MTR CORPORATION LIMITED
香港鐵路有限公司

(the "Company")
(Incorporated in Hong Kong with limited liability)
(Stock code: 66)

ANNOUNCEMENT OF UNAUDITED RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

HIGHLIGHTS

Financials

- Total revenue of the Group HK$28,272 million up 7.2%
- Post-tax profit attributable to shareholders of the Company:

Recurrent business profit	HK$2,665	million	down 40.6%
Underlying business profit	HK$3,440	million	down 26.0%
Profit after investment property revaluation	HK$5,506	million	down 22.3%

- Excluding provisions for Shatin to Central Link project and South Western Railway, recurrent and underlying business profit of the Group would have increased by 13.8% and 26.4% respectively
- Interim ordinary dividend of HK$0.25 per share declared (with scrip dividend alternative)

Hong Kong Business Operations

- Train service delivery and passenger journeys on-time in our heavy rail network remained at world-class level of 99.9%, with best first half performance of passenger journeys on-time since Rail Merger
- Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section) has been gaining widespread acceptance among travelling public since its launch in September 2018, with total patronage of 9.9 million in the first half
- Revenue from Hong Kong station commercial and property rental businesses grew 16.4% and 5.0% respectively
- The first phase of commercial service from Tai Wai Station to Kai Tak Station to commence in the first quarter of 2020. The Company will fund, on an interim basis, certain costs arising from the Hung Hom incidents and those associated with phased opening of Tuen Ma Line and a provision of HK$2 billion was made therefor
- HKSAR Government invited the Company to submit project proposals for the remaining two of the seven new rail projects under RDS 2014

Mainland of China & International Businesses

- Provision of onerous contract (HK$436 million) made for South Western Railway franchise agreement
- Sydney Metro Northwest opened on 26 May 2019. Initial section of Hangzhou Metro Line 5 commenced service on 24 June 2019

Outlook

- Although our businesses in Hong Kong have certain defensiveness against slower economic growth, the Group will need to contend with a variety of risks in the remainder of 2019
- Hangzhou Metro Line 5 full line and Macau LRT Taipa Line, as announced by the government, targeted to commence operations by the end of 2019
- Subject to market conditions, the Company will invite tenders for Wong Chuk Hang Station Package 4 and LOHAS Park Package 12
- Profit booking expected in the second half of 2019 for LOHAS Park Package 5 (MALIBU) and shopping centre of LOHAS Park Package 7, dependent on construction progress

The Directors of the Company are pleased to announce the unaudited interim results of the Company and its subsidiaries ("the Group") for the half year ended 30 June 2019 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (HK$ MILLION)

	Half year ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Revenue from Hong Kong transport operations	**10,690**	9,328
Revenue from Hong Kong station commercial businesses	**3,555**	3,075
Revenue from Hong Kong property rental and management businesses	**2,635**	2,517
Revenue from Mainland of China and international railway, property rental and management subsidiaries	**10,558**	10,453
Revenue from other businesses	**834**	1,000
	28,272	26,373
Revenue from Mainland of China property development	**-**	-
	28,272	26,373
Expenses relating to Hong Kong transport operations		
- Staff costs and related expenses	**(3,233)**	(2,854)
- Energy and utilities	**(891)**	(759)
- Government rent and rates	**(137)**	(127)
- Stores and spares consumed	**(260)**	(264)
- Maintenance and related works	**(981)**	(679)
- Railway support services	**(333)**	(144)
- General and administration expenses	**(342)**	(249)
- Other expenses	**(167)**	(151)
	(6,344)	(5,227)
Expenses relating to Hong Kong station commercial businesses	**(328)**	(268)
Expenses relating to Hong Kong property rental and management businesses	**(395)**	(381)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	**(9,886)**	(10,043)
Expenses relating to other businesses	**(2,737)**	(919)
Project study and business development expenses	**(171)**	(214)
	(19,861)	(17,052)
Expenses relating to Mainland of China property development	**(10)**	(17)
Operating expenses before depreciation, amortisation and variable annual payment	**(19,871)**	(17,069)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment		
- Arising from recurrent businesses	**8,411**	9,321
- Arising from Mainland of China property development	**(10)**	(17)
	8,401	9,304
Profit on Hong Kong property development	**898**	158

