

**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 MONTHS ENDED 30 JUNE 2012****HIGHLIGHTS****Financial**

- Total revenue increased 6.1% to HK\$17,154 million; Revenue excluding railway subsidiaries outside of Hong Kong increased 8.2% to HK\$10,819 million
- EBITDA increased 8.6% to HK\$6,519 million; EBITDA margin increased 0.9 percentage point to 38.0% (excluding railway subsidiaries outside of Hong Kong, margin was 57.2%)
- Property development profit decreased by HK\$818 million to HK\$627 million derived from sale of units in inventory
- Profit from underlying businesses (i.e. including property development profit but excluding investment property revaluation) decreased 5.7% to HK\$4,121 million or HK\$0.71 per share
- Net profit attributable to shareholders decreased 33.2% to HK\$5,861 million or HK\$1.01 per share
- Net assets increased 2.3% to HK\$137,696 million
- Net debt-to-equity ratio at 9.9%
- Interim dividend of HK\$0.25 per share declared

**Operational**

- Total patronage from Hong Kong transport operations (excluding Intercity) increased 4.5% to 850.5 million
- Listening • Responding Programme launched to implement continuous customer service enhancements
- Fare promotion package announced to return additional revenues from this year's fare adjustment to passengers
- Inventory units of all three phases at Festival City at Tai Wai Station substantially sold; About 53% of pre-sale units at The Riverpark at Che Kung Temple Station sold as at 30 June 2012
- On behalf of the relevant subsidiaries of Kowloon-Canton Railway Corporation awarded the tender for the Tsuen Wan West Station (TW5) Bayside site
- Entrustment Agreement for the project management of Shatin to Central Link signed on 29 May 2012
- Public-Private-Partnership for Hangzhou Metro Line 1 approved by National Development and Reform Commission; Joint venture agreement signed on 17 July 2012

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 2012 as follows:

## CONSOLIDATED PROFIT AND LOSS ACCOUNT (HK\$ MILLION)

	Half Year ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited and restated)
Revenue from Hong Kong transport operations	6,914	6,471
Revenue from Hong Kong station commercial business	1,699	1,527
Revenue from property rental and management businesses	1,730	1,560
Revenue from railway subsidiaries outside of Hong Kong	6,335	6,171
Revenue from other businesses	476	440
Other net income	-	-
	17,154	16,169
Expenses relating to Hong Kong transport operations		
- Staff costs and related expenses	(1,763)	(1,648)
- Energy and utilities	(561)	(513)
- Operational rent and rates	(113)	(101)
- Stores and spares consumed	(226)	(221)
- Maintenance and related works	(484)	(461)
- Railway support services	(103)	(99)
- General and administration expenses	(179)	(165)
- Other expenses	(105)	(94)
	(3,534)	(3,302)
Expenses relating to Hong Kong station commercial business	(188)	(159)
Expenses relating to property rental and management businesses	(335)	(336)
Expenses relating to railway subsidiaries outside of Hong Kong	(6,002)	(5,925)
Expenses relating to other businesses	(476)	(395)
Project study and business development expenses	(100)	(51)
<b>Operating expenses before depreciation, amortisation and variable annual payment</b>	<b>(10,635)</b>	<b>(10,168)</b>
<b>Operating profit before property developments, depreciation, amortisation and variable annual payment</b>	<b>6,519</b>	<b>6,001</b>
Profit on property developments	627	1,445
<b>Operating profit before depreciation, amortisation and variable annual payment</b>	<b>7,146</b>	<b>7,446</b>
Depreciation and amortisation	(1,613)	(1,611)
Variable annual payment	(402)	(301)
<b>Operating profit before interest and finance charges</b>	<b>5,131</b>	<b>5,534</b>

	Half Year ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited and restated)
Interest and finance charges	(432)	(459)
Investment property revaluation	1,740	4,408
Share of profits of non-controlled subsidiaries and associates	299	155
<b>Profit before taxation</b>	<b>6,738</b>	<b>9,638</b>
Income tax	(796)	(775)
<b>Profit for the period</b>	<b>5,942</b>	<b>8,863</b>
<b>Attributable to:</b>		
- Equity shareholders of the Company	5,861	8,777
- Non-controlling interests	81	86
<b>Profit for the period</b>	<b>5,942</b>	<b>8,863</b>
<b>Profit for the period attributable to equity shareholders of the Company:</b>		
- Arising from underlying businesses before property developments	3,597	3,058
- Arising from property developments	524	1,311
- Arising from underlying businesses	4,121	4,369
- Arising from investment property revaluation	1,740	4,408
	<b>5,861</b>	<b>8,777</b>
<b>Earnings per share:</b>		
- Basic	HK\$1.01	HK\$1.52
- Diluted	HK\$1.01	HK\$1.52

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK\$ MILLION)

	Half year ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited and restated)
<b>Profit for the period</b>	<b>5,942</b>	<b>8,863</b>
<b>Other comprehensive income for the period (after taxation and reclassification adjustments):</b>		
Exchange differences on translation of:		
- financial statements of overseas subsidiaries and non-controlled subsidiaries	(49)	94
- non-controlling interests	(1)	10
	<b>(50)</b>	<b>104</b>
Cash flow hedges: net movement in hedging reserve	(1)	4
Self-occupied land and buildings: net movement in fixed assets revaluation reserve	119	411
	<b>68</b>	<b>519</b>

	Half year ended 30 June	
	2012 (Unaudited)	2011 (Unaudited and restated)
<b>Total comprehensive income for the period</b>	<b>6,010</b>	<b>9,382</b>
<b>Attributable to:</b>		
- Equity shareholders of the Company	5,930	9,286
- Non-controlling interests	80	96
<b>Total comprehensive income for the period</b>	<b>6,010</b>	<b>9,382</b>

## CONSOLIDATED BALANCE SHEET (HK\$ MILLION)

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited and restated)
<b>Assets</b>		
Fixed assets		
- Investment properties	53,226	51,453
- Other property, plant and equipment	76,150	76,687
- Service concession assets	23,980	23,928
	<b>153,356</b>	<b>152,068</b>
Property management rights	31	31
Railway construction in progress	5,373	3,566
Property development in progress	12,293	11,964
Deferred expenditure	15	14
Interests in non-controlled subsidiaries	525	579
Interests in associates	1,099	948
Deferred tax assets	27	24
Investments in securities	2,111	2,974
Properties held for sale	1,240	3,757
Derivative financial assets	322	344
Stores and spares	1,202	1,135
Debtors, deposits and payments in advance	4,647	3,964
Amounts due from related parties	538	402
Cash, bank balances and deposits	21,794	16,100
	<b>204,573</b>	<b>197,870</b>
<b>Liabilities</b>		
Creditors and accrued charges	15,984	16,402
Current taxation	871	597
Contract retentions	787	643
Amounts due to related parties	1,592	1,481
Loans and other obligations	26,302	23,168
Obligations under service concession	10,701	10,724
Derivative financial liabilities	161	151
Loan from holders of non-controlling interests	154	154
Deferred income	757	403
Deferred tax liabilities	9,568	9,498
	<b>66,877</b>	<b>63,221</b>

	<b>As at 30 June 2012 (Unaudited)</b>	<b>As at 31 December 2011 (Audited and restated)</b>
<b>Net assets</b>	<b>137,696</b>	<b>134,649</b>
<b>Capital and reserves</b>		
Share capital, share premium and capital reserve	44,099	44,062
Other reserves	93,400	90,401
<b>Total equity attributable to equity shareholders of the Company</b>	<b>137,499</b>	<b>134,463</b>
<b>Non-controlling interests</b>	<b>197</b>	<b>186</b>
<b>Total equity</b>	<b>137,696</b>	<b>134,649</b>

Notes: -

## 1. INDEPENDENT REVIEW

The interim results for the half year ended 30 June 2012 are unaudited, but have been reviewed 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"), by KPMG whose unmodified review report is included in the interim report to be sent to shareholders. The interim results have also been reviewed by the Group's Audit Committee.

