CEO'S REVIEW OF OPERATIONS AND OUTLOOK

Dear Shareholders and other Stakeholders,

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

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

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

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

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

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

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

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

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

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

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

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

HONG KONG BUSINESSES

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

TRANSPORT OPERATIONS

Highlights

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

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

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

Safety

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

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

Patronage and Revenue

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

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

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

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

Market Share

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

Fare Adjustments, Promotions and Concessions

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

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

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

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

Operations Performance in the first half of 2018

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

Service Performance

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

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

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

STATION COMMERCIAL BUSINESSES

Highlights

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

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

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

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

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

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

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

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

PROPERTY AND OTHER BUSINESSES

Highlights

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

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

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

Property Rental and Management Businesses

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

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

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

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

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

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

Property Development

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

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

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

Property Development Packages Completed during the period and Awarded

Location	Developers	Type	Gross floor area (sq. m.)	Tender award date	Expected completion date
Ho Man Tin Station					
Package 1	Goldin Financial Holdings Limited	Residential	69,000	December 2016	2022
LOHAS Park Station					
Wings at Sea and Wings at Sea II	Sun Hung Kai Properties Limited	Residential	122,302	April 2014	By phases from 2018 – 2019
MALIBU	Wheelock and Company Limited	Residential	102,336	November 2014	2019
LP6	Nan Fung Group Holdings Limited	Residential	136,970	January 2015	2020
Package 7	Wheelock and Company Limited	Residential Retail Kindergarten	70,260 44,500 1,160	June 2015	2022
Package 8	CK Asset Holdings Limited	Residential	97,000	October 2015	2021
Package 9	Wheelock and Company Limited	Residential Kindergarten	104,110 810	December 2015	2022
Package 10	Nan Fung Group Holdings Limited	Residential	75,400	March 2016	2022
Tai Wai Station					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	October 2014	2022
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	February 2015	2021
Wong Chuk Hang Station					
Package 1	Road King Infrastructure Limited and Ping An Real Estate Company Limited	Residential	53,600	February 2017	2022
Package 2	Kerry Properties Limited and Sino Land Company Limited	Residential	45,800	December 2017	2023
Package 3	CK Asset Holdings Limited	Residential Retail	92,000 47,000	August 2018	2024
Yau Tong Ventilation Building					
Yau Tong Ventilation Building	Sino Land Company Limited and CSI Properties Limited	Residential	30,225	May 2018	2025
Kam Sheung Road Station#					
Package 1	Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited	Residential	114,896	May 2017	2025
Long Ping Station#					
Long Ping (South)	Chinachem Group	Residential	41,990	June 2013	2019
Nam Cheong Station#					
Cullinan West	Sun Hung Kai Properties Limited	Residential Retail Kindergarten	214,700 26,660 1,000	October 2011	By phases from 2017 – 2019
Tsuen Wan West Station#					
PARC CITY	Chinachem Group	Residential Retail	66,114 11,210	January 2012	2018
Ocean Pride and Ocean Supreme	CK Asset Holdings Limited	Residential Retail Kindergarten	167,100 40,000 550	August 2012	2018
THE PAVILIA BAY	New World Development Co. Ltd. and Vanke Property (Overseas) Limited	Residential	62,711	January 2013	2018
Yuen Long Station#					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	August 2015	2022

as a development agent for the relevant subsidiaries of KCRC
* *excluding a bicycle park with cycle track*
^ *including a 24-hour pedestrian walkway and a covered landscape plaza*

Property Development Packages to be Awarded Notes 1 and 2

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

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

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

Other Businesses

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

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

HONG KONG BUSINESS GROWTH

Highlights

- Express Rail Link – 99.9% complete. Target commissioning remains September 2018
- Shatin to Central Link – 86.0% complete. The commissioning date of the Tai Wai to Hung Hom Section will depend, inter alia, on the verification of, and safety test on, the Hung Hom Station platform slab. Target completion remains 2021 for the Hung Hom to Admiralty Section
- RDS 2014: five proposals submitted to Government
- 14 MTR property development packages previously tendered out will provide over 20,000 residential units, with a total GFA of over 1.28 million square metres when completed

GROWING OUR HONG KONG RAIL BUSINESS

Our near term rail business growth in Hong Kong falls under Rail Gen 2.0. In addition to the two new rail projects under construction, it also covers major upgrades and replacements to the existing rail network, as well as initiatives to enhance customer experience through the use of technology. Beyond Rail Gen 2.0, Government has announced that rail will continue to be the backbone of public transportation in Hong Kong, with projects under RDS 2014 having the potential to increase Hong Kong's rail network by a further 35 km. In the longer term, Government's "Strategic Studies on Railways and Major Roads beyond 2030" may expand the rail network even further.