	Half year ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Operating profit before depreciation, amortisation and variable annual payment	**9,299**	9,462
Depreciation and amortisation	**(2,592)**	(2,461)
Variable annual payment	**(1,506)**	(999)
Operating profit before interest and finance charges	**5,201**	6,002
Interest and finance charges	**(442)**	(580)
Investment property revaluation	**2,066**	2,435
Share of profit or loss of associates and joint venture	**(74)**	286
Profit before taxation	**6,751**	8,143
Income tax	**(1,147)**	(972)
Profit for the period	**5,604**	7,171
Attributable to:		
- Shareholders of the Company	**5,506**	7,083
- Non-controlling interests	**98**	88
Profit for the period	**5,604**	7,171
Profit for the period attributable to shareholders of the Company:		
- Arising from recurrent businesses	**2,665**	4,483
- Arising from property development	**775**	165
- Arising from underlying businesses	**3,440**	4,648
- Arising from investment property revaluation	**2,066**	2,435
	5,506	7,083
Earnings per share:		
- Basic	**HK$0.90**	HK$1.18
- Diluted	**HK$0.90**	HK$1.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK$ MILLION)

	Half year ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Profit for the period	**5,604**	7,171
Other comprehensive income for the period (after taxation and reclassification adjustments):		
Item that will not be reclassified to profit or loss:		
- Surplus on revaluation of self-occupied land and buildings	**63**	324

	Half year ended 30 June 2019 (Unaudited)	2018 (Unaudited)
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences on translation of:		
- financial statements of subsidiaries, associates and joint venture outside Hong Kong	**(59)**	(247)
- non-controlling interests	**(6)**	(6)
- Cash flow hedges: net movement in hedging reserve	**128**	136
	63	(117)
	126	207
Total comprehensive income for the period	**5,730**	7,378
Attributable to:		
- Shareholders of the Company	**5,638**	7,296
- Non-controlling interests	**92**	82
Total comprehensive income for the period	**5,730**	7,378

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$ MILLION)

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Assets		
Fixed assets		
- Investment properties	**85,218**	82,676
- Other property, plant and equipment	**102,616**	102,776
- Service concession assets	**30,824**	30,473
	218,658	215,925
Property management rights	**24**	26
Goodwill	**56**	58
Property development in progress	**14,657**	14,840
Deferred expenditure	**1,988**	1,878
Interests in associates and joint venture	**9,603**	8,756
Deferred tax assets	**157**	121
Investments in securities	**371**	294
Properties held for sale	**939**	1,369
Derivative financial assets	**98**	61
Stores and spares	**1,841**	1,673
Debtors and other receivables	**10,289**	9,576
Amounts due from related parties	**2,418**	2,088
Cash, bank balances and deposits	**21,617**	18,022
	282,716	274,687
Liabilities		
Bank overdrafts	**5**	-
Short-term loans	**2,991**	4,424
Creditors, other payables and provisions	**32,661**	25,947

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Current taxation	**1,857**	1,161
Amounts due to related parties	**6,579**	2,676
Loans and other obligations	**34,153**	35,781
Obligations under service concession	**10,378**	10,409
Derivative financial liabilities	**408**	545
Loan from holders of non-controlling interests	**145**	146
Deferred tax liabilities	**13,015**	12,979
	102,192	94,068
Net assets	**180,524**	180,619
Capital and reserves		
Share capital	**58,054**	57,970
Shares held for Executive Share Incentive Scheme	**(265)**	(265)
Other reserves	**122,505**	122,742
Total equity attributable to shareholders of the Company	**180,294**	180,447
Non-controlling interests	**230**	172
Total equity	**180,524**	180,619

Notes: -

1. REVIEW OF INTERIM FINANCIAL REPORT

The interim results set out in this preliminary announcement do not constitute the Group's interim financial report for the six-month period ended 30 June 2019 but are extracted from that interim financial report.

The interim financial report for the half year ended 30 June 2019 is unaudited, but has been reviewed by the Group's auditor, 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"). The unmodified review report of KPMG is included in the interim report to be sent to shareholders. The interim financial report has also been reviewed by the Group's Audit Committee.

2. BASIS OF PREPARATION

The preliminary announcement of the Company's interim results 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. It was authorised for issue on 8 August 2019.

The financial information relating to the financial year ended 31 December 2018 that is included in this preliminary announcement of the interim results as comparative information does not constitute the Company's statutory annual consolidated accounts for that financial year but is derived from those accounts. Further information relating to these statutory accounts required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

- The Company has delivered the accounts for the year ended 31 December 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

- The Company's auditor, KPMG, has reported on the accounts for the year ended 31 December 2018. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

The unaudited interim results should be read in conjunction with the 2018 annual accounts.