## 2. BASIS OF PREPARATION

These unaudited consolidated accounts should be read in conjunction with the 2011 annual accounts. The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards that are first effective for the current accounting period of the Group. Of these, only Amendments to Hong Kong Accounting Standard ("HKAS") 12, *Income taxes – Deferred tax: Recovery of underlying assets*, has impact on the Group's financial statements. On adoption of the Amendments, the Group has changed its accounting policy on measuring deferred tax arising from investment property that is measured using the fair value model in HKAS 40, *Investment Property*.

As a result of the change, the Group now measures any deferred tax liability arising from investment properties in Hong Kong with reference to the tax liability that would arise if the properties are disposed of at their carrying amounts at the balance sheet date. Previously, where these properties were held under leasehold interests, deferred tax was generally measured using the tax rate that would apply as a result of recovery of the asset's value through use.

This change in policy has been adopted retrospectively by restating the opening balances at 1 January 2011 and 1 July 2011 with consequential adjustments to comparatives for the period ended 30 June 2011. This has resulted in a reduction in the amount of deferred tax provided on valuation gain as follows:

HK\$ Million	As previously reported	Effect of adoption of Amendments to HKAS 12	As restated
<b>Consolidated profit and loss account for the half year ended 30 June 2011</b>			
Income tax	(1,502)	727	(775)
Profit for the period	8,136	727	8,863
Profit for the period attributable to equity shareholders of the Company:			
- Arising from investment property revaluation	3,681	727	4,408
- Total	8,050	727	8,777
Basic and diluted earnings per share	HK\$1.39	HK\$0.13	HK\$1.52
<b>Consolidated balance sheet as at 31 December 2011</b>			
Deferred tax assets	27	(3)	24
Deferred tax liabilities	15,105	(5,607)	9,498
Other reserves - Retained profits	82,458	5,604	88,062
<b>Consolidated balance sheet as at 1 January 2011</b>			
Deferred tax assets	9	(5)	4
Deferred tax liabilities	13,854	(4,769)	9,085
Other reserves - Retained profits	71,781	4,764	76,545

Other HKFRS developments have no material impact on the Group's interim report and therefore, the accounting policies adopted in the preparation of these accounts are consistent with those used in the 2011 annual accounts.

### 3. RETAINED PROFITS

The movements of the retained profits during the half year ended 30 June 2012 and the year ended 31 December 2011 were as follows:

HK\$ Million	
Balance as at 1 January 2012, as previously reported	82,458
Effect of adoption of the Amendments to HKAS 12	5,604
Balance as at 1 January 2012, as restated	88,062
Profit for the period attributable to equity shareholders of the Company	5,861
Employee share options forfeited	2
Dividends declared and approved	(2,951)
Balance as at 30 June 2012	90,974
<hr/>	
HK\$ Million	
Balance as at 1 January 2011, as previously reported	71,781
Effect of adoption of the Amendments to HKAS 12	4,764
Balance as at 1 January 2011, as restated	76,545

**HK\$ Million**

Profit for the year attributable to equity shareholders of the Company, as restated	15,556
Employee share options forfeited	5
Dividends declared and approved	(4,044)
Balance as at 31 December 2011, as restated	<u>88,062</u>

**4. PROFIT ON PROPERTY DEVELOPMENTS**

<b>HK\$ Million</b>	<b>Half year ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
Profit on property developments comprises:		
Transfer from deferred income on payments received from developers	-	468
Share of surplus from development	627	402
Income recognised from sharing in kind	-	572
Miscellaneous income net of other overhead costs	-	3
	<u>627</u>	<u>1,445</u>

**5. INCOME TAX**

<b>HK\$ Million</b>	<b>Half year ended 30 June</b>	
	<b>2012</b>	<b>2011</b> (Restated)
Current tax		
- Provision for Hong Kong Profits Tax for the period	666	654
- Mainland of China and overseas tax for the period	87	16
	<u>753</u>	<u>670</u>
Deferred tax		
- Origination and reversal of temporary differences on:		
- tax losses	-	4
- depreciation allowances in excess of related depreciation	5	80
- provision and others	38	21
	<u>43</u>	<u>105</u>
Income tax in the consolidated profit and loss account	<u>796</u>	<u>775</u>
Share of income tax of non-controlled subsidiaries	13	12
Share of income tax of associates	<u>(31)</u>	<u>4</u>

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2012 is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits for the period after deducting accumulated tax losses brought forward, if any. Current taxes for the Mainland of China and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2011: 16.5%) while those arising in the Mainland of China and overseas are calculated at the appropriate current rates of taxation ruling in the relevant countries.

## 6. DIVIDEND

The Board has resolved to pay an interim dividend of HK\$0.25 per share. The interim dividend will be distributed in cash only on or about 19 September 2012 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 3 September 2012.

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the half year ended 30 June 2012 attributable to equity shareholders of HK\$5,861 million (2011: HK\$8,777 million as restated) and the weighted average number of ordinary shares of 5,785,696,289 in issue during the period (2011: 5,775,572,284).

The calculation of diluted earnings per share is based on the profit for the half year ended 30 June 2012 attributable to equity shareholders of HK\$5,861 million (2011: HK\$8,777 million as restated) and the weighted average number of ordinary shares of 5,788,779,216 in issue during the period (2011: 5,780,254,276) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes.

Both basic and diluted earnings per share would have been HK\$0.71 (2011: HK\$0.76) if the calculation is based on profit attributable to equity shareholders of the Company arising from underlying businesses of HK\$4,121 million (2011: HK\$4,369 million).

## 8. SEGMENTAL INFORMATION

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

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

(ii) Hong Kong station commercial business: 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) Property rental and management businesses: The letting of retail, office and car parking space and the provision of estate management services in Hong Kong and the Mainland of China.

(iv) Railway subsidiaries outside of Hong Kong: The operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong.

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

("KCRC").

(vi) Property developments: Property development at locations near the railway systems.

During the year ended 31 December 2011, the Group re-categorised certain business activities not directly relating to transport operations or properties including Ngong Ping 360, railway consultancy business and the provision of project management services to the HKSAR Government and KCRC under a new business segment "Other Businesses". For the half year ended 30 June 2011, HK\$440 million of revenue and HK\$395 million of expenses were re-categorised under "Other Businesses". Accordingly, the comparatives of the consolidated profit and loss account and segmental information are reclassified.

