 7.9%
– Property development profit	HK\$2,311 million	up HK\$2,108 million
	HK\$6,827 million	up 55.5%
- Property development profit comprised mainly profit from Hemera (LOHAS Park Package 3) with all 1,648 residential units sold
- Earnings per share on underlying profit attributable to shareholders were HK\$1.17
- Net profit attributable to shareholders after investment property revaluation increased 3.5% to HK\$8,189 million
- Net assets increased 2.4% to HK\$167,355 million; net debt-to-equity ratio at 9.1%
- Interim dividend of HK\$0.25 per share declared (with scrip dividend option)

## Hong Kong Transport Operations

- On-time performance maintained at 99.9%
- Patronage from Hong Kong transport operations increased 4.4% to 949.4 million
- Sai Ying Pun Station on the Western extension of the Island Line commenced service in March 2015
- HK\$3.3 billion contract awarded to replace the signalling system and HK\$6 billion contract awarded to replace all of the 93 first-generation 8-car trains operating in the urban areas

## Hong Kong Property and Other Businesses

- Tenders for Tin Wing Stop site and LOHAS Park Packages 6 and 7 and Yuen Long Station site (where the Company acts as agent) were awarded

## Mainland of China and International Businesses

- MTR Express commenced passenger services in Sweden in March 2015
- MTR Crossrail started to operate the first phase of the London Crossrail services in May 2015
- Beijing MTR Corporation Limited initialled the Concession Agreement for Beijing Metro Line 16
- Presale of Tiara in Shenzhen was well received with over 99% of 708 units sold in the first two batches launched

## Hong Kong Network Expansion

- For the Express Rail Link, as project manager, the Company 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
- 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)
- For the Kwun Tong Line Extension, 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)



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# Hong Kong Operating Network with Future Extensions

## Legend

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

## Existing Network

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

## Projects in Progress

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

## Potential Future Extensions

- North Island Line
- Northern Link
- South Island Line (West)
- Extension to Central South

## Properties Owned / Developed / Managed by the Corporation

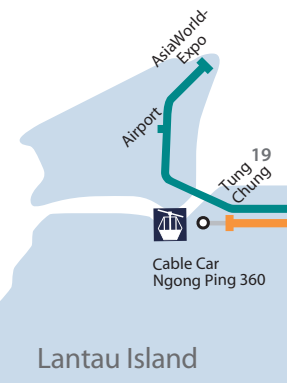
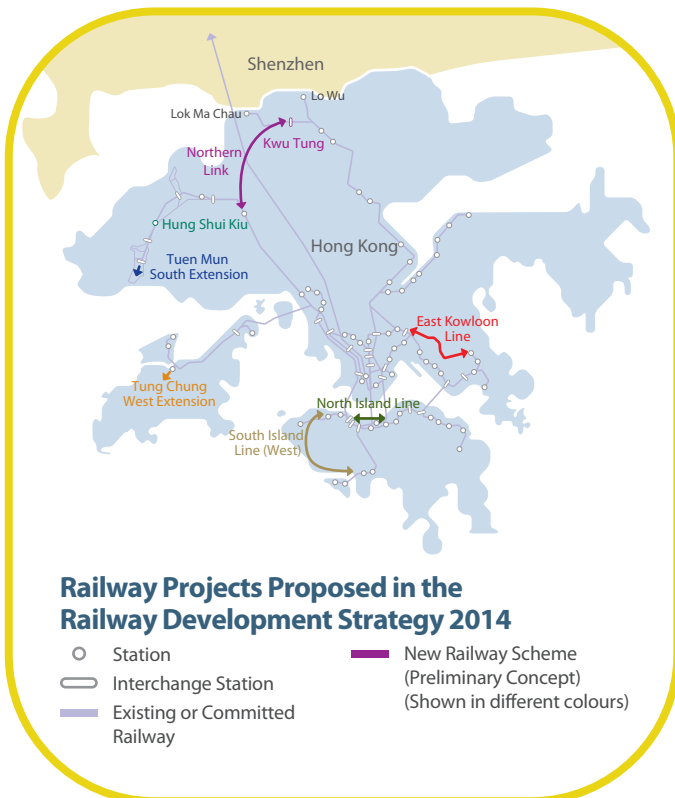
- 01 Telford Gardens / Telford Plaza I and II
- 02 World-wide House
- 03 Admiralty Centre
- 04 Argyle Centre
- 05 Luk Yeung Sun Chuen / Luk Yeung Galleria
- 06 New Kwai Fong Gardens
- 07 Sun Kwai Hing Gardens
- 08 Fairmont House
- 09 Kornhill / Kornhill Gardens
- 10 Fortress Metro Towers
- 11 Hongway Garden / Infinitus Plaza
- 12 Perfect Mount Gardens
- 13 New Jade Garden
- 14 Southorn Garden
- 15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall
- 16 Park Towers
- 17 Felicity Garden
- 18 Tierra Verde / Maritime Square
- 19 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Coastal Skyline / Caribbean Coast
- 20 Central Park / Island Harbourview / Park Avenue / Harbour Green / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two
- 21 The Waterfront / Sorrento / The Harbourside / The Arch / Elements / The Cullinan / The Harbourview Place / W Hong Kong / International Commerce Centre / The Ritz-Carlton, Hong Kong
- 22 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place
- 23 Central Heights / The Grandiose / The Wings / PopCorn 1 / PopCorn 2 / Crowne Plaza Hong Kong Kowloon East / Holiday Inn Express Hong Kong Kowloon East / Vega Suites
- 24 Residence Oasis / The Lane
- 25 No.8 Clear Water Bay Road / Choi Hung Park & Ride
- 26 Metro Town
- 27 Royal Ascot / Plaza Ascot
- 28 Ocean Walk
- 29 Sun Tuen Mun Centre / Sun Tuen Mun Shopping Centre
- 30 Hanford Garden / Hanford Plaza
- 31 Citylink Plaza
- 32 MTR Hung Hom Building / Hung Hom Station Carpark
- 33 Trackside Villas
- 34 The Capitol / Le Prestige / Le Prime / La Splendeur / Hemera
- 35 The Palazzo
- 36 Lake Silver
- 37 Festival City
- 38 The Riverpark
- 39 Century Gateway / Century Gateway II
- 42 The Austin / Grand Austin
- 45 City Point

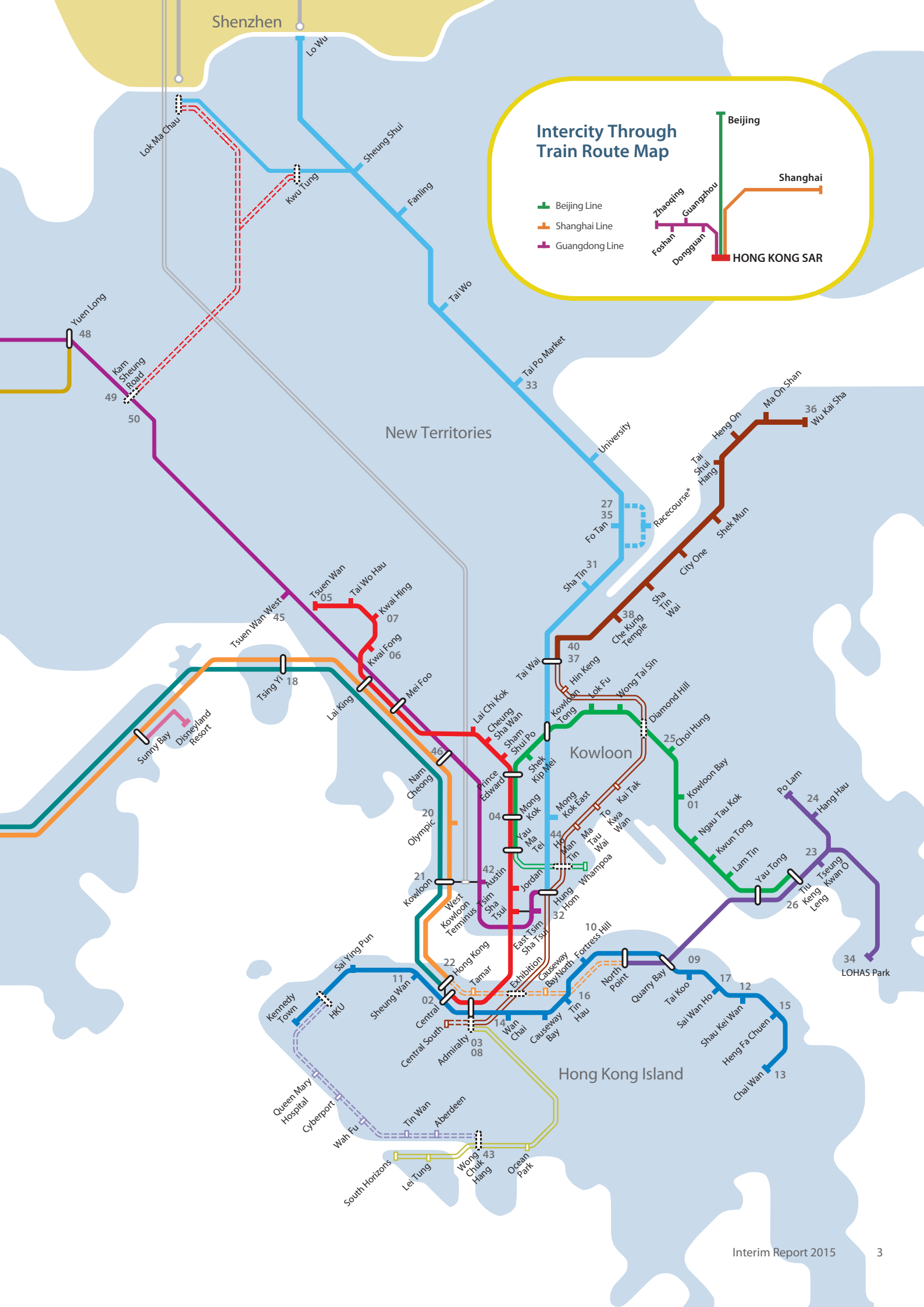
## Property Developments Under Construction / Planning

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

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

- 39 Century Gateway / Century Gateway II
- 45 Tsuen Wan West Station (TW5) Bayside / Tsuen Wan West Station (TW5) Cityside / Tsuen Wan West Station (TW6) / City Point
- 46 Nam Cheong Station
- 47 Long Ping Station (North) / Long Ping Station (South)
- 48 Yuen Long Station
- 49 Kam Sheung Road Station
- 50 Pat Heung Maintenance Centre





# Chairman's Letter

To succeed as a truly sustainable business, we must operate responsibly – balancing the current and future needs of our stakeholders and embedding the sustainable thinking that is integral to the Company's long-term success throughout our businesses.



## Dear Shareholders and other Stakeholders,

The first half of 2015 saw steady growth in our businesses in Hong Kong and further progress in our growth initiatives in the Mainland of China and overseas. Our transport operations in Hong Kong continue to deliver world leading standards of service whilst our station commercial and property rental businesses leveraged off economic growth in Hong Kong. Solid demand for primary residential properties in Hong Kong led to strong sales of the Hemera development (LOHAS Park Package 3) and the successful tender of further property development packages.

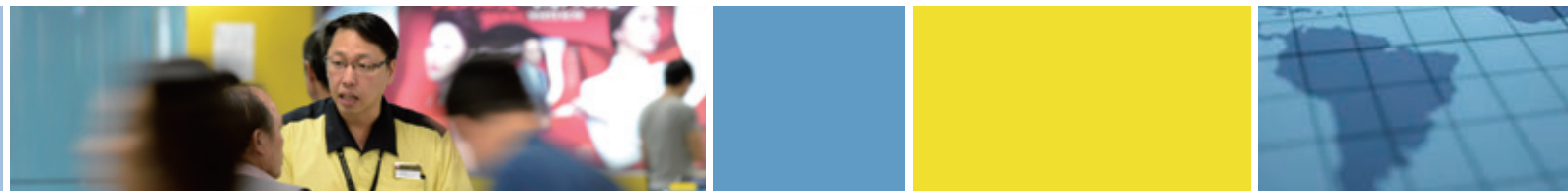
The opening of Sai Ying Pun Station on the Western extension of the Island Line on 29 March marked the final station to come into service on this extension, which has been warmly welcomed by residents and passengers. The remaining four new rail extension projects in Hong Kong continued to make progress over the period, although both existing and new challenges in construction have necessitated further revisions of completion timetables and/or project costs estimates. The Board of the Company and various Board Committees, particularly the Capital Works Committee, together with the management team, are intensely focused on managing project timelines and costs. Our enhanced governance framework for these projects is critical in ensuring the delivery of the new lines for the people of Hong Kong.

Outside Hong Kong, we are engaged in the construction of new rail lines in Beijing and Sydney, while in the UK we started the new Crossrail service and in Sweden, the Stockholm/Gothenburg intercity service. In Shenzhen, presale of Tiara, our first property development in the Mainland of China, met with enthusiastic demand.

Our financial results for the first six months of 2015 reflect the steady growth of our businesses. Recurrent profit after tax, being underlying profit before property development profit and investment property revaluation attributable to equity shareholders, increased by 7.9% over the same period last year to HK\$4,516 million. With post-tax property development profit of HK\$2,311 million, underlying profit before investment property revaluation rose by 55.5% to HK\$6,827 million. Including the revaluation of our investment properties, the net profit attributable to shareholders was HK\$8,189 million, representing earnings per share, after such revaluation, of HK\$1.40. Your Board has declared an interim dividend of HK\$0.25 per share.

## Building Value for the Long Term

Our public transport expertise has enabled us to move into rail and related sectors outside of Hong Kong, supporting our long-term vision of being a leading multinational company, while continuing to enhance our core Hong Kong businesses.



In Hong Kong, on an annual basis, we spend over HK\$6 billion on maintaining and renewing our rail assets in order to maintain our world leading standards of service. In addition, we have recently committed about HK\$10 billion to replace both the signalling system and 93 8-car trains currently serving on MTR lines in the urban area.

With progress made in our extension projects and with our network growing, we play a critical role in bringing communities together and making railway the backbone of Hong Kong transportation. We will continue to support Government in the delivery of new railways for the community.