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

HKFRS 16, *Leases*

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

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

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

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

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

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

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

3. RETAINED PROFITS

The movements of the retained profits during the half year ended 30 June 2019 and the year ended 31 December 2018 are as follows:

HK$ Million	
Balance as at 1 January 2019, as previously reported	**119,599**
Effect of adoption of HKFRS 16	**(8)**
Balance as at 1 January 2019, as restated	**119,591**
Profit for the period attributable to shareholders of the Company	**5,506**
Dividends declared and approved	**(5,835)**
Balance as at 30 June 2019	**119,262**

HK$ Million	
Balance as at 1 January 2018	110,697
Profit for the year attributable to shareholders of the Company	16,008
Other comprehensive income for the year	(348)
Vesting and forfeiture of award shares of Executive Share Incentive Scheme	(9)
Dividends declared and approved	(6,749)
Balance as at 31 December 2018	119,599

4. PROFIT ON HONG KONG PROPERTY DEVELOPMENT

Profit on Hong Kong property development comprises:

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

5. INCOME TAX

	Half year ended 30 June	
HK$ Million	**2019**	2018
Current tax		
- Hong Kong Profits Tax	**1,055**	920
- Tax outside Hong Kong	**162**	146
	1,217	1,066
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(31)**	(32)
	1,186	1,034
Deferred tax		
- Origination and reversal of temporary differences on:		
- tax losses	**(32)**	4
- depreciation allowances in excess of related depreciation	**(32)**	(56)
- revaluation of properties	**(3)**	-
- provisions and others	**28**	(10)
	(39)	(62)
Income tax in the consolidated profit and loss account	**1,147**	972
Share of income tax expense of associates and joint venture	**158**	148

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

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

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

Details of the tax reserve certificates purchased by the Company are set out in note 11A to this announcement.

6. DIVIDEND

The Board has resolved to pay an interim dividend of HK$0.25 per share and offer a scrip dividend option to all shareholders (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions). The interim dividend, with a scrip dividend option, is expected to be distributed on 11 October 2019 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 28 August 2019.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the half year ended 30 June 2019 of HK$5,506 million (2018: HK$7,083 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the period amounting to 6,135,168,153 (2018: 6,004,172,031).

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the half year ended 30 June 2019 of HK$5,506 million (2018: HK$7,083 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the period after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme amounting to 6,143,443,405 (2018: 6,014,207,193).

Both basic and diluted earnings per share would have been HK$0.56 (2018: HK$0.77), if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$3,440 million (2018: HK$4,648 million).

8. SEGMENTAL INFORMATION

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

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

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

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

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

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

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

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

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

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

HK$ Million	**Revenue Half year ended 30 June 2019**	Revenue Half year ended 30 June 2018	**Contribution to profit Half year ended 30 June 2019**	Contribution to profit Half year ended 30 June 2018
Hong Kong transport operations	**10,690**	9,328	**952**	1,148
Hong Kong station commercial businesses	**3,555**	3,075	**2,679**	2,414
Hong Kong property rental and management businesses	**2,635**	2,517	**2,229**	2,128
Mainland of China and international railway, property rental and management businesses	**10,558**	10,453	**560**	339
Mainland of China property development	**-**	-	**(10)**	(19)
Other businesses	**834**	1,000	**(1,936)**	48
	28,272	26,373	**4,474**	6,058
Hong Kong property development			**898**	158
Project study and business development expenses			**(171)**	(214)
			5,201	6,002
Interest and finance charges			**(442)**	(580)

HK$ Million	Revenue Half year ended 30 June 2019	2018	Contribution to profit Half year ended 30 June 2019	2018
Investment property revaluation			**2,066**	2,435
Share of profit or loss of associates and joint venture			**(74)**	286
Income tax			**(1,147)**	(972)
Profit for the period			**5,604**	7,171

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.