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

HK\$ Million	Turnover		Contribution to profit	
	Half year ended 30 June 2012	2011	Half year ended 30 June 2012	2011
Hong Kong transport operations	6,914	6,471	1,589	1,467
Hong Kong station commercial business	1,699	1,527	1,360	1,238
Property rental and management businesses	1,730	1,560	1,388	1,218
Railway subsidiaries outside of Hong Kong	6,335	6,171	297	203
Other businesses	476	440	(30)	14
	<b>17,154</b>	<b>16,169</b>	<b>4,604</b>	<b>4,140</b>
Property developments			627	1,445
			<b>5,231</b>	<b>5,585</b>
Project study and business development expenses			(100)	(51)
Interest and finance charges			(432)	(459)
Investment property revaluation			1,740	4,408
Share of profits of non-controlled subsidiaries and associates			299	155
Income tax			(796)	(775)
			<b>5,942</b>	<b>8,863</b>

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	
	2012	2011
Hong Kong (place of domicile)	10,732	9,902
Australia	4,582	4,530
Mainland of China	260	97
Sweden	1,562	1,614
Other countries	18	26
	<b>17,154</b>	<b>16,169</b>

## **9. DEBTORS AND CREDITORS**

**A** The Group's debtors, deposits and payments in advance amounted to HK\$4,647 million (31 December 2011: HK\$3,964 million), of which debtors accounted for HK\$3,772 million (31 December 2011: HK\$3,089 million). Receivables in respect of rentals, advertising and telecommunication activities are due immediately or within 50 days. Receivables in respect of consultancy services and franchise or project income from railway subsidiaries outside of Hong Kong 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 developments are due in accordance with the terms of the relevant development agreements or sale and purchase agreements. As at 30 June 2012, HK\$150 million (31 December 2011: HK\$477 million) were overdue, out of which HK\$91 million (31 December 2011: HK\$49 million) were overdue by more than 30 days.

**B** Creditors and accrued charges amounted to HK\$15,984 million (31 December 2011: HK\$16,402 million), including HK\$3,202 million (31 December 2011: HK\$4,613 million) of un-utilised government grant for the construction of the West Island Line and HK\$1,924 million (31 December 2011: HK\$1,950 million) of payables in relation to property development of Lot 1 of the Shenzhen Metro Longhua Line Depot. The Group has no significant balances of trade creditors resulting from its provision of transportation services. As at 30 June 2012, HK\$2,550 million (31 December 2011: HK\$2,765 million) were due within 30 days or on demand and the remainder was not yet due.

## **10. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Group's listed securities during the half year ended 30 June 2012.

## **11. CHARGE ON GROUP ASSETS**

As at 30 June 2012, certain assets held by MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, were pledged as security for a RMB4,000 million bank loan facility granted to it.

As at 30 June 2012, certain assets held by Metro Trains Melbourne Pty. Ltd., a 60% owned subsidiary of the Company in Australia, were pledged as security for an AUD13 million bank loan facility granted to it.

Apart from the above, none of the other assets of the Group was charged or subject to any encumbrance as at 30 June 2012.

## **12. CORPORATE GOVERNANCE**

During the six months ended 30 June 2012, the Company has complied with the Code Provisions set out in both the former Code on Corporate Governance Practices and the new Corporate Governance Code, contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the period from 1 January to 31 March 2012 and from 1 April to 30 June 2012 respectively.

Mr. Chow Chung-kong retired from the position of Chief Executive Officer and ceased to be a Member of the Board and a Member of the Executive Directorate on 31 December 2011.

Mr. Jay Herbert Walder was appointed as Chief Executive Officer for an initial term of thirty

months with effect from 1 January 2012. He became both a Member of the Executive Directorate and a Member of the Board of Directors with effect from the same date. Before joining the Company, Mr. Walder was Chairman and Chief Executive Officer of the New York Metropolitan Transportation Authority, the largest passenger transportation authority in the United States.

Mr. Lincoln Leong Kwok-kuen, previously Finance & Business Development Director, was appointed as Deputy Chief Executive Officer and ceased to be Finance & Business Development Director, both with effect from 16 July 2012. Mr. Leong has remained a Member of the Executive Directorate.

Since Mr. Leong has retained his business development functions as part of the role of Deputy Chief Executive Officer, the role of Finance Director has become vacant. The Company is proceeding with both internal and external searches to fill the position of Finance Director. In the meantime, Mr. Leong is continuing to perform the role of Finance Director until a new Finance Director has been appointed.

### 13. 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](http://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 in early September and will be despatched to shareholders of the Company in early September.

### KEY STATISTICS

	Half year ended 30 June	
	2012	2011
Total passenger boardings (in millions)		
- Domestic Service	<b>687.5</b>	658.4
- Cross-boundary Service	<b>53.0</b>	50.2
- Airport Express	<b>6.1</b>	5.6
- Light Rail	<b>81.5</b>	78.2
Average number of passengers (in thousands)		
- Domestic Service (weekday)	<b>4,027</b>	3,871
- Cross-boundary Service (daily)	<b>291.0</b>	277.5
- Airport Express (daily)	<b>33.3</b>	31.1
- Light Rail (weekday)	<b>458.1</b>	442.2
Operating profit before property developments, depreciation, amortisation and variable annual payment as a percentage of turnover (EBITDA margin)		
- Excluding railway subsidiaries outside of Hong Kong	<b>57.2%</b>	57.6%
- Including railway subsidiaries outside of Hong Kong	<b>38.0%</b>	37.1%

### MANAGEMENT REVIEW AND OUTLOOK

I am pleased to report that MTR achieved good results in the first half of 2012 by leveraging off reasonable economic conditions in Hong Kong. The financial results were supported by continued strong operational performance together with world class safety standards. Our growth momentum continued with a number of important milestones reached both in Hong Kong and elsewhere. In addition, we undertook a comprehensive review of our strategy to take the Corporation forward and re-affirmed our vision to become a leading multi-national company that connects and grows communities with caring service. For our home market in Hong Kong, we strive for continuous service improvements, network

growth and value maximisation. Beyond Hong Kong, we seek to accelerate our pace of growth in the Mainland and other selected international markets.

Our recurrent businesses in Hong Kong, comprising our transport operations, station commercial and property rental businesses, continued to benefit from increased patronage and inbound tourism during the first six months of 2012. In property development, we sold virtually all the remaining inventory units at Festival City in Tai Wai, and launched pre-sale of The Riverpark at Che Kung Temple Station. We had at the end of May invited tenders for our property development site at Tai Wai Station but following detailed analysis of the tenders received, we decided not to accept any of the tender offers, as acceptance would expose the Company to a substantial risk of not recovering the cost of the development. We are examining the development package with a view to putting the project out for tender again over the next six months or so. As the development agent for the relevant subsidiaries of Kowloon-Canton Railway Corporation (KCRC), we also invited tenders for the Tsuen Wan West Station (TW5) Bayside development in July and the tender was awarded to Jubilee Year Investments Limited, a subsidiary of Cheung Kong (Holdings) Limited on 10 August. "PopCorn" in Tseung Kwan O, our 13th shopping mall in Hong Kong, opened for business in March 2012 and was well received by customers.

Our Hong Kong rail network expansion programme, comprising five new rail lines, took a major step forward with the signing of the Entrustment Agreement with Government in May for the last of these lines, namely the Shatin to Central Link. Construction commenced immediately. The other four new lines continued to make good construction progress and are on target to be opened for service as scheduled in 2014 and 2015. Our rail operations in the Mainland of China and overseas achieved further operational improvements. The National Development and Reform Commission (NDRC) of the Central Government approved the Hangzhou Metro Line 1 joint venture project in June.

An important initiative I have undertaken since becoming CEO is to launch our Listening • Responding programme which involves a HK\$1 billion investment to increase train frequencies and upgrade station facilities for the additional comfort and convenience of our passengers. MTR is widely recognised as one of the world's most reliable and high quality public transport providers. Enhancing attentiveness to our customers' needs and aspirations will help us build on this success. The Listening • Responding programme is directly responding to what our passengers have said they would like us to do more of. I am very pleased to report that this programme has received positive feedback from our customers.