We are expanding our shopping centre portfolio in Hong Kong through new additions in Tai Wai and LOHAS Park and through the enhancement of our existing malls Maritime Square and Telford Plaza, adding about 120,620 square metres (gross floor area) of retail space, an increase of approximately 40% in the attributable gross floor area of our existing retail portfolio. We will continue to tender property development packages in Hong Kong and are also exploring opportunities for other possible development sites along our railway lines.

We continue to enjoy strong business momentum in the Mainland of China, Australia, the UK and Sweden. New opportunities being pursued in these countries include an additional rail line in Beijing (Beijing Metro Line 16) as well as bids for the re-franchising of London Overground in the UK and the Pendeltåg operation and maintenance concession in Sweden.

### Corporate Responsibility

To succeed as a truly sustainable business, we must operate responsibly – balancing the current and future needs of our stakeholders and embedding the sustainable thinking that is integral to the Company's long-term success throughout our businesses.

We believe that good corporate governance is fundamental in ensuring that the Company is well managed in the interest of all of its stakeholders. Good corporate governance enables us to act in a responsible manner, but also allows us to be more resilient, so that we can be better prepared for future

challenges. To enhance governance, over the last 12 months the Board has added both the Capital Works Committee and the Risk Committee.

Our approach involves operating responsibly, by providing a safe environment for all of our users, by effectively meeting or exceeding customers' expectations, by retaining and developing our staff, by managing our impact on the environment, by working with our suppliers and partners and, more importantly, by contributing positively to the communities in which we operate. Underpinning this approach is our sustainable financial model, allowing us to provide reasonable returns to capital providers, while being a responsible enterprise that builds and connects communities with caring service. For the past 15 years, as a pioneer in sustainability disclosure, we have provided a detailed account of our approach and performance in these areas through our annual Sustainability Report. In May, we published our Sustainability Report 2014 with a new, user-friendly format both in print and online.

### Operating Responsibly

Our well-trained and dedicated staff consistently ensure that train service performance is at world class levels. In the first six months of 2015, we saw improved safety performance, particularly on our Hong Kong Heavy Rail network, a testament to our uncompromising "Safety First" culture. Train service delivery and passenger journeys on-time in our Heavy Rail network were maintained at 99.9%, with only five delays lasting 31 minutes or more attributable to factors within MTR's control. This is world leading performance.

In the first half of 2015, as part of our Listening • Responding programme, we continued to upgrade and improve the transport network in Hong Kong to meet the growing needs of our customers by, among other things, improving train frequencies, enhancing accessibility and convenience with street-level lifts and public toilets, and improving passenger information display systems to enable enhanced communication. On fares, we currently offer an annual HK\$2.2 billion in promotions and concessions, which benefit passengers such as children, students, the elderly and frequent travellers. For 2015/16, we are adding a package of further fare promotions totalling over HK\$500 million.

# Chairman's Letter

In relation to our staff, we continued our recruitment efforts at every level in Hong Kong through more walk-in recruitment days and job fairs in MTR stations in the first half of this year. With our growing portfolio of operations outside of Hong Kong, in March, we established a Global Mobility Policy to facilitate global resource deployment and provide consistent relocation terms across global offices.

Our aim is to become one of the most resource-efficient and ecologically sustainable railway and property service companies in the world.

In our rail services, electrically-powered mass railway is generally acknowledged to be the most environmentally sustainable way to transport the world's growing and urbanising populations. We believe that our most significant contribution to the environment arises from the impacts that do not occur as a result of our services. For example, in the cities in which we operate, the provision of efficient mass railway services leads to cleaner air, less congested roads and makes better use of limited land resources than would be the case if passengers used other modes of transport.

In general, our environmental efforts are focused on implementing energy efficiency measures, applying environmental management systems across all of our operations and executing specific initiatives where we can make a difference such as the "MTR Malls Food Waste Reduction Pledge" incentive scheme which has successfully led to the introduction of food waste reduction practices on the part of our retail tenants.

We work closely with our suppliers and partners to achieve our shared objectives of quality, effectiveness and a commitment to corporate responsibility. We continue to uphold the requirements under our Supplier Code of Practice with our suppliers which provides a basic, compulsory behavioural framework for ethical standards, human and labour rights, and supply chain management.

## Contributing to the Community

### Youth

In its sixth year, our mentoring and life skills training programme – "Friend' for Life's Journeys", matched about 120 secondary school students from the Kwun Tong District with the Company's younger staff members who serve as mentors or "MTR Friends" to inspire and guide the students over an eight-month period. Graduates from tertiary institutions who had previously taken part in MTR's Customer Service Ambassadors Scheme also joined in to serve as "MTR Friends". In July 2015, we kicked off the

seventh year of "Train' for life's journeys", a programme that provides around 100 secondary school students with workshops and work experience at the Company during the summer break. This year, the programme won The Association for Talent Development "Excellence in Practice" award out of 125 entries from around the world.

### Arts

MTR's art journey continues to move forward with new and exciting developments through the "art in mtr" initiative.

Around ten major art exhibitions are planned for 2015. In support of Hong Kong Arts Month, our "art in mtr – arttube" gallery in Central Station showcased the work of contemporary Hong Kong artists in an exhibition organised by the Hong Kong Tourism Board. The exhibition displayed paintings, sculptures and installations of 11 acclaimed artists from the Jockey Club Creative Arts Centre, which explored life and art through innovative perspectives. We also organised live performances by the Hong Kong Chinese Orchestra and the Hong Kong Dance Company at the "living art" platform in Hong Kong Station.

### Supporting our communities

This year marks the tenth Anniversary of the "More Time Reaching Community" programme, our scheme to support volunteering activities initiated by our employees. In the first half of this year, the scheme has fostered 117 initiatives involving more than 2,100 volunteers. Alongside this, more than HK\$156,000 was raised for charities such as the Community Chest through staff donations during the period. The MTR HONG KONG Race Walking, an annual charity event to raise funds for the Hospital Authority Health InfoWorld, will be held on 13 September 2015.

## Recognition for Corporate Responsibility

Our efforts to balance the needs of our diverse stakeholder community received recognition both at home and abroad.

We are constituents of relevant investor indexes, including the Dow Jones Sustainability Index Asia Pacific, the FTSE4Good Index Series and the Hang Seng Corporate Sustainability Index.

We also received the "10 Years Plus Caring Company Logo" recognition this year and, in the first half of 2015, we gained a number of other awards and certifications for our corporate responsibility practices, including the "Corporate Responsibility Award" in the "Hong Kong Service Awards 2015" for the eighth year in a row from East Week magazine.



## Board Changes

I would like to take this opportunity to formally welcome Mr Lincoln Leong to the post of Chief Executive Officer (“CEO”) of the Company, which he took up on 16 March 2015, following seven months as Acting CEO. As our first “home-grown” CEO, Lincoln is taking on this important role at a critical time and I am sure that his wealth of experience will enable him to lead the Company to even greater success. I likewise welcome to the Board Mr Hon Chi-keung, who took over the post of Permanent Secretary for Development (Works) on 7 April 2015 from Mr Wai Chi-sing, whom I thank for his valuable contribution; and welcome Mr Lau Ping-cheung, Kaizer and Dr Allan Wong Chi-yun who joined the Board as Independent Non-executive Directors of the Company on 11 August 2015. I would also like to thank Mr T. Brian Stevenson, who retired as an Independent Non-executive Director of the Company on 20 May 2015, and Ms Christine Fang Meng-sang, who resigned as an Independent Non-executive Director of the Company with effect from 11 August 2015, for their contributions to the Company. Mr Stevenson provided a valuable contribution as Chairman of the Company’s Audit Committee for many years and Ms Fang was instrumental in guiding the Company’s approach to corporate responsibility.

After having served as Chairman of the Board for over 12 years, I will retire from the Board on 31 December 2015, when my current term ends. Over the years since I joined the Company’s Board, it has been an exciting journey to witness the numerous milestones that the Company has achieved. I would like to congratulate Professor Frederick Ma Si-hang on his appointment as the future Chairman of the Board, effective from 1 January 2016. Professor Ma joined the Board as an Independent Non-executive Director in July 2013, having been previously a Non-executive Director from 2002 to 2007 in his role, at that time, as the Secretary for Financial Services and the Treasury. I am confident that the Company will continue to reach new heights under Professor Ma’s leadership and I wish him all the very best in his new role.

Finally, I wish to thank my fellow directors for their support, as well as all of our staff members, whose ceaseless dedication in carrying out their roles effectively underlies MTR Corporation’s ability to deliver excellent service to all our customers around the world year after year.



Dr Raymond Ch’ien Kuo-fung, *Chairman*  
Hong Kong, 13 August 2015

# CEO's Review of Operations and Outlook

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).

## CEO's Review of Operations and Outlook

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

# CEO's Review of Operations and Outlook

## Operations Performance in the first half of 2015

Service performance item	Performance Requirement	Customer Service Pledge Target	Actual Performance
<b>Train service delivery</b>			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	<b>99.9%</b>
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	<b>99.9%</b>
– West Rail Line	98.5%	99.5%	<b>99.9%</b>
– Light Rail	98.5%	99.5%	<b>99.9%</b>
<b>Passenger journeys on-time</b>			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	<b>99.9%</b>
– Airport Express	98.5%	99.0%	<b>99.9%</b>
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	<b>99.9%</b>
– West Rail Line	98.5%	99.0%	<b>99.9%</b>
<b>Train punctuality</b>			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	<b>99.8%</b>
– Airport Express	98.0%	99.0%	<b>99.9%</b>
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	<b>99.9%</b>
– West Rail Line	98.0%	99.0%	<b>99.9%</b>
– Light Rail	98.0%	99.0%	<b>99.9%</b>
<b>Train reliability: train car-km per train failure causing delays ≥5 minutes</b>			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	650,000	<b>2,322,457</b>
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	650,000	<b>7,145,009</b>
<b>Ticket reliability: Smart ticket transactions per ticket failure</b>			
– 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	<b>22,246</b>
<b>Add value machine reliability</b>			
– 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%	<b>99.8%</b>
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	<b>99.8%</b>
– West Rail Line	98.0%	99.0%	<b>99.9%</b>
– Light Rail	N/A	99.0%	<b>99.7%</b>
<b>Ticket machine reliability</b>			
– 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%	<b>99.7%</b>
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	<b>99.7%</b>
– West Rail Line	97.0%	99.0%	<b>99.8%</b>
– Light Rail	N/A	99.0%	<b>99.9%</b>
<b>Ticket gate reliability</b>			
– 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%	<b>99.9%</b>
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	<b>99.9%</b>
– West Rail Line	97.0%	99.0%	<b>99.9%</b>
– Light Rail	N/A	99.0%	<b>99.9%</b>
<b>Light Rail platform Octopus processor reliability</b>			
<b>Escalator reliability</b>			
– 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%	<b>99.9%</b>
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	<b>99.9%</b>
– West Rail Line	98.0%	99.0%	<b>99.9%</b>
<b>Passenger lift reliability</b>			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	<b>99.8%</b>
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	<b>99.8%</b>
– West Rail Line	98.5%	99.5%	<b>99.9%</b>
<b>Temperature and ventilation</b>			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.5%	<b>99.9%</b>
– Light Rail: on-train air-conditioning failures per month	N/A	<3	<b>0</b>
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	91.0%	<b>99.9%</b>
<b>Cleanliness</b>			
– Train compartment: cleaned daily	N/A	99.0%	<b>99.9%</b>
– Train exterior: washed every 2 days (on average)	N/A	99.0%	<b>100.0%</b>
<b>Northwest Transit Service Area Bus Service</b>			
– Service Delivery	N/A	99.0%	<b>99.8%</b>
– Cleanliness: washed daily	N/A	99.0%	<b>100.0%</b>
<b>Passenger enquiry response time within 6 working days</b>	N/A	99.0%	<b>100.0%</b>

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 11<sup>th</sup> 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 117<sup>th</sup> Canton Fair and the Official Rail of the 29<sup>th</sup> 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.

# CEO's Review of Operations and Outlook

## 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

# CEO's Review of Operations and Outlook

## Property Development Packages Completed during the period and Awarded

Location	Developers	Type	Gross floor area (sq. m.)	Period of package tenders	Expected completion date
<b>LOHAS Park Station</b>					
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
<b>Tai Wai Station</b>					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	Awarded in October 2014	2022
<b>Tin Wing Stop</b>					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	Awarded in February 2015	2021
<b>Nam Cheong Station<sup>#</sup></b>					
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
<b>Long Ping Station<sup>#</sup></b>					
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
<b>Tsuen Wan West Station<sup>#</sup></b>					
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
<b>Yuen Long Station<sup>#</sup></b>					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535 <sup>^</sup>	Awarded in August 2015	2022

# as a development agent for the relevant subsidiaries of KCRC

\* excluding a bicycle park with cycle track

<sup>^</sup> including a 24-hour pedestrian walkway and a covered landscape plaza

## Property Development Packages to be Awarded <sup>Notes 1 and 2</sup>

Location	Type	Gross floor area (sq. m.)	Period of package tenders	Expected completion date
<b>LOHAS Park Station</b>	Residential	About 600,000		
<b>Wong Chuk Hang Station</b>	Residential Retail	357,500 47,000	2015 – 2020	2020 – 2024
<b>Ho Man Tin Station</b>	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 "2<sup>nd</sup> 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 BJL4 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

# CEO's Review of Operations and Outlook

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.

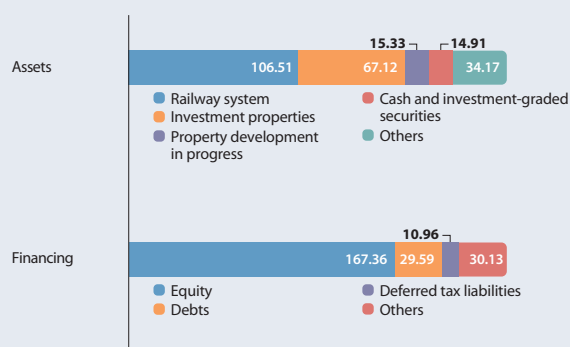
Net interest and finance charges were HK\$295 million in the first half of 2015, an increase from HK\$274 million for the same period last year. Investment property revaluation gain amounted to HK\$1,362 million. Our share of profit from Octopus Holdings Limited increased from HK\$104 million to HK\$117 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

## Simplified Consolidated Statement of Financial Position

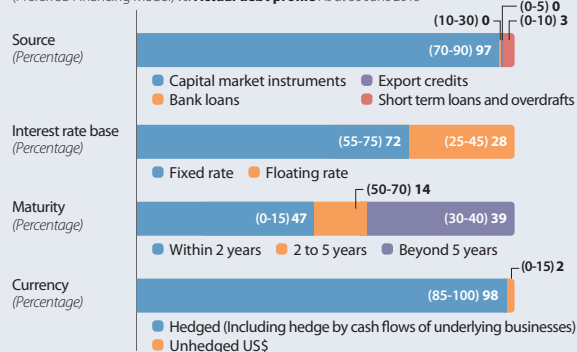
As at 30 June 2015  
(HK\$ billion)



## Preferred Financing Model and Debt Profile

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

(Preferred Financing Model) vs. **Actual debt profile** As at 30 June 2015



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.