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

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

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

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

9. RAILWAY CONSTRUCTION PROJECT

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

10. RAILWAY CONSTRUCTION PROJECTS UNDER ENTRUSTMENT BY THE HKSAR GOVERNMENT

A. HONG KONG SECTION OF THE GUANGZHOU-SHENZHEN-HONG KONG EXPRESS RAIL LINK ("High Speed Rail" or "HSR") PROJECT

(a) HSR Preliminary Entrustment Agreement:

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

(b) HSR Entrustment Agreement:

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the HSR on the understanding that the Company would subsequently be invited to undertake the operation of the HSR under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the HSR (the "HSR Entrustment Agreement"). Pursuant to the HSR Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the HSR and the HKSAR Government, as owner of HSR, is responsible for bearing and financing the full amount of the total cost of such activities (the "Entrustment Cost") and for paying to the Company a fee in accordance with an agreed payment schedule (the "HSR Project Management Fee") (subsequent amendments to these arrangements are described below). As at 30 June 2019 and up to the date of the interim financial report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

The HKSAR Government has the right to claim against the Company if the Company breaches the HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the HSR Project Management Fee and any other fees that the Company receives under the HSR Entrustment Agreement and certain fees received by the Company under the HSR Preliminary Entrustment Agreement (the "Liability Cap"). In accordance with general principles of law, such Liability Cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has reserved the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement (as more particularly described in note 10A(c)(iv) below), up to the date of the interim financial report, no claim has been received from the HKSAR Government.

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

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

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

As a result of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "Revised Cost Estimate"). Further particulars relating to the Revised Cost Estimate are set out in notes 10A(c) and (e) below.

(c) HSR Agreement:

On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "HSR Agreement") relating to the further funding and completion of the HSR. The HSR Agreement contains an integrated package of terms (subject to conditions as set out in note 10A(c)(vi) below) and provides that:

(i) The HKSAR Government will bear and finance the project cost up to HK$84.42 billion (which includes the original budgeted cost of HK$65 billion plus the agreed increase in the estimated project cost of HK$19.42 billion (the portion of the entrustment cost (up to HK$84.42 billion) that exceeds HK$65 billion being the "Current Cost Overrun"));

(ii) The Company will, if the project exceeds HK$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "Further Cost Overrun") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the HSR Agreement);

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

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

Cap, the Company's liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;

- seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and

- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;

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

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

- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and

- HKSAR Legislative Council approval in respect of the HKSAR Government's additional funding obligations.

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

(d) Operations of HSR:

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

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

Having considered the number of contracts yet to be finalised and the contingency allowance currently available, there can be no absolute assurance that the final project cost will not exceed HK$84.42 billion, particularly if unforeseen difficulties arise in the resolution of commercial issues during the process of negotiating the final accounts. In such case, under the terms of the HSR Agreement, the Company will be required to bear and finance the portion of the project cost that exceeds HK$84.42 billion (if any) except for certain agreed excluded costs (as more particularly described in note 10A(c)(ii) above).

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

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe based on information available to date there is any need to revise further the Revised Cost Estimate of HK$84.42 billion. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach agreement and settlement;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in note 10A(c)(iv) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the HSR Agreement, cannot take place until after commencement of commercial operations on the HSR) (as of 30 June 2019 and up to the date of the interim financial report); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders;

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

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

B. SHATIN TO CENTRAL LINK ("SCL") PROJECT

(a) SCL Preliminary Entrustment Agreement:

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

(b) SCL Advance Works Entrustment Agreement:

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

In August 2015, the Company notified the HKSAR Government that the Company estimated that the cost for the works carried out under the SCL Advance Works Entrustment Agreement will exceed the original estimate of HK$7,350 million. In February 2016, the Company notified the HKSAR Government that the estimated exceedance would be HK$1,267 million (including contingency). In December 2016, the Company completed its review for the project cost estimate of the works under the SCL Advance Works Entrustment Agreement and notified the HKSAR Government of the Company's revised estimate for the entrustment cost for such works of HK$8,617.1 million. In January 2017, the HKSAR Government submitted to the Legislative Council Public Works Subcommittee the application for additional funding needed in excess of amounts retained by the HKSAR Government from the original funding. Such additional funding was approved by Legislative Council Finance Committee in June 2017.

(c) SCL Entrustment Agreement:

On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("SCL Entrustment Agreement"). Pursuant to the SCL Entrustment Agreement, the HKSAR Government is responsible for bearing all the work costs specified in the SCL Entrustment Agreement including costs to contractors and costs to the Company ("Interface Works Costs") except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The Company is responsible for carrying out or procuring the carrying out of the works specified in the SCL Preliminary Entrustment Agreement, the SCL Advance Works Entrustment Agreement and the SCL Entrustment Agreement (together, the "SCL Agreements") for a total project management fee of HK$7,893 million (the "SCL Project Management Fee"). As at 30 June 2019 and up to the date of the interim financial report, the Company has received payments of the SCL Project Management Fee from the HKSAR Government in accordance with the original agreed payment schedule.