In our financial results, total revenue for the first half of 2012 rose by 6.1% to HK\$17,154 million. Operating profit before property development, depreciation, amortisation and variable annual payment grew by 8.6% to HK\$6,519 million. Excluding our railway subsidiaries outside of Hong Kong, revenue increased by 8.2% and operating profit by 7.5%, with operating margin decreasing slightly by 0.4 percentage point to 57.2%. Net profit after tax of our recurrent businesses, which exclude property development and investment property revaluation, increased by 17.6% to HK\$3,597 million. Property development profit for the period was HK\$627 million (HK\$524 million post-tax) compared to HK\$1,445 million in the same period of 2011, and was derived mainly from the sale of remaining inventory units at Festival City in Tai Wai. Due to lower property development profits, excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders decreased by 5.7% to HK\$4,121 million, representing earnings per share of HK\$0.71. Gain in revaluation of investment properties was HK\$1,740 million as compared with HK\$4,408 million in the first half of 2011. Therefore net profit attributable to equity shareholders was HK\$5,861 million, equivalent to earnings per share of HK\$1.01 after such revaluation. Your Board has declared an interim dividend of HK\$0.25 per share.

## Operational Review

### Hong Kong Transport Operations

Total revenue from our Hong Kong transport operations, which comprises rail, bus and other rail related businesses, was HK\$6,914 million for the first six months of 2012, representing an increase of 6.8% from the same period last year.

#### Patronage

Total patronage from all of our rail and bus passenger services in Hong Kong (excluding Intercity railway services) for the first half of 2012 increased by 4.5% to 850.5 million.

Our Domestic Service, which comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines, increased patronage by 4.4% to 687.5 million in the first half of 2012, as a result of economic growth and buoyant tourist arrivals, as well as the implementation of our Listening • Responding programme which supported the continuous service improvement in our network.

The Cross-boundary Service to Lo Wu and Lok Ma Chau reported patronage of 53.0 million in the first half of 2012, a rise of 5.4%, while passenger traffic on the Airport Express increased by 7.6% to 6.1 million. Passenger volume on Light Rail, Bus and Intercity railway services was 105.9 million in the first half of 2012, a 4.7% increase.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong (excluding Intercity) rose by 4.2% to 4.9 million per day in the first half of 2012. The Domestic Service accounted for 81.8% of average weekday patronage, recording a 4.0% increase to 4.0 million per day.

#### Market Share

The Company's overall share of the franchised public transport market in Hong Kong increased further to 45.8% for the first five months of 2012, as compared to 44.9% for the same period of 2011. Within this total, our share of cross-harbour traffic rose to 66.2% from 65.7%. Our market share of Cross-boundary business was 54.4%, while our share of air passengers to and from the airport was 21.7%, in both cases similar to the same period last year.

#### Fare Revenue

Total Hong Kong fare revenue in the first half of 2012 was HK\$6,849 million, 7.1% higher than in the first half of 2011. Within this, Domestic Service revenue accounted for HK\$4,768 million or 69.6% of the total. Average fare per passenger on our Domestic Service increased by 2.7% to HK\$6.93, mainly due to changes in fares and travel patterns.

Fare revenue of the Cross-boundary Service in the first half of 2012 was HK\$1,351 million, an increase of 6.9% when compared with the same period of 2011. Fare revenue of the Airport Express was HK\$387 million, a rise of 7.5%. Light Rail, Bus and Intercity railway fare revenue in the first half of 2012 was HK\$343 million, 6.9% higher than the comparable period of 2011.

Under the Fare Adjustment Mechanism (FAM), the overall fare adjustment rate for MTR fares in 2012 was calculated to be +5.4% and was implemented on 17 June. At the same time, we introduced fare concessions, estimated at HK\$670 million, which is the largest package of promotions that the Company has ever offered. These concessions will be launched at different times and have been carefully structured to benefit a wide range of customers with different travel patterns, and to encourage family and community

activities. Fare concessions introduced include “Ride 10 Get 1 Free”, free travel for children on weekends and public holidays, a 10% discount for every second journey taken on the same day, a Tung Chung Line Monthly Pass and HK\$20 MTR Shops coupons for Monthly Pass purchasers. These promotions are in addition to the numerous other fare concessions we already offer which include discounted fares for children, elderly, persons with disabilities and students. The FAM is subject to review every five years. The first such review will be later this year and we will work closely and constructively with Government on this exercise.

### **Promotions and Concessions**

We continued to offer different promotions on the MTR network. These promotions include fare concessions such as monthly passes on the West Rail and East Rail lines, the Tuen Mun – Nam Cheong Day Pass, free Light Rail and MTR Bus connections, and discounted fares for children and local students. Moreover, we were the first public transport operator in Hong Kong to roll out Government’s Public Transport Fare Concession Scheme for the elderly and eligible persons with disabilities on 28 June, which encouraged more senior citizens and the disabled to travel through our network. We also launched themed campaigns, including souvenir tickets featuring the popular Angry Birds game. To enhance customer loyalty, the popular MTR Club launched a bonus point scheme for its members to earn points from travelling in our network and shopping in MTR Malls and shops.

The profile of the Ktt service in both Hong Kong and the Mainland of China was also enhanced through a number of initiatives with local organisations. Ktt has been honoured with the “Award for Brand Excellence in Guangzhou-Hong Kong Leisure Travel Service” from the Tourism Administration of Guangzhou Municipality in recognition of its excellent service in the travel and tourism sector.

### **Service and Performance**

During the first six months of 2012, we again exceeded the targets set out in the Operating Agreement and our own more exacting Customer Service Pledges.

MTR’s exceptional operating performance was acknowledged when it was named “Best Metro Asia-Pacific” at the prestigious 2012 Metrorail Awards in London in April 2012. At the same event, MTR was recognised for offering the “Best Customer Experience Initiative”. These awards reflect MTR’s world-class service standards and outstanding achievements. In addition, the Airport Express won the “Global AirRail Award 2012 – Customer Service Excellence Award” in May 2012, organised by AirRail News.

The HK\$1 billion Listening • Responding programme has identified enhancement opportunities in our network.

Several new trains have been put into service, allowing us to increase train frequencies by 368 train trips per week on the busiest part of the railway network such as on the Tsuen Wan, Kwun Tong and Island lines. The enhanced train frequency has resulted in an immediate improvement in relieving congestion and waiting time for trains at some of the most crowded points in our system, such as at Admiralty Station on the Tsuen Wan Line during the evening peaks.

The programme also sees enhancement to station facilities to make MTR journeys more convenient and comfortable, especially for elderly passengers, passengers using wheelchairs and those travelling with baby prams. In the past few months, three new lifts have been put into service at Cheung Sha Wan, Jordan and Sham Shui Po stations. The fourth one will commence service soon in Sheung Wan Station. Nine more lifts are also planned to be added into the railway network so that all 83 stations (excluding Racecourse)

will be equipped with at least one lift in the future. In addition, we plan to install 52 more wide gates and 231 platform seats at stations by 2013.

We are also on track to honour our commitment to add toilet facilities at all existing and future interchange stations that currently do not have such facilities. These facilities will be added when the interchange stations undergo major refurbishment works. The first new toilet facility is about to be opened at Sheung Wan Station. Currently, we are finalising the design for toilets in Mong Kok, Prince Edward and Admiralty stations.

We continued to apply the latest technology to improve passenger information. For instance, we have installed more information display panels in stations, introduced interactive Digital Way-finders for trial at Mong Kok Station from May 2012, and launched two mobile applications for smartphones, namely "MTR Tourist" and "Next Train" in June 2012. We also launched an "MTR App Talent Quest" in April 2012 to encourage the public to come up with creative ideas for mobile applications that facilitate the use of MTR. Over 500 enrolments were received locally and internationally. The contest results will be announced in October 2012.