# CEO's Review of Operations and Outlook

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

# Key Figures

	Half year ended 30 June 2015	Half year ended 30 June 2014	% Increase/ (Decrease)
<b>Financial highlights (HK\$ million)</b>			
Revenue			
– Hong Kong transport operations	8,147	7,729	5.4
– Hong Kong station commercial businesses	2,579	2,377	8.5
– Hong Kong property rental and management businesses	2,255	2,026	11.3
– Mainland of China and international subsidiaries	6,181	6,350	(2.7)
– Other businesses	1,048	989	6.0
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	8,346	7,831	6.6
Profit on Hong Kong property development	2,811	245	1,047.3
Operating profit before depreciation, amortisation and variable annual payment	11,157	8,076	38.2
Profit attributable to equity shareholders arising from underlying businesses	6,827	4,389	55.5
Total assets	238,038	227,152 <sup>^</sup>	4.8
Loans, other obligations and bank overdrafts	18,885	20,507 <sup>^</sup>	(7.9)
Obligations under service concession	10,590	10,614 <sup>^</sup>	(0.2)
Total equity attributable to equity shareholders	167,152	163,325 <sup>^</sup>	2.3
<b>Financial ratios</b>			
Operating margin (%)	41.3	40.2	1.1% pts.
Operating margin (excluding Mainland of China and international subsidiaries) (%)	57.0	56.4	0.6% pt.
Net debt-to-equity ratio* (%)	9.1	7.6 <sup>^</sup>	1.5% pts.
Interest cover (times)	16.6	12.4	4.2 times
<b>Share information</b>			
Basic earnings per share (HK\$)	1.40	1.36	2.9
Basic earnings per share arising from underlying businesses (HK\$)	1.17	0.76	54.6
Dividend per share (HK\$)	0.25	0.25	–
Share price at 30 June (HK\$)	36.10	29.85	20.9
Market capitalisation at 30 June (HK\$ million)	210,883	173,166	21.8
<b>Operations highlights</b>			
Total passenger boardings in Hong Kong (million)			
– Domestic Service	772.5	736.5	4.9
– Cross-boundary Service	56.2	54.5	3.2
– Airport Express	7.6	7.1	6.3
– Light Rail and Bus	111.1	109.2	1.7
Average number of passengers (thousand)			
– Domestic Service (weekday)	4,534	4,329	4.7
– Cross-boundary Service (daily)	310.7	301.1	3.2
– Airport Express (daily)	41.9	39.4	6.3
– Light Rail and Bus (weekday)	632.3	621.1	1.8
Fare revenue per passenger (HK\$)			
– Domestic Service	7.36	7.30	0.8
– Cross-boundary Service	27.29	26.77	2.0
– Airport Express	60.59	61.67	(1.7)
– Light Rail and Bus	2.92	2.82	3.5
Proportion of franchised public transport boardings (January to May) (%)	48.5	47.0	1.5% pts.

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

<sup>^</sup> Figures as at 31 December 2014

# Corporate Governance and Other Information

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 months' period ended 30 June 2015, the Company has complied with the Code Provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## Risk Management

The Company has taken positive steps to enhance its corporate governance framework to prepare for compliance with the new requirements introduced by The Stock Exchange of Hong Kong Limited ("HKSE") in the Corporate Governance Code following its consultation conclusions regarding risk management and internal control, which will come into effect for accounting periods beginning on or after 1 January 2016.

The Board has strengthened its oversight in respect of the Company's risk profile through the Risk Committee, which is chaired by an Independent Non-executive Director ("INED") of the Company and made up of INEDs in majority. The Risk Committee is mandated by the Board to review the Company's Enterprise Risk Management ("ERM") framework effectiveness, top risks and emerging risks, to commission "deep dive" reviews on key risk areas

(as needed), as well as to review the Company's crisis management arrangements. During the six months' period ended 30 June 2015, the Risk Committee held two meetings. In addition to reviewing the effectiveness of the ERM framework of the Company (including ERM implementation in subsidiaries and affiliates), the Company's risk profile and key emerging risks, the Risk Committee also conducted "deep dive" reviews in the areas of operations safety relating to both heavy rail and light rail, human resources and energy cost optimisation.

The Board and the Risk Committee are supported by the Enterprise Risk Committee, which has accountability for the ERM framework, and is responsible for steering the implementation and enhancement of the framework and reviewing the top risks and key emerging risks with quarterly reports to the Executive Committee and the Risk Committee, and half-yearly reports to the Board.

The Company manages the risks arising from its businesses in a proactive manner. Key risks being managed in the first half of 2015 include new railway projects programme delay and cost overrun, and projects work potentially affecting railway services.

In light of the continued challenges faced by the Company's major new railway projects, the Company has completed its review of the project programme and cost estimates of all its projects except for the Shatin to Central Link. The review of the Shatin to Central Link will be completed in early 2016. For the two concession projects entrusted by Government, namely, the Express Rail Link and the Shatin to Central Link projects, the availability of additional funding is critical for continuation of the projects.

# Corporate Governance and Other Information

As the major new railway projects progress, there will be more interfacing works with a potential impact on the operating railway. This risk is being managed through strengthened collaboration between the Operations and the Projects teams, including in relation to the implementation of risk control measures, and surveillance and monitoring arrangements before commencement of the relevant work.

In the first half of 2015, a number of initiatives aiming to further enhance staff's risk management capability were launched, including the roll-out of a computer-based ERM training programme for all newly promoted or recruited managers and a series of ERM workshops attended by over 110 department heads and senior managers at which the participants discussed risks relating to the Company's businesses and shared ideas in raising risk awareness.

## 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 enhance transparency and operate 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 the law. As mentioned in the Company's Annual Report for 2014, a comprehensive review of the Code of Conduct was carried out in 2014 and the revised version was released to staff in June 2015. Promotional events and education programmes are in place to raise staff awareness. Staff members are also encouraged to report existing or perceived violations and malpractices. Proper procedures have already been

put in place pursuant to the Whistle-blowing policy of the Company, under which staff members can raise their concerns in a safe environment and in complete confidence if they have genuine suspicions about wrongdoings.

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

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

## Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules ("Model Code"). After having made specific enquiry, the Company confirms that Members of the Board and the Executive Directorate complied throughout the six months' period ended 30 June 2015 with the Model Code.

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

In addition, every employee is bound by the Code of Conduct issued by the Company to keep unpublished price sensitive and Inside Information (as defined in the SFO) of the Company in strict confidence.



## 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 13 August 2015)

	Board Committees						
	Executive* Committee	Audit Committee	Nominations Committee	Remuneration Committee	Capital Works Committee	Risk Committee	Corporate Responsibility Committee
<b>Members of the Board</b>							
<b>Non-Executive Directors</b>							
Dr Raymond Ch'ien Kuo-fung (Chairman)			M				C
Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)			M	M			
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)			M	M			
Permanent Secretary for Development (Works) (Hon Chi-keung)					M	M	
Commissioner for Transport (Ingrid Yeung Ho Poi-yan)		M				M	
<b>Independent Non-Executive Directors</b>							
Pamela Chan Wong Shui			M				M
Dr Dorothy Chan Yuen Tak-fai				C	M		
Vincent Cheng Hoi-chuen				M			M
Dr Eddy Fong Ching		C	M				
Edward Ho Sing-tin				M	C		
James Kwan Yuk-choi					M	M	
Lau Ping-cheung, Kaizer					M		M
Lucia Li Li Ka-lai		M				M	
Professor Frederick Ma Si-hang		M	C				
Alasdair George Morrison		M				C	
Ng Leung-sing			M			M	
Abraham Shek Lai-him					M		M
Benjamin Tang Kwok-bun					M	M	
Dr Allan Wong Chi-yun		M			M		
<b>Executive Director</b>							
Lincoln Leong Kwok-kuen (Chief Executive Officer)	C						M
<b>Members of the Executive Directorate</b>							
Lincoln Leong Kwok-kuen (Chief Executive Officer)	C						M
Morris Cheung Siu-wa (European Business Director)	M						M
Jacob Kam Chak-pui (Operations Director)	M						
Stephen Law Cheuk-kin (Finance Director)	M						
Gillian Elizabeth Meller (Legal Director and Secretary)	M						M
David Tang Chi-fai (Property Director)	M						
Philco Wong Nai-keung (Projects Director)	M						
Jeny Yeung Mei-chun (Commercial Director)	M						

\* The other Member of the Executive Committee is Ms Wong May-kay, General Manager – Corporate Relations.

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

# Corporate Governance and Other Information

## Changes during the period from 1 January 2015 to 13 August 2015

### *Changes in Composition of Members of the Board*

1. Dr Eddy Fong Ching was appointed as an INED and a member of the Audit Committee of the Company, both with effect from 13 January 2015. Dr Fong was then appointed as the chairman of the Audit Committee of the Company with effect from the conclusion of the Company's 2015 Annual General Meeting held on 20 May 2015 ("2015 AGM"). In this light, his annual emolument has been increased from HK\$300,000 to HK\$420,000. In addition, he was appointed as a member of the Nominations Committee of the Company with effect from 11 August 2015.
2. Mr Lincoln Leong Kwok-kuen, formerly the Acting Chief Executive Officer of the Company, was appointed as the Chief Executive Officer of the Company ("CEO") for a term of three years commencing from 16 March 2015, and continues to be a member of the Executive Directorate of the Company. He was also appointed as a member of the Board and a member of the Corporate Responsibility Committee of the Company with effect from the same date.
3. Mr Wai Chi-sing retired from the post of the Permanent Secretary for Development (Works) ("PS for D") with effect from 7 April 2015 and, as a result, ceased to be a Non-executive Director ("NED") and a member of each of the Capital Works Committee and the Risk Committee of the Company with effect from the same date. Mr Hon Chi-keung was appointed to the post of PS for D with effect from 7 April 2015, and by virtue of his appointment, became a NED of the Company on the same date. In addition, with effect from 7 April 2015, Mr Hon also became a member of each of the Capital Works Committee and the Risk Committee of the Company.
4. Mr T. Brian Stevenson retired as an INED of the Company, and ceased to be the chairman of the Audit Committee and a member of the Remuneration Committee of the Company with effect from the conclusion of the 2015 AGM.
5. Ms Christine Fang Meng-sang resigned as an INED of the Company with effect from 11 August 2015. She ceased to be a member of each of the Nominations Committee and the Corporate Responsibility Committee of the Company with effect from the same date.
6. Mr Lau Ping-cheung, Kaizer was appointed as an INED of the Company, as well as a member of each of the Capital Works Committee and the Corporate Responsibility Committee of the Company with effect from 11 August 2015.
7. Dr Allan Wong Chi-yun was appointed as an INED of the Company, as well as a member of each of the Audit Committee and the Capital Works Committee of the Company with effect from 11 August 2015.
8. Pursuant to Article 117 of the Company's Articles of Association, The Financial Secretary Incorporated has appointed Professor Frederick Ma Si-hang, who is currently an INED of the Company, as Chairman of the Company with effect from 1 January 2016.
9. Dr Raymond Ch'ien Kuo-fung will be retiring from the position of Chairman and as a Member of the Board, chairman of the Corporate Responsibility Committee and a member of the Nominations Committee of the Company when his tenure ends on 31 December 2015.

### *Changes in Composition of Members of the Executive Directorate*

1. With effect from 15 June 2015, Mr Morris Cheung Siu-wa has become the Company's European Business Director and ceased to be the Company's Human Resources Director. He continues to be a member of the Executive Directorate.
2. With effect from 16 September 2015, Ms Linda So Ka-pik will become the Company's Corporate Affairs Director and a member of the Executive Directorate.

### Changes in Information

Changes in information of Directors which are required to be disclosed pursuant to the requirement of Rule 13.51B (1) of the Listing Rules are set out below:

Name of Director	Changes in Information
	<b>New appointments</b>
Dr Dorothy Chan Yuen Tak-fai	Advisor to the Serco Group (HK) Limited (from 1 January 2015)
Abraham Shek Lai-him	(1) NED of Mandatory Provident Fund Schemes Authority (since 17 March 2015) (2) INED of Jinheng Automotive Safety Technology Holdings Limited (since 25 June 2015)
Vincent Cheng Hoi-chuen	INED of CK Hutchison Holdings Limited (since 3 June 2015)
Philco Wong Nai-keung	Vice President of The Hong Kong Institution of Engineers (since 30 June 2015)
	<b>Re-designation</b>
James Kwan Yuk-choi	INED (formerly a NED) of Towngas China Company Limited (since 29 May 2015)
	<b>Cessation of appointment</b>
Alasdair George Morrison	(1) Senior Advisor of Citigroup Asia Pacific (until 16 January 2015) (2) Member of the Financial Services Development Council of the HKSAR Government (until 16 January 2015)
Lincoln Leong Kwok-kuen	INED of Hong Kong Aircraft Engineering Company Limited (until 15 May 2015)
Dr Dorothy Chan Yuen Tak-fai	Member of Serco Road Tunnel and Bridge Advisory Board (until 30 May 2015)

### Training and Continuous Professional Development

For continuous professional development, Members of the Board and the Executive Directorate are encouraged to attend relevant seminars and courses at the cost of the Company. Materials on the subject of corporate governance are also provided to Members of the Board, their Alternate Directors and Members of the Executive Directorate from time to time to keep them abreast of latest developments on this front.

In May 2015, a site visit to the Company's first property development project in Mainland China, namely Tiara, was arranged for Members of the Board to provide first-hand information on progress of the development and the sales arrangements. In addition, a site visit to different construction sites of the Express Rail Link project was arranged for Members of the Capital Works Committee to allow them to acquire a better understanding of the site conditions and construction progress.