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

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

(d) Claims and Indemnification:

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses incurred by the HKSAR Government as a result of the negligence of the Company in performing its obligations under the relevant SCL Agreement or breach thereof by the Company. Under the SCL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. In accordance with general principles of law, such cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the Commission of Inquiry into the Construction Works at and near the Hung Hom Station extension under the Shatin to Central Link ("COI") (as stated in note 10B(e) below), up to the date of the interim financial report, no claim has been received from the HKSAR Government in relation to any SCL Agreement. It is uncertain as to whether such claim will be made against the Company in the future and, if made, the nature and amount of such claim.

(e) Hung Hom Incidents:

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

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

(f) Commission of Inquiry:

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

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

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

(g) Hung Hom Incidents Related Costs:

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

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

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

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

This amount does not take into account any potential recovery from any other party (whether in the circumstances that no overall settlement is reached and / or as a result of an award, settlement or otherwise). Accordingly, if any such potential recovery becomes virtually certain, the amount of any such recovery will be recognised and credited to the Company's consolidated profit and loss account in that financial period. The eventual outcome of the discussions between the Company and the HKSAR Government, the timing of any overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the CTC and the Hung Hom Incidents Related Costs, the level of recovery from relevant parties, and the pending agreement and approval of the increase in the SCL Project Management Fee payable to the Company, remain highly uncertain at the current stage. As a result, no additional provision other than the HK$2,000 million referred to in note 10B (h) above has been made as the Company is currently not able to measure with sufficient reliability the ultimate amount of the Company's obligation or liability arising from the SCL project.

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

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

11. DEBTORS AND CREDITORS

A As at 30 June 2019, the Group's debtors and other receivables amounted to HK$10,289 million (31 December 2018: HK$9,576 million), of which debtors accounted for HK$3,461 million (31 December 2018: HK$3,217 million). Receivables in respect of rentals, advertising and telecommunication activities are due from immediately to 50 days. Receivables in respect of income from railway subsidiaries outside of Hong Kong are due within 30 days or in the following month. Receivables relating to consultancy services and entrustment works are due within 30 days. Receivables under interest rate and currency swap agreements are due in accordance with the terms of the agreements. Receivables relating to property development are due in accordance with the terms of the relevant development agreements or sale and purchase agreements. As at 30 June 2019, HK$338 million (31 December 2018: HK$410 million) were overdue, out of which HK$133 million (31 December 2018: HK$135 million) were overdue by more than 30 days.

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

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

B As at 30 June 2019, creditors, other payables and provisions amounted to HK$32,661 million (31 December 2018: HK$25,947 million), of which creditors and accrued charges amounted to HK$22,343 million (31 December 2018: HK$18,525 million). As at 30 June 2019, HK$5,634 million (31 December 2018: HK$6,152 million) of creditors and accrued charges were due within 30 days or on demand whilst the remainder was not yet due.

12. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, sell or redeem any of the Group's listed securities during the six-month period ended 30 June 2019. However, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 1,870,000 Ordinary Shares of the Company for a total consideration of approximately HK$88 million during the six-month period ended 30 June 2019.

13. CHARGE ON GROUP ASSETS

As at 30 June 2019, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB1,944 million bank loan facility granted to it.

Saved as disclosed above, none of the other assets of the Group was charged or subject to any encumbrance as at 30 June 2019.

14. CORPORATE GOVERNANCE

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

15. PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.mtr.com.hk and the website of the Stock Exchange. The Interim Report will also be available at the Company's and the Stock Exchange's websites and will be despatched to shareholders of the Company in early September 2019.

KEY STATISTICS

	Half year ended 30 June	
	2019	2018
Total passenger boardings for Hong Kong transport operations (in millions)		
- Domestic Service	**830.2**	816.1
- Cross-boundary Service	**57.6**	58.1
- High Speed Rail (Hong Kong Section)	**9.9**	-
- Airport Express	**9.0**	8.5
- Light Rail and Bus	**114.4**	113.2
Average number of passengers (in thousands)		
- Domestic Service (weekday)	**4,892**	4,802
- Cross-boundary Service (daily)	**318.4**	320.8
- High Speed Rail (Hong Kong Section) (daily)	**54.9**	-
- Airport Express (daily)	**49.7**	47.0
- Light Rail and Bus (weekday)	**657.5**	647.1
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment as a percentage of total revenue ("EBITDA margin")		
- Excluding Mainland of China and international subsidiaries	**43.7%**	56.0%
- Including Mainland of China and international subsidiaries	**29.7%**	35.3%