In addition, during the first half of 2012, major renovations were completed at Sha Tin Station. New entrances were completed at Tseung Kwan O Station and are currently underway at seven more stations.

The safety of our passengers, employees and our work partners is an absolute pre-requisite for all that we do. We have hired more than 160 additional station and platform assistants to lend a helping hand to passengers in need. To further enhance the safety of East Rail Line mid-life refurbished trains, we have completed the upgrade of train doors to detect small obstacles. We are also installing safety belts and backing plates for wheelchair users in most of our Light Rail vehicles. To promote safe travel on the railway, we launched the Platform Gap Safety Campaign in April 2012, with safety icons appearing on posters and train door stickers at MTR stations and Light Rail stops. We also launched an annual Escalator Safety Campaign in July 2012 to enhance awareness of escalator safety.

## **Hong Kong Station Commercial Business**

Revenue from our Hong Kong station commercial business in the first half of 2012 rose by 11.3% as compared with the first half of 2011 to HK\$1,699 million, with further improvements in station shop rental and advertising revenues.

Within this total, station retail revenue increased by 12.4% to HK\$1,036 million, largely as a result of increases in the number of shops and rental rates. The number of station shops increased from 1,294 at the end of December 2011 to 1,320 at the end of June 2012, following renovations at six stations. This also boosted the total area of station retail space over the same period to 55,635 square metres, an increase of 703 square metres since 2011 year end.

Advertising revenue in the first half of 2012 increased by 12.0% over the comparable period of 2011 to HK\$428 million. During this period, innovative digital sales initiatives were launched, including the info-service package blending real time weather and UV index information with advertisements. The in-train TV service was extended to the new MTR trains on the Kwun Tong Line to provide infotainment to passengers. We also installed new plasma TVs in Sha Tin Station.

Revenue from our telecommunications business in the first half of 2012 increased by 2.5% over the first half of 2011 to HK\$167 million. In order to meet increasing mobile data demand, we facilitated telecom operators to increase 3G data capacity and signal reception, as well as conducting a technical trial for 4G.

## **Property and Other Businesses**

The Hong Kong residential market remained active in the first half of 2012, with several primary launches well-received by the market. Low interest rates continued to lend support to the market. Nonetheless, volatility in financial markets and the unresolved Euro-zone debt crisis casted a shadow on the property market with transaction volumes being subdued.

The Central prime office market in Hong Kong was also impacted by increasing uncertainty over the Euro-zone. Office take-up has slowed and some office expansion plans have been postponed. Grade-A office rentals remained under pressure as vacancy in Central increased to over 5% from about 3.5% in 2011. Retail leasing performed well, supported by good leasing demand from international retailers in light of increasing number of Mainland shoppers.

### **Property Development**

Profit from property development in the first half of 2012 was HK\$627 million, which comprised mainly profits from the sale of inventory units at Festival City, with all 3 phases in that development substantially sold. In the second quarter of 2012, we launched pre-sale of The Riverpark at Che Kung Temple Station with about 53% of the total of 981 units sold as at 30 June 2012.

In property tendering, we launched our Tai Wai Station tender at the end of May. Following detailed analysis of the tenders received, we decided not to accept any of the tender submissions. We are examining the development package with a view to putting the project out for tender again over the next six months or so. For West Rail development sites, where we act as agent for the relevant subsidiaries of KCRC, we re-tendered the Tsuen Wan West Station (TW5) Bayside site in July and the tender was awarded to Jubilee Year Investments Limited, a subsidiary of Cheung Kong (Holdings) Limited on 10 August.

We also continue to explore other property development opportunities for potential sites along existing and new railway lines in line with Government policy. The Siu Ho Wan Depot site on Lantau Island has been identified by the Government as a potential site for residential development and we are collaborating with Government on planning and technical issues relating to the development of this site.

In our property development projects, we continue to enhance safety through strengthening of controls for high risk activities by way of method statements and risk assessments before work commencement. We have also introduced a "Pictorial Method Statement and Risk Assessment Campaign" to effectively demonstrate safe work procedures on site.

To promote sustainable property developments in Hong Kong, we require all our future residential developments meet the Hong Kong BEAM Plus Gold Standard.

### **Property Rental and Management Businesses**

Revenue from our property rental and property management businesses in the first half of 2012 was HK\$1,730 million, 10.9% higher than the comparable period in 2011.

Total property rental income in Hong Kong and the Mainland of China rose by 11.4% over the first half of 2011 to HK\$1,632 million. In Hong Kong, our shopping mall portfolio achieved an average increase of 15% in rental reversion for the period. At the end of June 2012, the occupancy rate of our 13 shopping malls in Hong Kong and the Corporation's 18 floors at Two International Finance Centre was close to 100%.

In March 2012, we opened our 13th shopping mall in Hong Kong, "PopCorn", which is located directly above Tseung Kwan O Station. This new mall covers a gross floor area of 20,000 square metres and houses some 100 tenants, including numerous international brands and a large cinema. Occupancy upon opening was 100%.

As at 30 June 2012, the Company's attributable share of retail investment properties in Hong Kong was 212,082 square metres of lettable floor area, following the opening of PopCorn. Our attributable share of office and other investment properties remained broadly unchanged at 40,969 and 11,003 square metres of lettable floor area respectively.

Our programme of upgrading our retail portfolio saw the completion of renovation works at Plaza Ascot in Fo Tan and partial completion of the trade-mix revamp at Maritime Square in Tsing Yi. Throughout our malls, we retrofitted energy efficient equipment, to provide energy conservation and we secured Indoor Air Quality Certification (Good Class) from the Environmental Protection Department. Effective marketing underpinned our property portfolio's performance, with Elements, Telford Plaza and our MTR Malls "Must-have Weekly Gift Campaign" promotion programme all securing a number of awards.

In the Mainland of China, Ginza Mall in Beijing retained its occupancy rate of 98% at the end of June 2012 and achieved an average increase of 14% in rental reversion for the period.

Property management revenue in the first half of 2012 increased by 3.2% to HK\$98 million. As at 30 June 2012, the number of residential units under our management in Hong Kong had fallen by 1,432 to 84,730, after the Company exited from the management of Pierhead Garden in Tuen Mun in early 2012, while the area of commercial space under our management rose to 764,725 square metres following the opening of PopCorn. The residential and commercial area in the Mainland of China that we manage stood at 313,266 square metres.

Our property management operations attained numerous awards and recognitions in areas such as energy efficiency, horticultural maintenance, clubhouse management and air and water quality, from a variety of Government and industry bodies.

At all our managed properties and shopping malls, we have further enhanced the safety process and workflow in which some of the industry's best practice initiatives are being pioneered.

### **Other Businesses**

The Ngong Ping cable car was closed for nine weeks for repairs and maintenance works relating to the un-scheduled replacement of bearings and the annual servicing inspection, following a service disruption incident in late January 2012. As a result of this closure, revenue from the cable car and associated theme village recorded a 25.0% drop in revenue in the first half of 2012 to HK\$87 million. Ridership continued to be supported by various promotions and visitor numbers for the six months were over 468,000, with premium Crystal Cabin rides accounting for approximately 32.6% of total rides.

Revenue from consultancy business in the first half of 2012 was HK\$44 million, a decrease of 4.3% from the comparable period of 2011. In Australia, a contract was signed with UGL Unipart Rail Services Pty Ltd in January 2012 to support its rolling stock maintenance works in New South Wales, and in February 2012, a Memorandum of Understanding was signed with Abu Dhabi Department of Transport to establish a long term partnership to develop sustainable rail services there. In Hong Kong, the Automated People Mover midfield concourse extension subcontract was signed with the Hong Kong Airport Authority in February 2012.