### Board and Board Committee Meetings

#### Regular Board Meetings

The Board held three regular meetings during the six months' period ended 30 June 2015. At these regular meetings, the Board reviewed and discussed matters

relating to the different businesses and financial performance of the Company. In addition, other key matters discussed at these Board meetings included:

- Shareholder Analysis and Investors' Feedback;
- 2015 AGM;
- Directors' Manual Update;
- Follow up of MTR Board Workshop 2014;
- New Board Members and Board Committees Members;
- Election / Re-election of Directors at the 2015 AGM and proposed changes in the composition of Board Committees;
- Annual Review of size, structure and composition of the Board;
- Annual Review of Corporate Governance Functions;
- Proceedings of Audit Committee, Corporate Responsibility Committee, Capital Works Committee and Risk Committee;
- 2014 Annual Report and Accounts;
- Report on Internal Control System for year ended 31 December 2014;

# Corporate Governance and Other Information

- Contract Awards relating to railway projects and property work;
- Property Development tender strategy;
- Tender for Advertising Sales Services;
- Express Rail Link Update;
- Investment Project in the Mainland China;
- Management of Interface Risks arising from East Rail Line Signalling Replacement;
- 2014 Operational Performance Review and Service Reliability Initiatives;
- Principles for Revising MTR Fares under Fare Adjustment Mechanism in 2015;
- Fare Increase for Guangdong Line Through;
- Enterprise Risk Management Annual Report 2014; and
- Sustainability Report 2014.

## Special Board Meetings

The Chairman held seven special Board meetings during the six months' period ended 30 June 2015 and a number of matters were covered, including the Express Rail Link project, property development tenders and a property investment proposal.

## Private Board Meetings

The Chairman held two private Board meetings during the six months' period ended 30 June 2015. At these meetings, the Board discussed appointments and the performance of members of the Executive Directorate.

## Board Committee Meeting

A meeting of the board committee was held on 16 March 2015 to consider and approve:

- (i) the final dividend for the year ended 31 December 2014;
- (ii) the 2014 Annual Report and Accounts with recommendation of the same for shareholders' approval at the 2015 AGM; and
- (iii) the Preliminary Announcement of Results.

## Communication With Shareholders

### Annual General Meeting

The Company's 2015 AGM was held on 20 May 2015. The Chairman continued his practice of proposing separate resolutions for each substantially separate matter.

In addition to the receipt and consideration of annual Audited Accounts, re-appointment of auditors, and granting of general mandates for the issue and purchase of the Company's shares, shareholders of the Company also approved, with more than 93% of votes in favour in each case, the following resolutions:

- Re-election of Dr Raymond Ch'ien Kuo-fung and Professor Chan Ka-keung, Ceajer, and election of Dr Eddy Fong Ching, Mr James Kwan Yuk-choi, Mr Lincoln Leong Kwok-kuen, Mrs Lucia Li Li Ka-lai and Mr Benjamin Tang Kwok-bun as Members of the Board; and
- Declaration of a final dividend of HK\$0.80 per share for the year ended 31 December 2014, giving a full year dividend of HK\$1.05 per share, which was an increase of 14.1% compared to the dividend declared for 2013.

All resolutions at the 2015 AGM were passed by way of a poll, and the poll results were posted on the respective websites of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the HKSE.

For the benefit of the Company's shareholders who did not attend the 2015 AGM, the whole proceedings were recorded and posted on the Company's website ([www.mtr.com.hk](http://www.mtr.com.hk)) the same evening.

## Constitutional Document

The Company's Articles of Association (in both English and Chinese) are available on the Company's website ([www.mtr.com.hk](http://www.mtr.com.hk)) and the HKSE's website. During the six months' period ended 30 June 2015, there was no change to the Company's Articles of Association.

## Board Members' and Executive Directorate's Interests in Shares and Underlying Shares of the Company

As at 30 June 2015, 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:

Member of the Board and/or the Executive Directorate	No. of Ordinary Shares held				No. of Share Options <sup>#</sup>	No. of Share Awards <sup>#</sup>	Total interests	Percentage of aggregate interests to total number of voting shares in issue
	Personal* interests	Family† interests	Other interests	Corporate interests	Personal* interests	Personal* interests		
Raymond Ch'ien Kuo-fung	53,543	–	–	–	–	–	53,543	0.00092
Lincoln Leong Kwok-kuen	363,000	–	–	23,000 (Note 1)	797,000	315,200	1,498,200	0.02565
Pamela Chan Wong Shui	9,002	1,675	–	–	–	–	10,677	0.00018
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	–	3,350	0.00006
Christine Fang Meng-sang	1,712	–	–	–	–	–	1,712	0.00003
Lucia Li Li Ka-lai	–	1,614 (Note 2)	2,215 (Note 2)	–	–	–	3,829	0.00007
Frederick Ma Si-hang	–	70,000 (Note 3)	70,000 (Note 3)	–	–	–	70,000	0.00120
Ingrid Yeung Ho Poi-yan	1,116	–	–	–	–	–	1,116	0.00002
Morris Cheung Siu-wa	13,705	–	–	–	334,500	28,800	377,005	0.00645
Jacob Kam Chak-pui	2,283	–	–	–	659,500	79,650	741,433	0.01269
Stephen Law Cheuk-kin	–	–	–	–	196,000	74,300	270,300	0.00463
Gillian Elizabeth Meller	–	–	–	–	497,500	74,550	572,050	0.00979
David Tang Chi-fai	617	–	–	–	454,000	76,050	530,667	0.00908
Philco Wong Nai-keung	–	–	–	–	187,500	79,300	266,800	0.00457
Jeny Yeung Mei-chun	13,400	–	–	–	543,000	76,950	633,350	0.01084

### Notes

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

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

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

# Details of the Share Options and Share Awards are set out in the sections headed "2007 Share Option Scheme" and "2014 Share Incentive Scheme" respectively on pages 36 to 39

\* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

Save as disclosed above:

**A** none of the Members of the Board and the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

**B** during the six months' period ended 30 June 2015, 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.

# Corporate Governance and Other Information

## 2007 Share Option Scheme

Movements in the outstanding share options granted under the 2007 Share Option Scheme during the six months' period ended 30 June 2015 are set out below:

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2015	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 2015	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Lincoln Leong Kwok-kuen	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	28.84	170,000	–
	30/3/2012	201,000	23/3/2013 – 23/3/2019	201,000	67,000	–	–	27.48	201,000	–
	6/5/2013	256,000	26/4/2014 – 26/4/2020	256,000	85,500	–	–	31.40	256,000	–
Morris Cheung Siu-wa	11/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	65,000	26.85	–	38.95
	21/7/2010	35,000	28/6/2011 – 28/6/2017	35,000	–	–	24,000	27.73	11,000	38.95
	20/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	44,000	28.84	21,000	38.95
	30/3/2012	122,000	23/3/2013 – 23/3/2019	122,000	40,000	–	–	27.48	122,000	–
Jacob Kam Chak-pui	6/5/2013	180,500	26/4/2014 – 26/4/2020	180,500	60,500	–	–	31.40	180,500	–
	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	26.85	65,000	–
	21/7/2010	50,000	28/6/2011 – 28/6/2017	50,000	–	–	–	27.73	50,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	28.84	170,000	–
Stephen Law Cheuk-kin	30/3/2012	172,000	23/3/2013 – 23/3/2019	172,000	57,000	–	–	27.48	172,000	–
	6/5/2013	202,500	26/4/2014 – 26/4/2020	202,500	67,500	–	–	31.40	202,500	–
	1/11/2013	196,000	25/10/2014 – 25/10/2020	196,000	–	–	–	29.87	196,000	–
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	26.85	65,000	–
Gillian Elizabeth Meller	17/12/2010	90,000	16/12/2011 – 16/12/2017	90,000	–	–	–	28.84	90,000	–
	30/3/2012	158,500	23/3/2013 – 23/3/2019	158,500	52,500	–	–	27.48	158,500	–
	6/5/2013	184,000	26/4/2014 – 26/4/2020	184,000	61,500	–	–	31.40	184,000	–
	12/12/2008	65,000	8/12/2009 – 8/12/2015	21,000	–	–	21,000	18.30	–	35.80
David Tang Chi-fai	15/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	22,000	26.85	43,000	35.80
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	28.84	65,000	–
	30/3/2012	163,500	23/3/2013 – 23/3/2019	163,500	54,500	–	–	27.48	163,500	–
	6/5/2013	182,500	26/4/2014 – 26/4/2020	182,500	61,000	–	–	31.40	182,500	–
	30/3/2012	70,500	23/3/2013 – 23/3/2019	23,500	23,500	–	–	27.48	23,500	–
Philco Wong Nai-keung	6/5/2013	81,000	26/4/2014 – 26/4/2020	81,000	27,000	–	–	31.40	81,000	–
	30/5/2014	83,000	23/5/2015 – 23/5/2021	83,000	28,000	–	–	28.65	83,000	–
	10/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	–	–	18.30	65,000	–
Jeny Yeung Mei-chun	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	28.84	65,000	–
	30/3/2012	161,000	23/3/2013 – 23/3/2019	161,000	53,000	–	–	27.48	161,000	–
	6/5/2013	187,000	26/4/2014 – 26/4/2020	187,000	62,500	–	–	31.40	187,000	–

## 2007 Share Option Scheme (continued)

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2015	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 2015	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Other eligible employees	28/3/2008	255,000	26/3/2009 – 26/3/2015	54,000	–	–	54,000	26.52	–	33.86
	31/3/2008	379,000	26/3/2009 – 26/3/2015	81,000	–	–	81,000	26.52	–	34.25
	1/4/2008	261,000	26/3/2009 – 26/3/2015	127,000	–	–	127,000	26.52	–	34.15
	2/4/2008	296,000	26/3/2009 – 26/3/2015	159,000	–	–	159,000	26.52	–	34.30
	3/4/2008	171,000	26/3/2009 – 26/3/2015	55,000	–	–	55,000	26.52	–	34.82
	7/4/2008	390,000	26/3/2009 – 26/3/2015	130,000	–	–	130,000	26.52	–	34.66
	9/4/2008	85,000	26/3/2009 – 26/3/2015	23,000	–	–	23,000	26.52	–	33.55
	10/4/2008	58,000	26/3/2009 – 26/3/2015	58,000	–	–	58,000	26.52	–	35.67
	11/4/2008	134,000	26/3/2009 – 26/3/2015	70,000	–	–	70,000	26.52	–	34.95
	12/4/2008	48,000	26/3/2009 – 26/3/2015	31,000	–	–	31,000	26.52	–	34.22
	14/4/2008	40,000	26/3/2009 – 26/3/2015	40,000	–	–	40,000	26.52	–	35.87
	15/4/2008	34,000	26/3/2009 – 26/3/2015	17,000	–	–	17,000	26.52	–	33.00
	16/4/2008	57,000	26/3/2009 – 26/3/2015	40,000	–	–	40,000	26.52	–	33.47
	17/4/2008	147,000	26/3/2009 – 26/3/2015	90,000	–	–	90,000	26.52	–	32.57
	18/4/2008	32,000	26/3/2009 – 26/3/2015	15,000	–	–	15,000	26.52	–	35.15
	21/4/2008	66,000	26/3/2009 – 26/3/2015	58,000	–	–	58,000	26.52	–	33.65
	23/4/2008	34,000	26/3/2009 – 26/3/2015	19,000	–	–	19,000	26.52	–	35.95
	8/12/2008	90,000	8/12/2009 – 8/12/2015	20,000	–	–	20,000	18.30	–	34.90
	9/12/2008	1,293,000	8/12/2009 – 8/12/2015	257,000	–	–	56,000	18.30	201,000	38.55
	10/12/2008	2,046,400	8/12/2009 – 8/12/2015	419,700	–	–	223,200	18.30	196,500	34.99
	11/12/2008	2,394,200	8/12/2009 – 8/12/2015	370,000	–	–	227,500	18.30	142,500	36.46
	12/12/2008	1,416,500	8/12/2009 – 8/12/2015	442,500	–	–	161,500	18.30	281,000	33.16
	13/12/2008	84,500	8/12/2009 – 8/12/2015	40,500	–	–	–	18.30	40,500	–
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	228,700	–	–	25,000	18.30	203,700	38.16
	16/12/2008	581,500	8/12/2009 – 8/12/2015	134,000	–	–	44,000	18.30	90,000	38.28
	17/12/2008	513,500	8/12/2009 – 8/12/2015	171,500	–	–	47,500	18.30	124,000	37.02
	18/12/2008	611,500	8/12/2009 – 8/12/2015	19,000	–	–	19,000	18.30	–	33.00
	19/12/2008	198,000	8/12/2009 – 8/12/2015	44,000	–	–	–	18.30	44,000	–
	22/12/2008	772,500	8/12/2009 – 8/12/2015	136,500	–	–	45,000	18.30	91,500	36.50
	23/12/2008	306,000	8/12/2009 – 8/12/2015	44,000	–	–	19,000	18.30	25,000	38.55
	24/12/2008	500,500	8/12/2009 – 8/12/2015	109,000	–	–	90,000	18.30	19,000	34.48
	25/12/2008	45,000	8/12/2009 – 8/12/2015	45,000	–	–	–	18.30	45,000	–
	18/6/2009	255,000	12/6/2010 – 12/6/2016	130,000	–	–	130,000	24.50	–	35.50
	6/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	–	45,000	24.50	–	35.55
	9/12/2009	670,000	8/12/2010 – 8/12/2016	520,000	–	–	50,000	26.85	470,000	36.13
	10/12/2009	2,551,000	8/12/2010 – 8/12/2016	1,364,000	–	–	593,000	26.85	771,000	35.81
	11/12/2009	2,297,000	8/12/2010 – 8/12/2016	1,251,000	–	–	580,500	26.85	670,500	35.06
	12/12/2009	610,000	8/12/2010 – 8/12/2016	290,000	–	–	110,000	26.85	180,000	37.01
	14/12/2009	2,443,000	8/12/2010 – 8/12/2016	1,332,000	–	–	685,000	26.85	647,000	35.84
	15/12/2009	2,773,000	8/12/2010 – 8/12/2016	1,192,500	–	–	527,500	26.85	665,000	36.04
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	581,500	–	–	163,500	26.85	418,000	36.72