MANAGEMENT REVIEW AND OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

With regard to our financial performance, total revenue for the first six months of 2019 increased by 7.2% to HK$28,272 million when compared with the comparable period of 2018. This was mainly attributable to the incremental contribution from HSR, which opened in September last year. Operating profit before Hong Kong and Mainland of China property development businesses, depreciation, amortisation and variable annual payment decreased by 9.8% to HK$8,411 million, predominantly due to the provision of HK$2 billion relating to the Shatin to Central Link project. Excluding the Company's Mainland of China and international railway, property rental and management subsidiaries, revenue grew by 11.3%, while operating profit decreased by 13.2%. Recurrent profit attributable to equity shareholders, being net profit before property development profits (from both Hong Kong and the Mainland of China) and investment property revaluation, decreased by 40.6% to HK$2,665 million. Post-tax profit from property developments was HK$775 million. Excluding investment property revaluation, net profit from underlying businesses attributable to equity shareholders decreased by 26.0% to HK$3,440 million. Excluding the HK$2 billion provision relating to the Shatin to Central Link project and HK$436 million provision relating to the South Western Railway franchise, net profit from recurrent and underlying businesses would have increased by 13.8% and 26.4% respectively. The gain in revaluation of investment properties was HK$2,066 million, as compared with HK$2,435 million in the first six months of 2018. As a result, net profit attributable to equity shareholders was HK$5,506 million, equivalent to earnings per share of HK$0.90 after revaluation. The Board has declared an interim dividend of HK$0.25 per share.

40th ANNIVERSARY OF MTR

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

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

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

HONG KONG BUSINESSES

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

Transport Operations

Highlights

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

	Half year ended 30 June		
HK$ million	**2019**	2018	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**10,690**	9,328	14.6
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**4,346**	4,101	6.0
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**952**	1,148	(17.1)
EBITDA Margin (in %)	**40.7%**	44.0%	(3.3)% pts.
EBIT Margin (in %)	**8.9%**	12.3%	(3.4)% pts.

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

Safety

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

Patronage and Revenue

Revenue from our Hong Kong transport operations is summarised below:

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

In the first six months of 2019, total patronage of all of our rail and bus passenger services increased by 2.5%, to 1,022.4 million passenger trips. Average weekday patronage increased by 1.7% to 5.9 million.

On our Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail, Ma On Shan and South Island lines), total patronage for the period was 830.2 million, a 1.7% increase over the corresponding period of 2018. On the Cross-boundary Service to Lo Wu and Lok Ma Chau, patronage decreased slightly by 0.8% to 57.6 million, mainly due to the opening of HSR. Patronage on the Airport Express rose by 5.8% to 9.0 million, supported by a rise in air passenger traffic and events organised at AsiaWorld-Expo. Total patronage on the HSR in the first half of 2019 was 9.9 million.

Market Share

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

Fare Adjustments, Promotions and Concessions

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

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

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

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

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

Service Performance

For the first six months of 2019, we continued to maintain train service delivery and passenger journeys on-time in our heavy rail network at a world-class level of 99.9%. This exceeds the targets set for us in the Operating Agreement for MTR as well as our own, more rigorous Customer Service Pledges. The first half of 2019 was our best first half performance since the Rail Merger in terms of passenger journeys on-time.

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

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

Station Commercial Businesses

Highlights

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

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

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

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

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

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

Property and Other Businesses

Highlights

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

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

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

Property Rental and Management Businesses

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

Property rental revenue increased by 5.0% to HK$2,492 million in the first six months of 2019. Our shopping malls in Hong Kong recorded a positive rental reversion of 3% during the first six months of 2019 (10% if including a special rental case). In the first half of 2019, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre were close to 100% let.

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

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

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

Property Development

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

During the period, pre-sales of MONTARA and GRAND MONTARA (LOHAS Park Package 7) were launched in May and June respectively. As at 30 June 2019, all 616 units of MONTARA and all 504 units of GRAND MONTARA had been sold. Meanwhile, pre-sales of the remaining units in Wings at Sea and Wings at Sea II (LOHAS Park Package 4), MALIBU (LOHAS Park Package 5) and LP6 (LOHAS Park Package 6) continued. As at 30 June 2019, about 97.5% of 1,040 units of Wings at Sea, about 96.1% of 1,132 units of Wings at Sea II, about 98.1% of 1,600 units of MALIBU and about 97.3% of 2,392 units of LP6 had been sold.