Octopus continues to expand its reach in the retail sector. By the end of June 2012, over 5,000 service providers in Hong Kong were using the Octopus service. Octopus in circulation were 20.74 million. Average daily transaction volume and value were 12.1 million and HK\$123.9 million respectively. The Company's share of Octopus' net profit for the first half of 2012 was HK\$95 million, a 17.3% increase over the first half of 2011.

Octopus worked with Guangdong Lingnan Pass Company Limited to jointly launch "Octopus Lingnan Pass" in July 2012, combining Octopus and Lingnan Pass functions in one card for travelling and spending in Hong Kong and Guangdong province in the Mainland of China.

Project management income from KCRC and Government in the first half of 2012 was HK\$331 million, 26.3% higher than the comparable period of 2011, mainly due to higher project management fees relating to the Entrustment Agreement for the Express Rail Link.

## **Mainland of China and Overseas Businesses**

Revenue for the first half of 2012 from our railway subsidiaries outside of Hong Kong, Metro Trains Melbourne Pty. Ltd. (MTM), MTR Stockholm AB (MTRS) and MTR Corporation (Shenzhen) Limited (SZMTR), was HK\$6,335 million. This is a rise of 2.7% over the first half of 2011, and mainly reflects the contribution from Phase 2 of the Shenzhen Metro Longhua Line. Operating costs were HK\$6,002 million, resulting in a 35.4% increase in operating profit to HK\$333 million and an operating profit margin of 5.3%.

For our associates, total contributions from Beijing MTR Corporation Limited (BJMTR), London Overground Rail Operations Ltd (LOROL) and Tunnelbanan Teknik Stockholm AB rose by HK\$130 million to HK\$204 million compared with the first half of 2011 due to the increased contribution from Beijing Metro Line 4 (BJL4).

Total passengers carried by our rail subsidiaries and associates outside of Hong Kong was approximately 556.5 million in the first six months of 2012, against some 460 million in the same period of 2011. The increase was primarily due to the opening of Shenzhen Metro Longhua Line and increasing patronage on our Beijing lines.

### **Mainland of China**

In the Mainland of China, BJL4 and the Daxing Line operations exceeded concession requirements. Ridership in the first six months of 2012 for the combined line was 170 million passenger trips with average daily patronage of over 930,000, an increase of 11.6% over the same period in 2011.

Shenzhen Metro Longhua Line commenced full line operations in June 2011 and operational performance exceeded targets during the first six months of 2012, including those for average train service delivery and punctuality. Ridership was 53 million, with average daily patronage of over 293,000. Our property development project above the depot in Shenzhen Metro Longhua Line continues to make progress. We aim to develop this property by ourselves and have started architectural and design works. We target to complete the regulatory approvals for this project in the second quarter of 2013. The total developable gross floor area of the site is approximately 206,167 square metres.

### **Overseas**

In the UK, during the first half of 2012, LOROL completed its investment programme to refurbish its stations. Total ridership was over 56 million, with average weekday patronage of over 350,000. With its excellent service, LOROL was awarded the title of London's Public Transport Operator of the Year for the second year in a row at the 9th London Transport

Awards and it was chosen as the World's Most Improved Metro at the 2012 Metrorail Awards in London.

In Stockholm, MTRS operations have shown improvements in train availability and punctuality. Total ridership for the first six months was over 160 million, with average weekday patronage exceeding 1.1 million.

In Melbourne, the enhanced operational performance of MTM, with service punctuality exceeding target, has been achieved by way of timetable upgrades and the commissioning of 38 new trains. Total ridership for the first six months was over 100 million, with average weekday patronage of over 790,000.

## **Future Growth**

The Company's future growth is supported by our network extension projects in Hong Kong and further investments overseas.

### **Growth in Hong Kong**

Further progress was made during the first half of 2012 on the five major projects which will bring efficient, affordable and environmentally sustainable rail services to more districts of Hong Kong.

The 3-km West Island Line, an extension of the Island Line, is targeted to open in 2014. As at the end of June, 93% of excavation works for tunnels and 95% of excavation works for stations were complete. Structural works at Hong Kong University Station commenced in May 2012. At Sheung Wan, station modification works have continued, and removal of a portion of the existing overrun tunnel is in progress to make way for the construction of the new west-bound tunnel towards Sai Ying Pun. The method being employed is a major innovation in the world of tunnel construction. All electrical and mechanical (E&M) contracts have been awarded and are progressing well, with all key E&M system design works completed.

The 7-km South Island Line (East), targeted to open in 2015, will extend MTR services from Admiralty to the Southern District of Hong Kong Island, with a train depot located in Wong Chuk Hang. Major achievements during the period include the diaphragm wall for the new Admiralty Station, works required within the nullah for the new Wong Chuk Hang Station as well as open blasting works for the Wong Chuk Hang Depot. Excavation to formation level in Wong Chuk Hang Depot is now 90% complete. Construction contracts for the Wong Chuk Hang Depot superstructure, trackwork and overhead line works, as well as all major E&M contracts, have been awarded.

The 2.6-km Kwun Tong Line Extension will extend the Kwun Tong Line from Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa. By the end of June 2012, the excavation works for Ho Man Tin Station were 35% complete. Shaft excavation for tunnelling works in Ho Man Tin was in progress, while pipe piling for the concourses at Whampoa Station was about 30% complete. All major civil, building services and system-wide E&M contracts have been awarded. The extension is on track to open in 2015.

The 26-km Express Rail Link, which is being funded by Government, will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's high speed intercity passenger rail network. Services are expected to start in 2015. Government has entrusted the design and construction of the line to the Company and has agreed to invite the Company to operate the railway service on a concession basis upon completion.

Two more Tunnel Boring Machines (TBM) were launched at Nam Cheong during this period. As at the end of June, 30% of the tunnelling works for drill and blast tunnels, 10% of the tunnelling works for TBM tunnels and 30% of the excavation works for the West Kowloon Terminus were completed. All major E&M contracts have been awarded, including those for signalling and rolling stock. Agreement was also reached on the final scheme design interface between the West Kowloon Terminus and the West Kowloon Cultural District.

On 29 May 2012, we entered into an entrustment agreement with Government for the construction and commissioning of the Shatin to Central Link. This follows receipt of the formal project authorisation and funding approval, and enables our project team to focus on the delivery of this important new rail link. A Ground Breaking Ceremony was held on 22 June 2012 to mark the commencement of construction works.

Largely funded by Government, the 17-km line consists of ten stations, with six interchange stations, namely Tai Wai, Diamond Hill, Ho Man Tin, Hung Hom, Exhibition and Admiralty stations. It will play a critical part in connecting all districts of Hong Kong with an integrated rail network and expanding our train services further in East Kowloon.

The section between Tai Wai and Hung Hom is expected to be completed in 2018 and the Hung Hom to Admiralty section in 2020. It is estimated that the line will create some 15,000 jobs throughout the construction period.

Procurement of civil and E&M contracts is in progress, and District Council and Community Liaison Group consultations are underway. Foundation piles and substructure works for the new International Mail Centre, together with 20% of the superstructure, have been completed.

In order to address the safety challenges brought about by the substantial increase of staff, contractors and site activities for our five concurrent projects, we launched a "Don't Walk By" Safety Week in May across more than 100 work sites. This program successfully raised the awareness of safe practices among all our workers and contractors. In addition, a "Construction Worker Life Insurance Scheme" was launched in April 2012, providing payment to the families of any worker who dies during the course of employment, regardless of cause.