# Corporate Governance and Other Information

## 2007 Share Option Scheme (continued)

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2015	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 2015	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Other eligible employees	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	290,000	–	–	95,000	26.85	195,000	36.17
	18/12/2009	389,000	8/12/2010 – 8/12/2016	228,500	–	–	101,500	26.85	127,000	36.53
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	279,000	–	–	38,000	26.85	241,000	37.43
	22/12/2009	256,000	8/12/2010 – 8/12/2016	147,000	–	–	25,000	26.85	122,000	33.65
	21/7/2010	270,000	28/6/2011 – 28/6/2017	45,000	–	–	–	27.73	45,000	–
	16/12/2010	194,000	16/12/2011 – 16/12/2017	104,000	–	–	–	28.84	104,000	–
	17/12/2010	4,907,000	16/12/2011 – 16/12/2017	3,463,000	–	–	656,500	28.84	2,806,500	36.67
	18/12/2010	673,000	16/12/2011 – 16/12/2017	608,000	–	–	185,000	28.84	423,000	35.60
	19/12/2010	174,000	16/12/2011 – 16/12/2017	98,000	–	–	73,000	28.84	25,000	36.46
	20/12/2010	4,789,500	16/12/2011 – 16/12/2017	3,086,000	–	–	1,202,000	28.84	1,884,000	35.71
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	1,929,000	–	–	686,000	28.84	1,243,000	36.19
	22/12/2010	975,000	16/12/2011 – 16/12/2017	682,000	–	–	98,000	28.84	584,000	37.02
	23/12/2010	189,000	16/12/2011 – 16/12/2017	119,000	–	–	44,000	28.84	75,000	34.60
	7/7/2011	215,000	27/6/2012 – 27/6/2018	123,000	–	–	88,000	26.96	35,000	34.42
	30/3/2012	15,868,500	23/3/2013 – 23/3/2019	12,562,500	4,795,000	8,500	4,239,000	27.48	8,315,000	37.10
	6/5/2013	20,331,500	26/4/2014 – 26/4/2020	19,037,500	6,409,500	203,000	2,078,500	31.40	16,756,000	36.89
	1/11/2013	188,500	25/10/2014 – 25/10/2020	188,500	–	–	–	29.87	188,500	–
	30/5/2014	19,812,500	23/5/2015 – 23/5/2021	19,551,000	6,596,000	177,000	393,500	28.65	18,980,500	37.17

### Notes

- No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme on 7 June 2007. The 2007 Share Option Scheme expired at 5.00 p.m. on 6 June 2014, with no further option granted since then.
- The exercise price of the share options is determined upon the offer of grant of the options and should not be less than the greatest of (a) the average closing price per share of the Company for the five business days immediately preceding the date of offer of such options; (b) the closing price per share of the Company on the date of offer of such options, which must be a business day; and (c) the nominal value per share of the Company immediately before 3 March 2014.
- The proportion of underlying shares in respect of which the above share options will vest is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all



## 2014 Share Incentive Scheme

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

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

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 shares of the Company held as part of the funds of the trust to acquire existing shares of the Company from the market. Such 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 shares of the Company held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested Award Shares. An award holder shall have no right to any dividend held under the trust.

For the six months' period ended 30 June 2015, a total of 4,029,200 Award Shares had been awarded under the 2014 Share Incentive Scheme, representing 0.07 per cent. of the number of shares issued by the Company as at 1 January 2015, the effective date of the 2014 Share Incentive Scheme.

The particulars of the Award Shares granted are as follows:

Executive Directorate and eligible employees	Date of award	Types of Award Shares granted		Award Shares outstanding as at 1 January 2015	Award Shares vested during the period	Award Shares lapsed and/or forfeited during the period	Award Shares outstanding as at 30 June 2015
		Restricted Shares	Performance Shares				
Lincoln Leong Kwok-kuen	27/4/2015	60,200	255,000	–	–	–	315,200
Morris Cheung Siu-wa	27/4/2015	–	28,800	–	–	–	28,800
Jacob Kam Chak-pui	27/4/2015	22,050	57,600	–	–	–	79,650
Stephen Law Cheuk-kin	27/4/2015	16,700	57,600	–	–	–	74,300
Gillian Elizabeth Meller	27/4/2015	16,950	57,600	–	–	–	74,550
David Tang Chi-fai	27/4/2015	18,450	57,600	–	–	–	76,050
Philco Wong Nai-keung	27/4/2015	21,700	57,600	–	–	–	79,300
Jeny Yeung Mei-chun	27/4/2015	19,350	57,600	–	–	–	76,950
Other eligible employees	27/4/2015	2,172,750	1,051,650	–	–	–	3,224,400

## 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 2015 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to all the voting shares in issue
The Financial Secretary Incorporated ("FSI") (in trust on behalf of the Government)	4,434,552,207	75.91

The Company has been informed by the Government that, as at 30 June 2015, approximately 0.37% of the shares of the Company (not included in the FSI shareholding set out in the above table) were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

# Corporate Governance and Other Information

## Other Persons' Interests

Save as disclosed in the sections headed "Board Members' and Executive Directorate's Interests in Shares and Underlying Shares of the Company" and "Substantial Shareholders' Interests", as at 30 June 2015, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO or otherwise notified to the Company and the HKSE.

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

As at 30 June 2015, the Group had borrowings of HK\$13,334 million with maturities ranging from 2016 to 2055 and undrawn committed banking facilities of HK\$5,900 million, which were subject to the condition that the 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.

## Purchase, Sale or Redemption of Listed Securities

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

## Closure of Register of Members

The Register of Members of the Company was closed from 28 August 2015 to 2 September 2015 (both dates inclusive), during which no transfer of shares could be registered. To qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must have been lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 27 August 2015. The 2015 interim dividend, with a scrip dividend option (except for shareholders with registered addresses in the United States of America or any of its territories or possessions), is expected to be distributed on 16 October 2015 to shareholders whose names appeared on the Register of Members of the Company as at the close of business on 2 September 2015.

# Consolidated Profit and Loss Account

in HK\$ million	Note	Half year ended 30 June 2015 (Unaudited)	Half year ended 30 June 2014 (Unaudited)
Revenue from Hong Kong transport operations		8,147	7,729
Revenue from Hong Kong station commercial businesses		2,579	2,377
Revenue from Hong Kong property rental and management businesses		2,255	2,026
Revenue from Mainland of China and international subsidiaries	2	6,181	6,350
Revenue from other businesses		1,048	989
		<b>20,210</b>	19,471
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses		(2,182)	(1,988)
– Energy and utilities		(710)	(648)
– Operational rent and rates		(110)	(134)
– Stores and spares consumed		(241)	(247)
– Maintenance and related works		(612)	(555)
– Railway support services		(135)	(123)
– General and administration expenses		(218)	(196)
– Other expenses		(140)	(111)
		<b>(4,348)</b>	(4,002)
Expenses relating to Hong Kong station commercial businesses		(247)	(226)
Expenses relating to Hong Kong property rental and management businesses		(357)	(331)
Expenses relating to Mainland of China and international subsidiaries	2	(5,836)	(5,922)
Expenses relating to other businesses		(981)	(896)
Project study and business development expenses		(95)	(263)
<b>Operating expenses before depreciation, amortisation and variable annual payment</b>		<b>(11,864)</b>	(11,640)
<b>Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment</b>			
– Arising from recurrent businesses		8,393	7,831
– Arising from Mainland of China property development		(47)	–
		<b>8,346</b>	7,831
Profit on Hong Kong property development	3	2,811	245
<b>Operating profit before depreciation, amortisation and variable annual payment</b>		<b>11,157</b>	8,076
Depreciation and amortisation		(1,880)	(1,688)
Variable annual payment		(786)	(701)
<b>Operating profit before interest and finance charges</b>		<b>8,491</b>	5,687
Interest and finance charges	4	(295)	(274)
Investment property revaluation		1,362	3,523
Share of profit or loss of associates	5	166	129
<b>Profit before taxation</b>		<b>9,724</b>	9,065
Income tax	6	(1,446)	(1,063)
<b>Profit for the period</b>		<b>8,278</b>	8,002
<b>Attributable to:</b>			
– Equity shareholders of the Company		8,189	7,912
– Non-controlling interests		89	90
<b>Profit for the period</b>		<b>8,278</b>	8,002
<b>Profit for the period attributable to equity shareholders of the Company:</b>			
– Arising from underlying businesses before property development		4,516	4,186
– Arising from property development		2,311	203
– Arising from underlying businesses		6,827	4,389
– Arising from investment property revaluation		1,362	3,523
		<b>8,189</b>	7,912
<b>Earnings per share:</b>	8		
– Basic		HK\$1.40	HK\$1.36
– Diluted		HK\$1.40	HK\$1.36

The notes on pages 46 to 64 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 7.

# Consolidated Statement of Comprehensive Income

in HK\$ million	Note	Half year ended 30 June 2015 (Unaudited)	Half year ended 30 June 2014 (Unaudited)
<b>Profit for the period</b>		<b>8,278</b>	8,002
<b>Other comprehensive income for the period (after taxation and reclassification adjustments):</b>			
Item that will not be reclassified to profit or loss:			
– Surplus on revaluation of self-occupied land and buildings		110	43
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of overseas subsidiaries and associates		(42)	(138)
– non-controlling interests		(12)	11
– Cash flow hedges: net movement in hedging reserve		(54)	34
		<b>(108)</b>	(93)
	10	<b>2</b>	(50)
<b>Total comprehensive income for the period</b>		<b>8,280</b>	7,952
<b>Attributable to:</b>			
– Equity shareholders of the Company		<b>8,203</b>	7,851
– Non-controlling interests		<b>77</b>	101
<b>Total comprehensive income for the period</b>		<b>8,280</b>	7,952

The notes on pages 46 to 64 form part of this interim financial report.

# Consolidated Statement of Financial Position

in HK\$ million	Note	At 30 June 2015 (Unaudited)	At 31 December 2014 (Audited)
<b>Assets</b>			
Fixed assets			
– Investment properties	11	67,121	65,679
– Other property, plant and equipment	12	79,275	78,279
– Service concession assets	13	27,236	26,698
		<b>173,632</b>	170,656
Property management rights		29	30
Railway construction in progress	14	17,598	16,229
Property development in progress	16	15,327	7,490
Deferred expenditure		167	64
Interests in associates		6,124	5,797
Deferred tax assets	23	67	50
Investments in securities		555	527
Properties held for sale	17	1,188	1,076
Derivative financial assets	18	85	105
Stores and spares		1,443	1,365
Debtors, deposits and payments in advance	19	6,243	3,797
Amounts due from related parties	20	1,227	1,073
Cash, bank balances and deposits		14,353	18,893
		<b>238,038</b>	227,152
<b>Liabilities</b>			
Bank overdrafts		18	46
Short-term loans		400	500
Creditors and accrued charges	21	20,106	16,421
Current taxation		2,121	996
Contract retentions		1,142	1,094
Amounts due to related parties	20	4,883	1,607
Loans and other obligations	22	18,467	19,961
Obligations under service concession		10,590	10,614
Derivative financial liabilities	18	771	565
Loan from holders of non-controlling interests		116	124
Deferred income		1,109	765
Deferred tax liabilities	23	10,960	10,977
		<b>70,683</b>	63,670
<b>Net assets</b>			
		<b>167,355</b>	163,482
<b>Capital and reserves</b>			
Share capital	24	45,756	45,280
Shares held for Share Incentive Scheme	24	(150)	–
Other reserves		121,546	118,045
<b>Total equity attributable to equity shareholders of the Company</b>		<b>167,152</b>	163,325
<b>Non-controlling interests</b>		<b>203</b>	157
<b>Total equity</b>		<b>167,355</b>	163,482

The notes on pages 46 to 64 form part of this interim financial report.

# Consolidated Statement of Changes in Equity

in HK\$ million	Note	Share capital	Share premium	Capital reserve	Shares held for Share Incentive Scheme	Other reserves				Retained profits	Total equity attributable to equity shareholders of the Company	Non-controlling interests	Total equity
						Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve				
<b>30 June 2015 (Unaudited)</b>													
Balance as at 1 January 2015		45,280	-	-	-	2,641	(91)	214	418	114,863	163,325	157	163,482
Changes in equity for the half year ended 30 June 2015:													
- Profit for the period		-	-	-	-	-	-	-	-	8,189	8,189	89	8,278
- Other comprehensive income for the period		-	-	-	-	110	(54)	-	(42)	-	14	(12)	2
- Total comprehensive income for the period		-	-	-	-	110	(54)	-	(42)	8,189	8,203	77	8,280
- 2014 final dividend	7	-	-	-	-	-	-	-	-	(4,673)	(4,673)	-	(4,673)
- Dividends paid to holders of non-controlling interests		-	-	-	-	-	-	-	-	-	-	(31)	(31)
- Shares purchased for Share Incentive Scheme		-	-	-	(150)	-	-	-	-	-	(150)	-	(150)
- Employee share-based payments		-	-	-	-	-	-	32	-	-	32	-	32
- Employee share options exercised	24	476	-	-	-	-	-	(61)	-	-	415	-	415
Balance as at 30 June 2015		45,756	-	-	(150)	2,751	(145)	185	376	118,379	167,152	203	167,355
<b>31 December 2014 (Audited)</b>													
Balance as at 1 January 2014		5,798	11,456	27,188	-	2,525	(128)	240	513	104,965	152,557	145	152,702
Changes in equity for the half year ended 30 June 2014:													
- Profit for the period		-	-	-	-	-	-	-	-	7,912	7,912	90	8,002
- Other comprehensive income for the period		-	-	-	-	43	34	-	(138)	-	(61)	11	(50)
- Total comprehensive income for the period		-	-	-	-	43	34	-	(138)	7,912	7,851	101	7,952
- Employee share options exercised before 3 March 2014	24	1	3	-	-	-	-	-	-	-	4	-	4
- Transition to no-par value regime on 3 March 2014	24	38,647	(11,459)	(27,188)	-	-	-	-	-	-	-	-	-
- 2013 final dividend	7	-	-	-	-	-	-	-	-	(3,886)	(3,886)	-	(3,886)
- Dividends paid to holders of non-controlling interests		-	-	-	-	-	-	-	-	-	-	(26)	(26)
- Employee share-based payments		-	-	-	-	-	-	19	-	-	19	-	19
- Employee share options exercised on or after 3 March 2014	24	75	-	-	-	-	-	(11)	-	-	64	-	64
- Employee share options forfeited		-	-	-	-	-	-	(1)	-	1	-	-	-
Balance as at 30 June 2014		44,521	-	-	-	2,568	(94)	247	375	108,992	156,609	220	156,829
Changes in equity for the half year ended 31 December 2014:													
- Profit for the period		-	-	-	-	-	-	-	-	7,694	7,694	101	7,795
- Other comprehensive income for the period		-	-	-	-	73	3	-	43	(370)	(251)	(37)	(288)
- Total comprehensive income for the period		-	-	-	-	73	3	-	43	7,324	7,443	64	7,507
- Shares issued in respect of scrip dividend of 2013 final dividend		335	-	-	-	-	-	-	-	-	335	-	335
- 2014 interim dividend	7	-	-	-	-	-	-	-	-	(1,455)	(1,455)	-	(1,455)
- Shares issued in respect of scrip dividend of 2014 interim dividend		61	-	-	-	-	-	-	-	-	61	-	61
- Dividend paid to holders of non-controlling interests		-	-	-	-	-	-	-	-	-	-	(127)	(127)
- Employee share-based payments		-	-	-	-	-	-	23	-	-	23	-	23
- Employee share options exercised		363	-	-	-	-	-	(54)	-	-	309	-	309
- Employee share options forfeited		-	-	-	-	-	-	(2)	-	2	-	-	-
Balance as at 31 December 2014		45,280	-	-	-	2,641	(91)	214	418	114,863	163,325	157	163,482

The notes on pages 46 to 64 form part of this interim financial report.