In our role as agent for relevant subsidiaries of KCRC, pre-sales continued for the remaining units in Sol City (Long Ping Station (South)). As at 30 June 2019, about 77% of 720 units of Sol City had been sold.

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

Other Businesses

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

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

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

HONG KONG BUSINESS GROWTH

Highlights

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

Growing our Hong Kong Rail Business

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

Rail Gen 2.0

Shatin to Central Link

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

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

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

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

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

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

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

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

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

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

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

Programme for Delivery

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

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

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

Funding

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

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

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

Major Asset Upgrades and Replacements on the Existing Network

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

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

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

In order to maintain a comfortable environment for our passengers and workforce, we have been replacing the chillers in our stations and depots. A total of 154 chillers in 35 stations and four depots have been or will be replaced in the next four years. Up to June 2019, we completed the second phase works for the replacement of 32 chillers in four stations and two depots, taking the total number of replaced chillers to 61 in ten stations and three depots.

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

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

The Corporation was greatly concerned about the incident and subsequently set up an Investigation Panel consisting of MTR senior personnel and external experts to identify the root cause of the incident and make recommendations to prevent the reoccurrence of a similar incident. After the investigation was completed, a report was submitted to the Electrical and Mechanical Services Department on 17 June 2019 for review. The results of the investigation were made public on 5 July 2019. A number of improvement measures have been recommended for the contractor of the new signalling system. As safety is the first priority of the Corporation, train testing will only be resumed after the consent of Government is obtained.

On the East Rail Line, dynamic train tests during non-traffic hours for the new signalling system resumed on 28 May 2019 after the temporary suspension following the Tsuen Wan Line incident on 18 March 2019. The new signalling system of the East Rail Line is different from the new system of the Tsuen Wan Line, and the contractor has submitted a detailed assessment to confirm that its system meets the safety requirements for dynamic testing. The safety assessment conducted by an Independent Safety Assessor also confirmed that the new signalling system meets international safety standards for dynamic testing.

Enhancing the Customer Experience

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

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

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

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

In our stations, we are enriching the travelling experience by offering shops that meet a wide range of passengers' needs as well as introducing new, more engaging interactive digital advertising media.

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

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

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

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

New Rail Projects beyond Rail Gen 2.0

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

They included the Tuen Mun South Extension, Northern Link (and Kwu Tung Station), East Kowloon Line, Tung Chung West Extension (and Tung Chung East Station) and North Island Line. During the period, we provided supplementary information on all five projects as requested by Government. We are now working closely with Government to resolve the technical, operational and financial issues in our proposals so that we can take these projects forward to the next stage.

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

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

<u>Expanding the Property Portfolio</u>

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

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

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

As at 30 June 2019, construction of the 60,620 square metre GFA shopping centre at Tai Wai Station was 25% complete. The progress of foundation works, which had been affected by measures taken to address ground settlement at a localised area of the southbound platform on the East Rail Line at Tai Wai Station, resumed in January 2019 with stringent monitoring by the Corporation and Government. The target completion date for this project is now 2023.

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

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

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

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

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

Highlights

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

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

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

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

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

* excluding business development expenses

In the Mainland of China, EBITDA for the first half of 2019 from our railway, property rental and property management subsidiaries increased by 39.6% to HK$155 million, mainly due to the new accounting standard on leases and contributions from technical assistance to a property project in Shunde. In the new accounting standard, lease expenses relating to our shopping mall in Beijing are no longer accounted for as operating expenses but as amortisation for the right-of-use of assets and interest expenses. In our International businesses, EBITDA from our railway subsidiaries increased by 72.9% to HK$517 million, mainly due to contributions from Macau Light Rapid Transit ("LRT") Taipa Line and reduced loss of MTR Pendeltågen AB. Our share of loss from associates and joint venture was HK$194 million, mainly due to the onerous contract provision made for First MTR South Western Trains Limited. Excluding Mainland of China property development and before business development expenses, our railway, property rental and management subsidiaries, together with our associates and joint venture outside of Hong Kong, contributed net after-tax profits of HK$146 million during the first six months of 2019 on an attributable basis, a decrease of 57.3% compared with that of 2018. Such net after-tax profits would have increased by 70.2% to HK$582 million if the onerous contract provision made for First MTR South Western Trains Limited is excluded.