The Company is looking forward to receiving positive results from Government's Review and Update of the Second Railway Development Study (RDS-2U). The study will determine which future railway projects would best support prosperity in Hong Kong and the Mainland.

### **Growth in the Mainland of China and Overseas**

In the Mainland of China, our joint venture with Hangzhou Metro Group Limited to invest in and operate Hangzhou Metro Line 1 received approval from the NDRC in June 2012 and the formal joint venture agreement was signed on 17 July. The line will enter operation in the fourth quarter 2012. In Beijing, BJMTR on 10 August submitted a bid to invest in a Public-Private-Partnership project for Beijing Metro Line 14, a 47-km line running from the southwest to the northwest of Beijing. We continue our discussions with the respective Government bodies to seek further investment opportunities in the Mainland.

In March 2012, the Company was shortlisted by the UK's Department for Transport to bid for two rail operating franchises - the Essex Thameside and the Thameslink franchises. Work is now underway to prepare for the two tenders, the results of which will be announced in 2013.

## **Financial Review**

The Group's recurrent businesses continued to show strong growth in the first half of 2012. Compared with the same period in 2011, total revenue was 6.1% higher at HK\$17,154 million. Revenue from Hong Kong transport operations rose by 6.8% to HK\$6,914 million, supported by a 4.5% patronage growth and an increase in average fare of 2.5%. Revenue from station commercial business in Hong Kong grew by 11.3% to HK\$1,699 million, as positive economic momentum supported both strong advertising demands and favourable station kiosk rental reversions. Property rental and management income, benefitting from positive rental reversion as well as the opening of PopCorn in March 2012, increased by 10.9% to HK\$1,730 million. Revenue from other businesses grew by 8.2% to HK\$476 million on account of additional project management works on the Express Rail Link and the Shatin to Central Link offset by a 25.0% decrease in revenue from Ngong Ping 360 due to un-scheduled repair and maintenance works. Outside of Hong Kong, our railway subsidiaries increased their combined revenue contributions by 2.7% to HK\$6,335 million, attributed to the additional revenue from Shenzhen Metro Longhua Line Phase 2 which commenced operation in June 2011, as well as an increase in franchise income from MTM.

Total operating costs increased by 4.6%, a lower rate than revenue growth, to HK\$10,635 million. Excluding railway subsidiaries outside of Hong Kong, the cost growth was 9.2%. Expenses on Hong Kong transport operations, increased by 7.0% with staff costs, energy and utilities as well as operational rent and rates increasing by 7.0%, 9.4% and 11.9% respectively due to additional headcounts, energy consumption for service improvements and above-inflationary price escalations. Expenses for Hong Kong station commercial business increased by 18.2% due to higher rent and rate charged in addition to the incremental costs incurred to support the revenue growth. For property rental and management businesses, operating costs decreased by 0.3% due to a scheduled lump sum payment in 2011 in relation to the Ginza Mall lease in Beijing. Excluding such lump sum payment, operating costs would have increased by 6.3%. For other businesses, expenses increased by 20.5% due to the un-scheduled repair and maintenance work costs incurred at Ngong Ping 360 and increase in project management activities. During the first half of 2012, the Group committed further resources in pursuing business opportunities outside of Hong Kong, mainly for the preparation of Hangzhou Metro Line 1 operation and two franchise bids in the UK. This resulted in an increase in project study and business development expenses from HK\$51 million for the same period in 2011 to HK\$100 million in 2012.

Operating profit before property developments, depreciation, amortisation and variable annual payment ("EBITDA") increased by 8.6% to HK\$6,519 million, with operating margin improving from 37.1% in 2011 to 38.0%. Excluding railway subsidiaries outside of Hong Kong, EBITDA increased by 7.5% to HK\$6,186 million with only a slight change in margin from 57.6% to 57.2%. Property development profit for the first half of 2012 was 56.6% less than the same period last year at HK\$627 million, which was mainly derived from the sale of units in inventory at Festival City and The Palazzo. Depreciation and amortisation were maintained to the 2011 level at HK\$1,613 million. Variable annual payment increased by 33.6% to HK\$402 million as the revenue threshold for the highest progressive rate of 35% has been reached. As a result of lower property development profit, profit before interest and finance charges decreased by 7.3% to HK\$5,131 million.

Interest and finance charges decreased by 5.9% to HK\$432 million. The increase in value of investment properties since the end of 2011 was HK\$1,740 million as compared with HK\$4,408 million for the same period last year. The share of profits from non-controlled subsidiaries and associates grew significantly by 92.9% to HK\$299 million mainly due to the good performance of BJMTR. Of the HK\$119 million increase in profit contribution from BJMTR, HK\$66 million was attributable to finalisation of accounting adjustments relating to prior years.

With lower profits from property development and property revaluation, net profit attributable to shareholders after deducting HK\$796 million of income tax and HK\$81 million of profit shared by non-controlling interests was HK\$5,861 million, decreasing by 33.2%. Earnings per share therefore decreased from HK\$1.52 to HK\$1.01. Excluding investment property revaluation, profit from underlying businesses attributable to shareholders decreased by 5.7% to HK\$4,121 million, of which HK\$524 million, a 60.0% reduction from the same period of 2011, was derived from property developments and HK\$3,597 million, a 17.6% increase over the first half of 2011, was derived from recurrent businesses. Earnings per share based on the underlying business profit decreased from HK\$0.76 to HK\$0.71. The Board has declared an interim dividend of HK\$0.25 per share.

The Group's balance sheet strengthened further with net assets increasing by 2.3% from HK\$134,649 million as at 31 December 2011 to HK\$137,696 million as at 30 June 2012. Total assets increased by 3.4% to HK\$204,573 million as a result of the investment property revaluation gain, further construction of the South Island Line (East) and Kwun Tong Line Extension as well as property development costs incurred. The sale of properties during the half year reduced properties held for sale and correspondingly increased debtors, deposits and payments in advance as well as cash balances. Total liabilities increased by 5.8% to HK\$66,877 million mainly due to the increase in loans and other obligations of HK\$3,134 million for financing the upcoming investments in Mainland of China and capital expenditures, rise in deferred income of HK\$354 million in respect of the Shenzhen Metro Longhua Line government subsidy and increase in tax liabilities of HK\$344 million. Total loan outstanding as at 30 June 2012 was HK\$26,302 million. With the increase in cash balance, the net debt-to-equity ratio reduced from 11.4% as at 31 December 2011 to 9.9% as at 30 June 2012.

Cash flow of the Group remained strong in the first half of 2012. Before tax payment, operating activities generated HK\$7,817 million in cash, increasing by 26.6% from the same period of 2011. The Shenzhen Metro Longhua Line government subsidy of RMB522 million (HK\$637 million) for 2012 was received during the first half, while the same amount for last year was received in the second half of 2011. After accounting for this receipt and the tax payment of HK\$479 million, the Group had HK\$7,975 million of cash inflow from operating activities. Cash received from property developments was HK\$2,625 million mainly from the sale of units at Festival City and The Palazzo. Including dividends and loan repayments received from the non-controlled subsidiaries and associates and asset disposal proceeds, total cash inflow during the first half of 2012 was HK\$10,817 million. Total cash outflow in the period was HK\$9,237 million, comprising mainly capital expenditure of HK\$5,100 million for the construction of new extension projects, asset additions for existing operations and expenditures on property developments, the first full-year variable annual payment of HK\$647 million, net interest payment of HK\$330 million and dividend payments of HK\$3,020 million. As a result, the Group generated net cash inflow of HK\$1,580 million in the first half of 2012. To prepare for the projected payments on Mainland investments and capital expenditures in the second half year, the Group made HK\$3,193 million of net borrowing and redeemed HK\$921 million of medium term notes in the first half of 2012. Cash, bank balances and deposits of the Group therefore increased by HK\$5,694 million to HK\$21,794 million as at 30 June 2012.