Rail Gen 2.0

New Lines Project Managed by MTR

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

Express Rail Link

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

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

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

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

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

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

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

Shatin to Central Link

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Programme for Delivery

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

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

Funding

Government is responsible for funding the Shatin to Central Link and the sum entrusted to the Company by Government for the main construction works under the 2012 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link ("SCL Entrustment Agreement") was HK$70,827 million. The Company has previously announced that, due to the continuing challenges posed by external factors and difficulties similar to those encountered by most major infrastructure projects in Hong Kong, the Shatin to Central Link Cost to Complete ("CTC") would need to be revised upwards significantly.

The Company completed a detailed review of the estimated CTC for the main construction works under the SCL Entrustment Agreement and the latest estimate of HK$87,328 million was submitted to Government for review on 5 December 2017. Since submission of this estimate, which shows an increase of HK$16,501 million (or 23% of the cost of the main works), the Company has been liaising with Government to facilitate its review and verification process. Any significant adverse result from the verification of, or safety test on, the Hung Hom Station platform slab may potentially impact this latest estimated CTC. The Company has continued to exercise rigorous cost control with the objective of ensuring that construction costs are minimised so far as possible.

Major Asset Upgrades and Replacements on the Existing Network

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

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

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

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

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

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

Enhancing Customer Experience

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

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

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

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

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

New Rail Projects beyond Rail Gen 2.0

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

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

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

EXPANDING THE PROPERTY PORTFOLIO

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

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

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

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

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

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

Highlights

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

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

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

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

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

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

Railway Businesses in the Mainland of China

Beijing

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

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

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

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

Shenzhen

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

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

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

Hangzhou

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

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

Property Businesses in the Mainland of China

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

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

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

European Railway Businesses

United Kingdom

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

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

Nordic Region

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

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

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

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

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

Australian Railway Businesses

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

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

Macau Railway Businesses

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

Growth Outside of Hong Kong

Mainland of China

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

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

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

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

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

International

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

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

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

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

FINANCIAL REVIEW

Profit and Loss

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

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

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

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

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

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

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

Statement of Financial Position

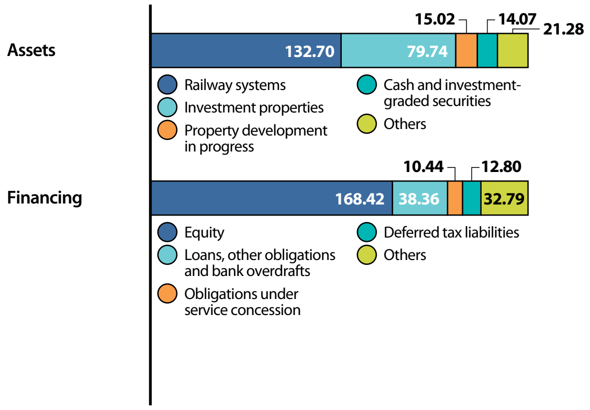
Our financial position remained strong. The Group's net assets increased by HK$1,992 million, from HK$166,426 million as at 31 December 2017 to HK$168,418 million as at 30 June 2018.

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

Simplified Consolidated Statement of Financial Position

(As at 30 June 2018)

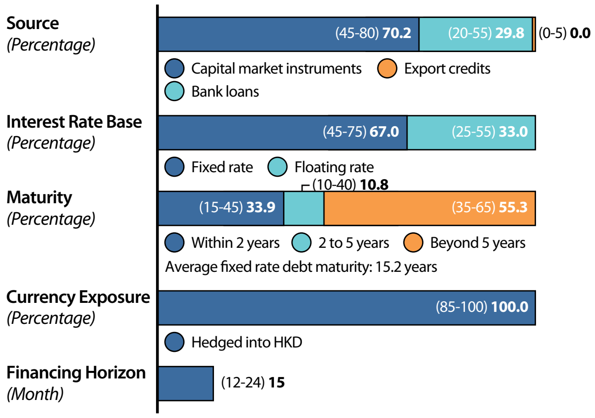
(HK$ billion)



Preferred Financing Model and Debt Profile

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

(Preferred Financing Model) vs. **Actual debt profile**
(As at 30 June 2018)



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

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

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

Cash Flow

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

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

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

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

Financing Activities

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

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

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

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

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

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

HUMAN RESOURCES

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

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

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

MTR ACADEMY

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

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

OUTLOOK

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

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

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

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

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

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

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