# Consolidated Cash Flow Statement

in HK\$ million	Note	Half year ended 30 June 2015 (Unaudited)	Half year ended 30 June 2014 (Unaudited)
<b>Cash flows from operating activities</b>			
Cash generated from operations	26	9,432	8,852
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		653	652
Current tax paid			
– Hong Kong Profits Tax paid		(274)	(347)
– Mainland of China and overseas tax paid		(84)	(73)
<b>Net cash generated from operating activities</b>		<b>9,727</b>	<b>9,084</b>
<b>Cash flows from investing activities</b>			
Capital expenditure			
– Purchase of assets for Hong Kong transport and related operations		(1,876)	(1,329)
– Shenzhen Metro Longhua Line Project and related operations		(555)	(192)
– Island Line Extension Project		(765)	(1,197)
– South Island Line (East) Project		(1,158)	(1,322)
– Kwun Tong Line Extension Project		(472)	(448)
– Shenzhen Longhua Line Depot property development		(272)	(272)
– Hong Kong property development		(7,717)	(203)
– Investment property projects and fitting out work		(80)	(1,228)
– Other capital projects		(162)	(89)
Variable annual payment		(1,472)	(1,247)
Receipts in respect of Hong Kong property development		1,060	3,643
Receipts in respect of Shenzhen Longhua Line Depot property development		1,380	–
Increase in bank deposits with more than three months to maturity when placed or pledged		(908)	(1,868)
Purchase of investments in securities		(157)	(114)
Proceeds from sale or redemption of investments in securities		126	73
Proceeds from disposal of fixed assets		2	6
Investment in an associate		(61)	(294)
Loan to an associate		(100)	–
Dividends received from associates		–	24
<b>Net cash used in investing activities</b>		<b>(13,187)</b>	<b>(6,057)</b>
<b>Cash flows from financing activities</b>			
Proceeds from shares issued under share option schemes		415	68
Purchase of shares for Share Incentive Scheme		(150)	–
Drawdown of loans		5,474	3,347
Proceeds from issuance of capital market instruments		487	544
Repayment of loans		(7,377)	(2,171)
Repayment of capital market instruments		(500)	(5,158)
Interest paid		(364)	(504)
Interest received		97	84
Finance charges paid		(11)	(17)
Dividends paid to holders of non-controlling interests		(31)	(26)
<b>Net cash used in financing activities</b>		<b>(1,960)</b>	<b>(3,833)</b>
Net decrease in cash and cash equivalents		(5,420)	(806)
Cash and cash equivalents at 1 January		15,413	7,209
Cash and cash equivalents at 30 June		9,993	6,403
<b>Analysis of the balances of cash and cash equivalents</b>			
Cash, bank balances and deposits on the consolidated statement of financial position		14,353	18,328
Bank deposits with more than three months to maturity when placed or pledged		(4,342)	(11,909)
Bank overdrafts		(18)	(16)
Cash and cash equivalents in the consolidated cash flow statement		9,993	6,403

The notes on pages 46 to 64 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 65. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim Financial Reporting*, issued by the HKICPA.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains the condensed consolidated accounts and selected explanatory notes, which include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates since the issuance of the 2014 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 2014 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 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 2014 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 (or under their equivalent requirements found in section 141 of the predecessor Companies Ordinance (Cap. 32)).

The accounting policies adopted for the preparation of this interim financial report are the same as those adopted in the preparation of the 2014 annual accounts except for the changes required for the first time adoption of revised HKFRSs as set out in the subsequent paragraphs.

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's accounts:

- Amendments to HKAS 19, *Defined Benefit Plans: Employee Contributions*
- Amendments to HKFRSs, *Annual Improvements to HKFRSs 2010 – 2012 Cycle*
- Amendments to HKFRSs, *Annual Improvements to HKFRSs 2011 – 2013 Cycle*

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

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

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

in HK\$ million	Railway-related subsidiaries outside of Hong Kong						Total	Property rental and management businesses in Mainland of China	Property development in Mainland of China	Total Mainland of China and international subsidiaries
	Stockholm Metro	Melbourne Train	Shenzhen Metro Longhua Line	Sydney Metro Northwest*	London Crossrail	MTR Express				
<b>Half year ended 30 June 2015</b>										
Revenue	<b>1,368</b>	<b>4,083</b>	<b>316</b>	<b>181</b>	<b>134</b>	<b>22</b>	<b>6,104</b>	<b>77</b>	–	<b>6,181</b>
Expenses	<b>1,333</b>	<b>3,799</b>	<b>234</b>	<b>181</b>	<b>131</b>	<b>49</b>	<b>5,727</b>	<b>62</b>	<b>47</b>	<b>5,836</b>
<b>Half year ended 30 June 2014</b>										
Revenue	1,700	4,293	282	–	–	–	6,275	75	–	6,350
Expenses	1,648	4,009	197	–	–	–	5,854	68	–	5,922

\* Formerly Sydney North West Rail Link

MTR Express commenced operation on the route between Stockholm and Gothenburg on 21 March 2015.

The Group commenced train services between Liverpool Street Station and Shenfield Station in London on 31 May 2015 under the Crossrail Concession.



### 3 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK\$ million	Half year ended 30 June 2015	Half year ended 30 June 2014
Share of surplus from property development	2,808	60
Agency fee and other income from West Rail property development	15	196
Other overhead costs net of miscellaneous income	(12)	(11)
	<b>2,811</b>	<b>245</b>

### 4 Interest and Finance Charges

Interest and finance charges comprise:

in HK\$ million	Half year ended 30 June 2015	Half year ended 30 June 2014
Interest expenses	719	714
Finance charges	22	20
Exchange (gain)/loss	(80)	109
	<b>661</b>	<b>843</b>
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(111)	(136)
Derivative financial instruments:		
– Fair value hedges	(3)	(18)
– Cash flow hedges:		
– transferred from hedging reserve to offset interest expenses	11	14
– transferred from hedging reserve to offset exchange gain/(loss)	92	(110)
– ineffective portion	–	(1)
– Derivatives not qualified for hedge accounting	2	–
	<b>102</b>	<b>(115)</b>
Interest expenses capitalised	(264)	(221)
	<b>388</b>	<b>371</b>
Interest income in respect of deposits with banks	(93)	(97)
	<b>295</b>	<b>274</b>

### 5 Share of Profit or Loss of Associates

Share of profit or loss of associates comprises:

in HK\$ million	Half year ended 30 June 2015	Half year ended 30 June 2014
Share of profit or loss before taxation	220	162
Share of income tax expenses	(54)	(33)
	<b>166</b>	<b>129</b>

# Notes to the Unaudited Interim Financial Report

## 6 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK\$ million	Half year ended 30 June 2015	Half year ended 30 June 2014
Current tax		
– Hong Kong Profits Tax	1,373	876
– Mainland of China and overseas tax	121	100
	<b>1,494</b>	976
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(6)	–
	<b>1,488</b>	976
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	(13)	–
– depreciation allowances in excess of related depreciation	70	112
– provision and others	(99)	(25)
	<b>(42)</b>	87
	<b>1,446</b>	1,063

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2015 is calculated at 16.5% (2014: 16.5%) on the estimated assessable profits for the period after deducting accumulated tax losses brought forward, if any. Current taxes for the Mainland of China and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2014: 16.5%) while those arising in the Mainland of China and overseas are calculated at the appropriate current rates of taxation ruling in the relevant countries.

## 7 Dividends

Dividends paid and proposed to equity shareholders of the Company comprise:

in HK\$ million	Half year ended 30 June 2015	Half year ended 30 June 2014
Dividends payable attributable to the period		
– Interim dividend declared after the reporting period of HK\$0.25 (2014: HK\$0.25) per share	1,460	1,450
Dividends payable/paid attributable to the previous year		
– Final dividend of HK\$0.80 (2013: HK\$0.67) per share approved and payable/paid during the period	4,673	3,886

The Company has recognised 2014 final dividend payable of HK\$3,548 million to the Financial Secretary Incorporated (the “FSI”) of the Government of the Hong Kong Special Administrative Region (the “HKSAR Government”) and HK\$1,125 million to other equity shareholders in the amounts due to related parties (note 20) and creditors and accrued charges (note 21) respectively in the consolidated statement of financial position as at 30 June 2015.

## 8 Earnings Per Share

### A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders for the half year ended 30 June 2015 of HK\$8,189 million (2014: HK\$7,912 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme, which is calculated as follows:

	Half year ended 30 June 2015	Half year ended 30 June 2014
Issued ordinary shares at 1 January	5,826,534,347	5,798,541,650
Effect of share options exercised	8,310,688	696,886
Less: Shares held for Share Incentive Scheme	(631,796)	–
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 30 June	<b>5,834,213,239</b>	5,799,238,536

## 8 Earnings Per Share *(continued)*

### B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders for the half year ended 30 June 2015 of HK\$8,189 million (2014: HK\$7,912 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option schemes and Share Incentive Scheme, which is calculated as follows:

	Half year ended 30 June 2015	Half year ended 30 June 2014
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 30 June	<b>5,834,213,239</b>	5,799,238,536
Effect of dilutive potential shares under share option schemes	<b>13,218,871</b>	3,094,355
Effect of shares awarded under Share Incentive Scheme	<b>934,071</b>	–
Weighted average number of shares (diluted) at 30 June	<b>5,848,366,181</b>	5,802,332,891

C Both basic and diluted earnings per share would have been HK\$1.17 (2014: HK\$0.76) if the calculation is based on profit attributable to equity shareholders of the Company arising from underlying businesses of HK\$6,827 million (2014: HK\$4,389 million).

## 9 Segmental Information

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

- (i) Hong Kong transport operations: The provision of passenger operation and related services on the urban mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with the border of Mainland of China at Lo Wu and Lok Ma Chau, light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of China.
- (ii) Hong Kong station commercial businesses: Commercial activities including the letting of advertising, retail and car parking space at railway stations, the provision of telecommunication and bandwidth services in railway premises and other commercial activities within the Hong Kong transport operations network.
- (iii) Hong Kong property rental and management businesses: The letting of retail, office and car parking space and the provision of estate management services in Hong Kong.
- (iv) Hong Kong property development: Property development activities at locations near the railway systems in Hong Kong.
- (v) Railway, property rental and management businesses outside Hong Kong: The construction, operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail spaces and provision of estate management services in the Mainland of China.
- (vi) Mainland of China property development: Property development activities in the Mainland of China.
- (vii) Other businesses: Businesses not directly relating to transport operations or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business and the provision of project management services to the HKSAR Government.

# Notes to the Unaudited Interim Financial Report

## 9 Segmental Information (continued)

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

in HK\$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates			Un-allocated amount	Total
					Railway, property rental and management businesses outside Hong Kong	Mainland of China property development	Other businesses		
<b>Half year ended 30 June 2015</b>									
Revenue	8,147	2,579	2,255	-	6,181	-	1,048	-	20,210
Operating expenses	(4,348)	(247)	(357)	-	(5,789)	(47)	(981)	-	(11,769)
Project study and business development expenses	-	-	-	-	-	-	-	(95)	(95)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	3,799	2,332	1,898	-	392	(47)	67	(95)	8,346
Profit on Hong Kong property development	-	-	-	2,811	-	-	-	-	2,811
Operating profit before depreciation, amortisation and variable annual payment	3,799	2,332	1,898	2,811	392	(47)	67	(95)	11,157
Depreciation and amortisation	(1,730)	(71)	(7)	-	(39)	-	(33)	-	(1,880)
Variable annual payment	(561)	(223)	(2)	-	-	-	-	-	(786)
Operating profit before interest and finance charges	1,508	2,038	1,889	2,811	353	(47)	34	(95)	8,491
Interest and finance charges	-	-	-	-	4	1	-	(300)	(295)
Investment property revaluation	-	-	1,362	-	-	-	-	-	1,362
Share of profit or loss of associates	-	-	-	-	49	-	117	-	166
Income tax	-	-	-	(467)	(88)	13	-	(904)	(1,446)
Profit for the half year ended 30 June 2015	1,508	2,038	3,251	2,344	318	(33)	151	(1,299)	8,278
<b>Half year ended 30 June 2014</b>									
Revenue	7,729	2,377	2,026	-	6,350	-	989	-	19,471
Operating expenses	(4,002)	(226)	(331)	-	(5,922)	-	(896)	-	(11,377)
Project study and business development expenses	-	-	-	-	-	-	-	(263)	(263)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	3,727	2,151	1,695	-	428	-	93	(263)	7,831
Profit on Hong Kong property development	-	-	-	245	-	-	-	-	245
Operating profit before depreciation, amortisation and variable annual payment	3,727	2,151	1,695	245	428	-	93	(263)	8,076
Depreciation and amortisation	(1,547)	(67)	(5)	-	(38)	-	(31)	-	(1,688)
Variable annual payment	(511)	(188)	(2)	-	-	-	-	-	(701)
Operating profit before interest and finance charges	1,669	1,896	1,688	245	390	-	62	(263)	5,687
Interest and finance charges	-	-	-	-	15	-	-	(289)	(274)
Investment property revaluation	-	-	3,523	-	-	-	-	-	3,523
Share of profit or loss of associates	-	-	-	-	25	-	104	-	129
Income tax	-	-	-	(42)	(91)	-	-	(930)	(1,063)
Profit for the half year ended 30 June 2014	1,669	1,896	5,211	203	339	-	166	(1,482)	8,002