Railway Businesses in the Mainland of China

Beijing

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

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

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

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

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

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

Hangzhou
Through our 49% ownership of our associate in Hangzhou, Hangzhou MTR Corporation Limited ("HZMTR"), we operate Hangzhou Metro Line 1 and the Hangzhou Metro Line 1 Extension. Patronage on these lines increased during the period, rising by 12.6% to 144 million, with an average weekday patronage of 803,000. On-time train performance was maintained at 99.9%.

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

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

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

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

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

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

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

Since taking over the Crossrail concession in 2015, we have significantly improved punctuality and reliability performance as measured by the Public Performance Measure Moving Annual Average on the routes that we operate. As a result, TfL Rail has earned a reputation as one of the most reliable services in the UK.

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

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

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

Sweden

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

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

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

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

Australian Railway Businesses

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

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

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

Macau Railway Business

In April 2018, our wholly owned subsidiary was awarded an MOP 5.88 billion (HK$5.71 billion) contract for operations and maintenance ("O&M") services on Macau's first rail system, the Macau LRT Taipa Line. Running over a length of 9.3 km, the line will serve 11 stations. Under the contract for the Macau LRT Taipa Line, we will be responsible for the line's testing and trial runs before opening, operation of train services, maintenance of trains, the signalling system and other infrastructure over an 80-month service period. During the first half of 2019, we conducted on-going testing and commissioning in preparation for the opening of the line. The Macau SAR Government has also announced the opening of Macau LRT Taipa Line by the end of 2019.

Growth Outside of Hong Kong

Mainland of China

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

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

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

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

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

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

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

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

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

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

Statement of Financial Position

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

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

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

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

Cash Flow

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

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

The Group also paid HK$2,305 million in variable annual payment to KCRC in accordance with the Service Concession Agreement with KCRC. Taking into account the cash investment into the Hangzhou Metro Line 5 joint venture of HK$544 million and other payments, total cash outflow amounted to HK$7,026 million in the first half of 2019.

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

Financing Activities

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

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

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

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

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

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

HUMAN RESOURCES

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

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

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

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

MTR ACADEMY

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

OUTLOOK

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

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

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

In addition, subject to market conditions, we will be inviting tenders for Wong Chuk Hang Station Package 4 and LOHAS Park Package 12 over the next six months or so, providing a total of around 2,650 residential units. In our property development business, the booking of development profits this year for MALIBU (LOHAS Park Package 5) and the shopping centre of LOHAS Park Package 7 is now dependent on construction progress.

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

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

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

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

By Order of the Board
Dr Jacob Kam Chak-pui
Chief Executive Officer

Hong Kong, 8 August 2019

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 23 August 2019 to 28 August 2019 (both days inclusive), during which time no transfers of shares in the Company will be effected. To qualify for the 2019 interim dividend, all completed transfer documents, accompanied by the relevant share certificates have to be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 22 August 2019 (Hong Kong time). The 2019 interim dividend, with a scrip dividend option (except for shareholders with registered addresses in New Zealand or the United States of America or any of its territories or possessions), is expected to be distributed on 11 October 2019 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 28 August 2019.

As at the date of this announcement:

Members of the Board: Rex Auyeung Pak-kuen *(Chairman)* **, Dr Jacob Kam Chak-pui *(Chief Executive Officer)*, Andrew Clifford Winawer Brandler*, Walter Chan Kar-lok*, Dr Pamela Chan Wong Shui*, Dr Dorothy Chan Yuen Tak-fai*, Cheng Yan-kee*, Dr Anthony Chow Wing-kin*, Dr Eddy Fong Ching*, James Kwan Yuk-choi*, Rose Lee Wai-mun*, Lucia Li Li Ka-lai*, Jimmy Ng Wing-ka*, Benjamin Tang Kwok-bun*, Dr Allan Wong Chi-yun*, Johannes Zhou Yuan*, James Henry Lau Jr (Secretary for Financial Services and the Treasury)**, Secretary for Transport and Housing (Frank Chan Fan)**, Permanent Secretary for Development (Works) (Lam Sai-hung)** and Commissioner for Transport (Mable Chan)**

Members of the Executive Directorate: Dr Jacob Kam Chak-pui, Roger Francis Bayliss, Margaret Cheng Wai-ching, Dr Peter Ronald Ewen, Herbert Hui Leung-wah, Adi Lau Tin-shing, Gillian Elizabeth Meller, Linda So Ka-pik, David Tang Chi-fai and Jeny Yeung Mei-chun

* *independent non-executive Director*
** *non-executive Director*

This announcement is made in English and Chinese. In case of any inconsistency, the English version shall prevail.