### **Financing Activities**

Growth of the US economy significantly slowed in the first half of 2012. This, together with safe haven demand from the deepening European sovereign debt crisis and the Federal Reserve's Operation Twist, drove Treasury yields to their lowest levels ever with 10-year yield reaching a historical low of 1.452% per annum. Interbank rates, whilst remaining subdued, crept up slightly with the average 3-month USD-LIBOR and 3-month HKD-HIBOR rising to around 0.49% per annum and 0.40% per annum, from respectively 0.29% per annum and 0.25% per annum of the same period last year.

The USD primary market in Hong Kong was exceedingly active during the period. Enticed by attractive interest rates and investor demand, a large number of top tier Hong Kong issuers raised debt from the US dollar market, some for the first time, causing total issuance volume to hit a record high of US\$17.6 billion.

Taking advantage of the favourable financing window, the Group launched a 5-year USD300 million public bond in March. Based on a strong order book of US\$1.7 billion, the bond was priced at 99.175% of face value with a coupon rate of 2% per annum, the lowest-ever for a corporate five-year US dollar bond in Hong Kong, to yield 2.175% per annum, or 115 basis points over 5-year Treasury. The bond was issued under the Group's USD3 billion Debt Issuance Programme and is listed on the Hong Kong Stock Exchange and investors included a diverse group of institutional investors from Hong Kong, Asia and Europe comprising fund managers, insurance companies, central banks and banks.

The favourable condition in the debt capital market, however, was not mirrored in the loan market. Reacting to higher funding costs and the need to strengthen capital ahead of the new Basel III banking regulations, banks continued to scale back lending by charging higher fees and credit margins and by reducing maturities of loans.

Despite the challenges, the Group managed to leverage off its strong financial position and banking relationships to arrange bilateral banking facilities totaling HK\$3,150 million, comprising 3- and 5-year revolving term loan facilities at attractive costs.

With the new bond issue, bilateral banking facilities, and debt private placements, the Company has further strengthened its liquidity position and financial flexibility. At the end of June 2012, the Company had total cash, bank deposits and short-term investment balance of HK\$21,318 million as well as total undrawn committed banking facilities of HK\$3,150 million, which together will help provide forward coverage of the Company's funding needs well into 2013.

Owing to higher finance charges from increased financing activities compared with the first half of 2011, the Group's weighted average borrowing cost increased slightly to 3.3% per annum, from 3.1% per annum during the same period of 2011.

## **Human Resources**

The number of people employed by the Company together with its controlled subsidiaries, was 14,816 in Hong Kong and 6,873 outside of Hong Kong as at 30 June 2012.

During the six months, we continued to implement our strategic 5-year manpower plan to attract and develop people in support of our business growth. A total of 799 new hires were made, and 538 people were promoted internally to facilitate succession planning, project completion and business expansion. Our recruitment efforts encompassed outreach via universities and other institutions. Partnering with the Hong Kong Council of Social Service and NGOs, our Community Recruitment Programme in Tung Chung served as an additional channel for recruitment while providing employment opportunities to those living in remote districts. To demonstrate our continual support to the development of the construction industry, the Company actively participated in a number of job fairs to promote job opportunities for young graduates and engineers. Our staff turnover remained very low at 3.8%.

Our Corporate Leadership Pipeline ensures a sustainable supply of leaders at all levels. The fourth batch of Executive Associate Scheme entrants completed their group learning activity during the first half, and nomination for the succeeding batch has commenced. Recruitment for the 2012 intake of Graduate Trainees, Graduate Engineers and Functional Associates was completed, with a total of 41 young talents ready to join the Company.

To develop talent at all levels, 2,475 training and development courses were held during the first half of 2012, providing 3.1 training man-days per employee. Our training and development programmes have continued, among other things, to sustain the culture of caring service, innovation and continuous learning, while the Work Improvement Team Programme is building an improvement culture in which members of staff are encouraged to put forward innovative ideas and proposals to improve work processes.

In the first half of 2012, 2,600 sessions of our “Enhanced Staff Communication Programme” were organised, with a participating headcount of more than 28,000, to reinforce two-way communication between line managers and staff.

## **Community Engagement**

Engagement with the communities we serve through our integrated rail plus property business model is central to the way we operate. We provide regular communication channels to talk and listen to our passengers and stakeholders. These include, passenger profile surveys, Customer Voice surveys, the “MTR Opinion Zone” and live radio phone-in programmes, which allow passengers to express their opinions freely.

In support of our new railway projects under construction in Hong Kong, we hold regular community liaison meetings. These enable us to consider the best options for station designs, as well as construction programmes. We have been especially active in recent months with consultations on the Shatin to Central Link.

## **Outlook**

The global economic outlook remains challenging with continued uncertainties in Europe and slowing growth in the Mainland of China. Although a number of our businesses are less sensitive to economic changes, slowing growth in Hong Kong together with the additional fare concessions we have announced will impact the overall growth of our recurrent businesses.

In our property development business, the booking of profits for The Riverpark at Che Kung Temple Station will depend, firstly, on sales proceeds from the units sold exceeding development costs and, secondly, receipt of the Occupation Permit. We currently expect to receive the Occupation Permit for this development later this year.

In our property tendering activities, we are examining the Tai Wai Station package with a view to putting the project out for tendering again within the next six months or so. Subject to market conditions, we aim to tender the Tin Shui Wai Light Rail site over the same period. For West Rail property developments, where we act as agent for the relevant subsidiaries of KCRC, we may tender out the Long Ping Station (North) and Long Ping Station (South) sites over the next six months.

As we approach the fifth anniversary of the merger with KCRC, later on this year will see the first bi-lateral review of the FAM. We will work constructively with Government on this review. More generally, we look forward to working with the new Government to ensure that Hong Kong continues to benefit from safe, efficient and sustainable transport services that underpin economic competitiveness and quality of life.

Finally I would like to thank my fellow directors and colleagues for all their support in this period since my appointment as CEO.

By Order of the Board  
**Jay H Walder**  
*Chief Executive Officer*

Hong Kong, 13 August 2012

*The interim financial information set out above does not constitute the Group's interim consolidated accounts for the half year ended 30 June 2012, but is derived and represents an extract from those interim consolidated accounts.*

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 28 August 2012 to 3 September 2012 (both dates inclusive). In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 27 August 2012. It is expected that the interim dividend will be paid on or about 19 September 2012.

As at the date of this announcement:

*Members of the Board:* Dr. Raymond Ch'ien Kuo-fung (*Chairman*)\*\*, Jay Herbert Walder (*Chief Executive Officer*), Vincent Cheng Hoi-chuen\*, Christine Fang Meng-sang\*, Edward Ho Sing-tin\*, Alasdair George Morrison\*, Ng Leung-sing\*, Abraham Shek Lai-him\*, T. Brian Stevenson\*, Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)\*\*, Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)\*\* and Commissioner for Transport (Susie Ho Shuk-yee)\*\*

*Members of the Executive Directorate:* Jay Herbert Walder, Lincoln Leong Kwok-kuen, Morris Cheung Siu-wa, Chew Tai Chong, Jacob Kam Chak-pui, Gillian Elizabeth Meller, David Tang Chi-fai and Jeny Yeung Mei-chun

\* *independent non-executive Director*

\*\* *non-executive Director*