## 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 2015	Half year ended 30 June 2014
Hong Kong (place of domicile)	13,998	13,088
Australia	4,264	4,293
Mainland of China	412	364
Sweden	1,390	1,700
Other countries	146	26
	<b>6,212</b>	6,383
	<b>20,210</b>	19,471

## 10 Other Comprehensive Income

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

in HK\$ million	Half year ended 30 June 2015			Half year ended 30 June 2014		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before-tax amount	Tax expense	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries and associates	(42)	–	(42)	(138)	–	(138)
– Non-controlling interests	(12)	–	(12)	11	–	11
	<b>(54)</b>	<b>–</b>	<b>(54)</b>	(127)	–	(127)
Surplus on revaluation of self-occupied land and buildings	132	(22)	110	52	(9)	43
Cash flow hedges: net movement in hedging reserve (note 10B)	(67)	13	(54)	41	(7)	34
Other comprehensive income	<b>11</b>	<b>(9)</b>	<b>2</b>	(34)	(16)	(50)

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 2015	Half year ended 30 June 2014
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	(160)	138
Amounts transferred to initial carrying amount of hedged items	(17)	1
Amounts transferred to profit or loss:		
– Interest and finance charges (note 4)	103	(96)
– Other expenses	7	(2)
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the period	27	(23)
– Amounts transferred to initial carrying amount of hedged items	4	–
– Amounts transferred to profit or loss	(18)	16
	<b>(54)</b>	34

# Notes to the Unaudited Interim Financial Report

## 11 Investment Properties

All investment properties of the Group were revalued at 30 June 2015 and 2014 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuations are based on the income capitalisation approach. Under this approach, the market value is derived from the capitalisation of the rental revenue to be received under existing tenancies and the estimated full market rental value to be received upon expiry of the existing tenancies with reference to the market rental levels prevailing as at the date of valuation by an appropriate single market yield rate.

Based on the valuations performed by Jones Lang LaSalle Limited, the Group recognised the net increase in fair value of HK\$1,362 million (2014: HK\$3,523 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 2015, the Group acquired or commissioned assets at a total cost of HK\$2,460 million (2014: HK\$607 million). Assets with a net book value of HK\$20 million (2014: HK\$15 million) were disposed during the same period, resulting in a net loss on disposal of HK\$18 million (2014: HK\$9 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\$132 million (2014: HK\$52 million), which, net of deferred tax provision of HK\$22 million (2014: HK\$9 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 2015, the Group incurred HK\$967 million (2014: HK\$774 million) of expenditure for the replacement and upgrade of the rail and bus system leased from the Kowloon-Canton Railway Corporation ("KCRC") ("Additional Concession Property") under service concession arrangement in the Rail Merger and HK\$39 million (2014: HK\$137 million) of expenditure for asset additions in respect of Shenzhen Metro Longhua Line.

## 14 Railway Construction in Progress

Movements of railway construction in progress of the Group during the half year ended 30 June 2015 and the year ended 31 December 2014 are as follows:

in HK\$ million	Balance at 1 January	Expenditure	Utilisation of government grant	Principal and interest repayable in respect of government grant	Capitalised on commissioning	Balance at 30 June/ 31 December
<b>At 30 June 2015 (Unaudited)</b>						
Island Line Extension Project	346	560	-	118	(1,024)	-
South Island Line (East) Project	12,018	978	-	-	-	12,996
Kwun Tong Line Extension Project	3,865	737	-	-	-	4,602
	<b>16,229</b>	<b>2,275</b>	<b>-</b>	<b>118</b>	<b>(1,024)</b>	<b>17,598</b>
<b>At 31 December 2014 (Audited)</b>						
Island Line Extension Project	-	3,374	(20)	238	(3,246)	346
South Island Line (East) Project	8,821	3,197	-	-	-	12,018
Kwun Tong Line Extension Project	2,727	1,138	-	-	-	3,865
	11,548	7,709	(20)	238	(3,246)	16,229

## 14 Railway Construction in Progress *(continued)*

### A Island Line Extension Project

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

Pursuant to the agreement, the HKSAR Government provided a grant of HK\$12.3 billion to the Company in March 2010 (having already made HK\$0.4 billion available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism whereby, within 24 months of commercial operations of the extension of Island Line to the Western District, the Company has to pay to the HKSAR Government amounts to reflect the excess of the original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest). During the half year ended 30 June 2015, the Company has recognised and prepaid an amount with a principal of HK\$91 million and interest of HK\$27 million to the HKSAR Government under the repayment mechanism (year ended 31 December 2014: principal of HK\$187 million and interest of HK\$51 million).

During the period ended 30 June 2015, HK\$1,024 million had been transferred out from Railway Construction in Progress to Other Property, Plant and Equipment upon the opening of the Sai Ying Pun Station on 29 March 2015, with Sai Ying Pun Station's Ki Ling Lane Entrance expected to commence service by the first quarter of 2016. As at 30 June 2015, the Company has authorised outstanding commitments on contracts of HK\$0.1 billion (31 December 2014: HK\$0.5 billion) for this project.

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

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

Subsequent to 30 June 2015, the project cost estimate was increased from the August 2014 estimate of HK\$15.2 billion (before capitalised interest expense estimate of HK\$1.5 billion) to approximately HK\$16.9 billion (before capitalised interest expense of HK\$1.2 billion) due to the complexity of works and continued labour shortages. The Company continues to monitor and review the project cost estimate. As at 30 June 2015, the Company has incurred cumulative expenditure of HK\$13.0 billion (31 December 2014: HK\$12.0 billion) and has authorised outstanding commitments on contracts totalling HK\$0.7 billion (31 December 2014: HK\$0.5 billion) for this project.

### C Kwun Tong Line Extension ("KTE") Project

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

Subsequent to 30 June 2015, the project cost estimate was increased from the original estimate of HK\$5.9 billion (before capitalised interest expense estimate of HK\$0.3 billion) to approximately HK\$7.2 billion (before capitalised interest expense of HK\$0.4 billion) due to the complexity of works and continued labour shortages. The Company continues to monitor and review the project cost estimate. As at 30 June 2015, the Company has incurred cumulative expenditure of HK\$4.6 billion (31 December 2014: HK\$3.9 billion) and has authorised outstanding commitments on contracts totalling HK\$0.3 billion (31 December 2014: HK\$0.5 billion) for this project.

## 15 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or the HKSAR Government

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

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

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the XRL on the understanding that the Company would subsequently be invited to undertake the operation of the XRL under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the XRL (the "XRL Entrustment Agreement"). Pursuant to the XRL Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the XRL and the HKSAR Government, as owner of XRL, is responsible for bearing and financing the full amount of the total cost of such activities (the "Entrustment Cost") and for paying to the Company HK\$4,590 million in accordance with an agreed payment schedule (the "Project Management Fee"). As at 30 June 2015 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.

Under the XRL Entrustment Agreement, in the event that a material modification to the programme for the execution of the entrustment activities is likely to result in a material increase or decrease in project management responsibilities or costs of the Company, the Company and the HKSAR Government are to negotiate in good faith to agree an increase or, as the case may be, decrease in the Project Management Fee. Such negotiations have not yet commenced (as of 30 June 2015 and up to the date of this interim report) and, accordingly, at this stage, there is no certainty as to whether such sum will be increased. If the Company does not receive an increase in the Project Management Fee, it may not be able to recover the increased internal cost it incurs in performing its obligations under the XRL Entrustment Agreement. Further, under the XRL Entrustment Agreement, certain payments by the HKSAR Government (including the Project Management Fee) are subject to a maximum annual aggregate limit of HK\$2 billion and a total limit of HK\$10 billion.

# Notes to the Unaudited Interim Financial Report

## 15 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or the HKSAR Government *(continued)*

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

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

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

In June 2015, the Company reported to the HKSAR Government that the Company currently estimates:

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

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

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

With the complexity of the project, particularly the works at the West Kowloon Terminus, the Company continues to monitor and review the project cost estimate and the XRL Revised Timetable (and any possible delay in respect thereof).

Given (i) the XRL Entrustment Agreement provides that the HKSAR Government shall bear and finance the full amount of the Entrustment Cost; (ii) the negotiations, pursuant to the XRL Entrustment Agreement, to agree a variation in the Project Management Fee have not commenced (as of 30 June 2015 and up to the date of this interim report); and (iii) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company in relation to the events leading to and/or the setting of the XRL Revised Timetable (as of 30 June 2015 and up to the date of this interim report), the Company is not able to estimate reliably the financial effect on the Company, if any, arising from the events leading to and/or the setting of, or revision to, the XRL Revised Timetable. The Company will continue to monitor its position on an ongoing basis.

During the half year ended 30 June 2015, project management fee of HK\$373 million (2014: HK\$383 million) was recognised in the consolidated profit and loss account.

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

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

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

In August 2015, the Company notified the HKSAR Government that the Company currently estimates that the cost for the works carried out under the SCL Advance Works Entrustment Agreement will exceed the original estimate of HK\$7,350 million in respect thereof by HK\$1,274 million (including contingency).

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 except for certain costs of modification, upgrade or expansions of certain assets for which the Company is responsible under the existing service concession agreement with KCRC. The Company is responsible to carry out or procure the carrying out of the works specified in the SCL Entrustment Agreement (and the SCL Preliminary Entrustment Agreement and SCL Advance Works Entrustment Agreement) for a project management fee of HK\$7,893 million. As at 30 June 2015 and up to the date of this interim report, the Company has received payments from the HKSAR Government in accordance with the original agreed payment schedule.



## 15 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or the HKSAR Government (continued)

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

In May 2014, the Company notified the HKSAR Government of the delays to the completion of the East West Corridor and North South Corridor. In the case of the East West Corridor, this is due to the archaeological finds at a site in the To Kwa Wan area, 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.

Given the above delays, the Company is 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, and that the 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 the HKSAR Government. Thereafter, the Company will continue to monitor and review the project cost and completion date.

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Preliminary Entrustment Agreement, the SCL Advance Works Entrustment Agreement or the SCL Entrustment Agreement (together, the "SCL Agreements") and, under each SCL Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the relevant SCL Agreement. Under the SCL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. Up to the date of this interim report, no claim has been received from the HKSAR Government.

Given (i) the SCL Agreements, provide that the HKSAR Government shall bear and finance the full amount of the relevant costs to the extent described above; and (ii) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company in relation to any SCL Agreement (as of 30 June 2015 and up to the date of this interim report), the Company is not able to estimate reliably the financial effect on the Company, if any, arising from the matters described above.

During the half year ended 30 June 2015, project management fee of HK\$407 million (2014: HK\$331 million) was recognised in the consolidated profit and loss account. Additionally, during the half year ended 30 June 2015, the reimbursable costs from the HKSAR Government in relation to the project under the entrustment agreements for SCL were HK\$603 million (2014: HK\$1,226 million). As at 30 June 2015, the amount to be recovered from the HKSAR Government was HK\$678 million (31 December 2014: HK\$685 million).

## 16 Property Development in Progress

Movements of property development in progress of the Group during the half year ended 30 June 2015 and the year ended 31 December 2014 are as follows:

in HK\$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Exchange differences	Balance at 30 June/ 31 December
<b>At 30 June 2015 (Unaudited)</b>						
Airport Railway Property Projects	–	2	(2)	–	–	–
Tseung Kwan O Extension Property Projects	1,240	608	(4)	(575)	–	1,269
East Rail Line/Light Rail Property Projects	1,316	7,557	–	–	–	8,873
South Island Line (East) Property Project	1,045	8	–	–	–	1,053
Kwun Tong Line Extension Property Project	361	31	–	–	–	392
Shenzhen Property Project	3,528	215	–	–	(3)	3,740
	<b>7,490</b>	<b>8,421</b>	<b>(6)</b>	<b>(575)</b>	<b>(3)</b>	<b>15,327</b>
<b>At 31 December 2014 (Audited)</b>						
Airport Railway Property Projects	–	4	(4)	–	–	–
Tseung Kwan O Extension Property Projects	1,145	115	(20)	–	–	1,240
East Rail Line/Light Rail Property Projects	5,976	126	(4,104)	(682)	–	1,316
South Island Line (East) Property Project	939	106	–	–	–	1,045
Kwun Tong Line Extension Property Project	275	86	–	–	–	361
Shenzhen Property Project	2,898	696	–	–	(66)	3,528
	11,233	1,133	(4,128)	(682)	(66)	7,490

The expenditure of East Rail Line/Light Rail Property Projects during the half year ended 30 June 2015 included HK\$7,500 million in relation to the Company's contribution paid for the Tai Wai Station property development project.

# Notes to the Unaudited Interim Financial Report

## 17 Properties Held for Sale

in HK\$ million	At 30 June 2015 (Unaudited)	At 31 December 2014 (Audited)
Properties held for sale		
– at cost	749	555
– at net realisable value	439	521
	<b>1,188</b>	1,076

Properties held for sale at net realisable value as at 30 June 2015 are stated net of provision of HK\$26 million (31 December 2014: HK\$30 million) made in order to state these properties at the lower of their cost and estimated net realisable value.

## 18 Derivative Financial Assets and Liabilities

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

in HK\$ million	At 30 June 2015 (Unaudited)		At 31 December 2014 (Audited)	
	Notional amount	Fair value	Notional amount	Fair value
<b>Derivative Financial Assets</b>				
Foreign exchange forwards				
– fair value hedges	116	–	2,093	2
– cash flow hedges	89	4	347	15
Cross currency swaps				
– fair value hedges	2,405	15	2,404	20
Interest rate swaps				
– fair value hedges	1,400	66	900	67
– not qualified for hedge accounting	–	–	100	1
	<b>4,010</b>	<b>85</b>	5,844	105
<b>Derivative Financial Liabilities</b>				
Foreign exchange forwards				
– fair value hedges	3,375	6	1,398	1
– cash flow hedges	182	28	195	19
– not qualified for hedge accounting	219	8	146	8
Cross currency swaps				
– fair value hedges	805	119	805	92
– cash flow hedges	2,436	568	2,437	397
Interest rate swaps				
– fair value hedges	650	22	1,150	32
– cash flow hedges	600	20	900	16
– not qualified for hedge accounting	100	–	–	–
	<b>8,367</b>	<b>771</b>	7,031	565
<b>Total</b>	<b>12,377</b>		12,875	

## 19 Debtors, Deposits and Payments in Advance

The Group's credit policies in respect of receivables arising from its principal activities are as follows:

- (i) The majority of fare revenue from Hong Kong transport operations is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.
- (ii) Fare revenue from Shenzhen Metro Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTR Express is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month.
- (iii) Franchise revenue in Melbourne is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue in Stockholm is collected in the transaction month with the remainder being collected in the following month. Franchise 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 of debtors is analysed as follows:

in HK\$ million	At 30 June 2015 (Unaudited)	At 31 December 2014 (Audited)
Amounts not yet due	5,299	2,913
Overdue by 30 days	329	149
Overdue by 60 days	59	24
Overdue by 90 days	25	26
Overdue by more than 90 days	13	17
Total debtors	5,725	3,129
Deposits and payments in advance	518	668
	<b>6,243</b>	<b>3,797</b>

Included in the amounts not yet due as at 30 June 2015 was HK\$3,651 million (31 December 2014: HK\$1,363 million) in respect of property development.

# Notes to the Unaudited Interim Financial Report

## 20 Material Related Party Transactions

The FSI of the HKSAR Government, which holds approximately 75.9% of the Company's issued share capital on trust for the HKSAR Government, is the majority shareholder of the Company. Transactions between the Group and the HKSAR Government departments or agencies, or entities controlled by the HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised), *Related Party Disclosures*, and are identified separately in this interim financial report.

As at 30 June 2015, 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 2015 (Unaudited)	At 31 December 2014 (Audited)
Amounts due from:		
– HKSAR Government	1,057	1,028
– KCRC	4	5
– associates	166	40
	<b>1,227</b>	1,073
Amounts due to:		
– HKSAR Government	3,557	3
– KCRC	1,226	1,597
– an associate	100	7
	<b>4,883</b>	1,607

As at 30 June 2015, the amount due from the HKSAR Government related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the Island Line Extension, South Island Line (East) and Kwun Tong Line Extension projects, reimbursement of the fare revenue difference in relation to the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, agency fee receivables and reimbursable costs in respect of West Rail property development, as well as receivables and retention for other entrustment and maintenance works. The amount due to the HKSAR Government as at 30 June 2015 related to 2014 final dividend payable (note 7) as well as land administrative fees in relation to railway extension.

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 mandatory payments and related interest payable to KCRC in respect of the property development site along the Light Rail as well as 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 2015 included mainly receivables in relation to the daily Octopus card transactions with Octopus Cards Limited, rental receivable in respect of depots and depot equipment from Tunnelbanan Teknik Stockholm AB ("TBT") and the outstanding balances of loans to TBT and Tianjin TJ – Metro Construction Company Limited as well as staff secondment and other support services fees receivable from Beijing MTR Corporation Limited ("BJMTR"). The amount due to an associate as at 30 June 2015 related to the amount payable for the equity contribution to NRT Pty. Limited ("NRT").

During the half year ended 30 June 2015, besides the revenue recognised in respect of the project management activities for the HKSAR Government (note 15), cash dividends paid or payable to the FSI of the HKSAR Government by the Group amounted to HK\$3,548 million (2014: HK\$2,971 million).

Details of major related party transactions entered into by the Group with the HKSAR Government in prior years that are still relevant for the current period and those with KCRC in respect of the Rail Merger were described in the Group's audited accounts for the year ended 31 December 2014.

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

During the half year ended 30 June 2015, the Group had the following transactions with its associates, namely Octopus Holdings Limited and its subsidiaries ("Octopus Group"), TBT, BJMTR, London Overground Rail Operations Ltd ("LOROL") and NRT:

in HK\$ million	Half year ended 30 June 2015	Half year ended 30 June 2014
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	68	66
– Fees received or receivable in respect of load agent, Octopus card issuance and refund services, computer equipment and related services and warehouse storage space provided to Octopus Group	17	18
– Dividend received from Octopus Group	–	20
TBT		
– Expenses paid or payable in respect of rolling stock maintenance and other supporting services provided by TBT for the Stockholm Metro operation	276	341
– Fees received or receivable in respect of depots and depot equipment rental and other support services provided to TBT	61	73
BJMTR		
– Fees received or receivable in respect of staff secondment, information technology and other support services provided to BJMTR	20	14
LOROL		
– Dividend received from LOROL	–	4
– Fees received or receivable in respect of staff secondment and consultancy services provided to LOROL	11	10
NRT		
– Fees received or receivable in respect of the design and delivery of electrical and mechanical systems and rolling stock services provided to NRT	169	–

## 21 Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

in HK\$ million	At 30 June 2015 (Unaudited)	At 31 December 2014 (Audited)
Due within 30 days or on demand	4,550	3,998
Due after 30 days but within 60 days	3,664	3,783
Due after 60 days but within 90 days	762	613
Due after 90 days	4,654	3,019
	<b>13,630</b>	11,413
Rental and other refundable deposits	2,818	2,739
Accrued employee benefits	2,533	2,269
Dividend payable to other equity shareholders (note 7)	1,125	–
	<b>20,106</b>	16,421

# Notes to the Unaudited Interim Financial Report

## 22 Loans and Other Obligations

Notes issued by the Group during the half year ended 30 June 2015 and 2014 comprise:

in HK\$ million	Half year ended 30 June 2015		Half year ended 30 June 2014	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	500	487	550	544

During the half year ended 30 June 2015, notes of HK\$500 million (2014: AUD80 million (or HK\$550 million)) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited, while the Company did not issue any of its debt securities (2014: nil). The notes issued by the subsidiary are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the half year ended 30 June 2015, the Group redeemed HK\$500 million (2014: HK\$500 million) of its unlisted debt securities and did not redeem any of its listed debt securities (2014: USD600 million (or HK\$4,658 million)).

## 23 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2015 and the year ended 31 December 2014 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
<b>At 30 June 2015 (Unaudited)</b>						
Balance as at 1 January 2015	10,592	520	(139)	(15)	(31)	10,927
Charged/(credited) to consolidated profit and loss account	70	-	(99)	-	(13)	(42)
Charged/(credited) to reserves	-	22	-	(13)	-	9
Exchange difference	(1)	-	-	-	-	(1)
Balance as at 30 June 2015	10,661	542	(238)	(28)	(44)	10,893
At 31 December 2014 (Audited)						
Balance as at 1 January 2014	9,833	498	(30)	(24)	(17)	10,260
Charged/(credited) to consolidated profit and loss account	760	-	(37)	-	(15)	708
Charged/(credited) to reserves	-	22	(73)	9	-	(42)
Exchange difference	(1)	-	1	-	1	1
Balance as at 31 December 2014	10,592	520	(139)	(15)	(31)	10,927

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

in HK\$ million	At 30 June 2015 (Unaudited)	At 31 December 2014 (Audited)
Net deferred tax assets	(67)	(50)
Net deferred tax liabilities	10,960	10,977
	10,893	10,927

## 24 Share Capital and Shares Held for Share Incentive Scheme

### A Share Capital

	At 30 June 2015 (Unaudited)		At 31 December 2014 (Audited)	
	Number of shares	HK\$ million	Number of shares	HK\$ million
Ordinary shares, issued and fully paid:				
At 1 January	<b>5,826,534,347</b>	<b>45,280</b>	5,798,541,650	5,798
Shares issued under share option schemes before 3 March 2014	–	–	143,500	1
Transition to no-par value regime on 3 March 2014 (note)	–	–	–	38,647
Shares issued in respect of scrip dividend of 2013 final dividend	–	–	11,595,971	335
Shares issued in respect of scrip dividend of 2014 interim dividend	–	–	1,934,026	61
Shares issued under share option schemes on or after 3 March 2014	<b>15,108,200</b>	<b>476</b>	14,319,200	438
At 30 June/31 December	<b>5,841,642,547</b>	<b>45,756</b>	5,826,534,347	45,280

Note: The transition to the no-par value regime under the new Hong Kong Companies Ordinance (Cap. 622) ("Ordinance") occurred automatically on 3 March 2014. On that date, the share premium account and the capital reserve were subsumed into share capital in accordance with section 37 of Schedule 11 to the Ordinance. These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been made in accordance with the requirements of Parts 4 and 5 of the Ordinance.

### B New shares issued and fully paid up during the half year ended 30 June 2015 comprise:

	Number of shares	Weighted average exercise price HK\$
Employee share options exercised:		
– 2007 Share Option Scheme	<b>15,108,200</b>	<b>27.48</b>

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

	Half year ended 30 June 2015		Half year ended 30 June 2014	
	New Joiners Share Option Scheme	2007 Share Option Scheme	New Joiners Share Option Scheme	2007 Share Option Scheme
Outstanding at 1 January	–	<b>76,785,400</b>	84,500	73,001,100
Granted during the period	–	–	–	19,895,500
Exercised during the period	–	<b>(15,108,200)</b>	–	(2,655,200)
Forfeited during the period	–	<b>(388,500)</b>	–	(654,500)
Outstanding at 30 June	–	<b>61,288,700</b>	84,500	89,586,900
Exercisable at 30 June	–	<b>41,652,700</b>	84,500	50,272,400

D On 20 April 2015, the Company offered to award Performance Shares and Restricted Shares under the Company's 2014 Share Incentive Scheme to certain eligible employees of the Company. In this regard, a total of 1,681,050 Performance Shares and 2,348,150 Restricted Shares were accepted by the grantees on 27 April 2015. The fair value of these awarded shares was HK\$38.60 per share.

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

# Notes to the Unaudited Interim Financial Report

## 25 Fair Value Measurement of Financial Instruments

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

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

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

Level 3: Fair value measured using significant unobservable inputs

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

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

in HK\$ million	Fair value at 30 June 2015 (Unaudited)	Fair value measurements as at 30 June 2015	
		Level 1	Level 2
<b>Financial Assets</b>			
Derivative financial assets			
– Foreign exchange forwards	4	–	4
– Cross currency swaps	15	–	15
– Interest rate swaps	66	–	66
	85	–	85
Investments in securities	555	555	–
	640	555	85
<b>Financial Liabilities</b>			
Derivative financial liabilities			
– Foreign exchange forwards	42	–	42
– Cross currency swaps	687	–	687
– Interest rate swaps	42	–	42
	771	–	771

in HK\$ million	Fair value at 31 December 2014 (Audited)	Fair value measurements as at 31 December 2014	
		Level 1	Level 2
<b>Financial Assets</b>			
Derivative financial assets			
– Foreign exchange forwards	17	–	17
– Cross currency swaps	20	–	20
– Interest rate swaps	68	–	68
	105	–	105
Investments in securities	527	527	–
	632	527	105
<b>Financial Liabilities</b>			
Derivative financial liabilities			
– Foreign exchange forwards	28	–	28
– Cross currency swaps	489	–	489
– Interest rate swaps	48	–	48
	565	–	565



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

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

There are no Level 3 measurements of financial instruments. During the half year ended 30 June 2015 and the year ended 31 December 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments. For interest rate swaps, cross currency swaps and foreign exchange forward contracts, the discount rates used were derived from the swap curves of the respective currencies at the end of the reporting period. Closing exchange rates at the end of the reporting period were used to convert value in foreign currency to local currency.

### B Financial Assets and Liabilities Not Carried at Fair Value

The carrying amounts of the Group's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 30 June 2015 and 31 December 2014 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

in HK\$ million	At 30 June 2015 (Unaudited)		At 31 December 2014 (Audited)	
	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	<b>13,479</b>	<b>14,622</b>	13,617	14,731
Other obligations	<b>840</b>	<b>1,169</b>	395	497

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.

## 26 Cash Generated from Operations

Reconciliation of operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment to cash generated from operations is as follows:

in HK\$ million	Half year ended 30 June 2015 (Unaudited)	Half year ended 30 June 2014 (Unaudited)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	<b>8,346</b>	7,831
Adjustments for:		
– Decrease in provision for obsolete stock	(1)	(1)
– Loss on disposal of fixed assets	<b>23</b>	9
– Amortisation of deferred income from transfers of assets from customers	(14)	(11)
– Decrease/(increase) in fair value of derivative instruments	<b>35</b>	(3)
– Unrealised loss/(gain) on revaluation of investment in securities	<b>3</b>	(1)
– Employee share-based payment expenses	<b>32</b>	23
– Exchange loss/(gain)	<b>9</b>	(4)
Operating profit before working capital changes	<b>8,433</b>	7,843
Increase in debtors, deposits and payments in advance	(347)	(54)
Increase in stores and spares	(92)	(53)
Increase in creditors and accrued charges	<b>1,438</b>	1,116
Cash generated from operations	<b>9,432</b>	8,852

# Notes to the Unaudited Interim Financial Report

## 27 Capital Commitments

A Outstanding capital commitments as at 30 June 2015 not provided for in the accounts were as follows:

in HK\$ million	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas operations	Total
<b>At 30 June 2015 (Unaudited)</b>					
Authorised but not yet contracted for	5,158	–	1,715	1	6,874
Authorised and contracted for	8,687	1,063	7,708	707	18,165
	<b>13,845</b>	<b>1,063</b>	<b>9,423</b>	<b>708</b>	<b>25,039</b>
At 31 December 2014 (Audited)					
Authorised but not yet contracted for	5,114	–	2,550	37	7,701
Authorised and contracted for	5,284	1,505	7,995	1,326	16,110
	10,398	1,505	10,545	1,363	23,811

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

in HK\$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
<b>At 30 June 2015 (Unaudited)</b>				
Authorised but not yet contracted for	2,663	288	2,207	5,158
Authorised and contracted for	4,035	211	4,441	8,687
	<b>6,698</b>	<b>499</b>	<b>6,648</b>	<b>13,845</b>
At 31 December 2014 (Audited)				
Authorised but not yet contracted for	2,398	352	2,364	5,114
Authorised and contracted for	532	191	4,561	5,284
	2,930	543	6,925	10,398

## 28 Approval of Interim Financial Report

The interim financial report was approved by the Board on 13 August 2015.

# 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 41 to 64 which comprises the consolidated statement of financial position of MTR Corporation Limited as of 30 June 2015 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 2015 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building  
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Central, Hong Kong  
13 August 2015



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