

Notes to the Unaudited Interim Financial Report

1 Basis of Preparation

This interim financial report is unaudited but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is set out on page 65. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

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

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

This interim financial report contains the condensed consolidated accounts and selected explanatory notes, which include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates since the issuance of the 2014 annual accounts. The condensed consolidated interim accounts and notes thereon do not include all of the information required for a complete set of accounts prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2014 included in this interim financial report as comparative information does not constitute the Company's statutory annual consolidated accounts for that financial year but is derived from those accounts. Further information relating to these statutory accounts disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the accounts for the year ended 31 December 2014 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those accounts. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance (or under their equivalent requirements found in section 141 of the predecessor Companies Ordinance (Cap. 32)).

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

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

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

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

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

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

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

* Formerly Sydney North West Rail Link

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

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

3 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

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

4 Interest and Finance Charges

Interest and finance charges comprise:

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

5 Share of Profit or Loss of Associates

Share of profit or loss of associates comprises:

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

Notes to the Unaudited Interim Financial Report

6 Income Tax

Income tax in the consolidated profit and loss account represents:

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

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

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

7 Dividends

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

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

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

8 Earnings Per Share

A Basic Earnings Per Share

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

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

8 Earnings Per Share *(continued)*

B Diluted Earnings Per Share

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

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

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

9 Segmental Information

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

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

Notes to the Unaudited Interim Financial Report

9 Segmental Information (continued)

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

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

9 Segmental Information *(continued)*

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or goods were delivered.

| in HK\$ million | Half year ended 30 June 2015 | Half year ended 30 June 2014 |
|-------------------------------|---------------------------------|---------------------------------|
| Hong Kong (place of domicile) | 13,998 | 13,088 |
| Australia | 4,264 | 4,293 |
| Mainland of China | 412 | 364 |
| Sweden | 1,390 | 1,700 |
| Other countries | 146 | 26 |
| | 6,212 | 6,383 |
| | 20,210 | 19,471 |

10 Other Comprehensive Income

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

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

B The components of other comprehensive income of the Group relating to cash flow hedges are as follows:

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

Notes to the Unaudited Interim Financial Report

11 Investment Properties

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

Based on the valuations performed by Jones Lang LaSalle Limited, the Group recognised the net increase in fair value of HK\$1,362 million (2014: HK\$3,523 million) under investment property revaluation in the consolidated profit and loss account. Investment properties are revalued semi-annually and future market condition changes may result in further gains or losses to be recognised through the profit and loss account in subsequent periods.

12 Other Property, Plant and Equipment

A Acquisitions and Disposals

During the half year ended 30 June 2015, the Group acquired or commissioned assets at a total cost of HK\$2,460 million (2014: HK\$607 million). Assets with a net book value of HK\$20 million (2014: HK\$15 million) were disposed during the same period, resulting in a net loss on disposal of HK\$18 million (2014: HK\$9 million).

B Valuation

All of the Group's self-occupied land and buildings are held in Hong Kong under medium-term leases and carried at fair value. All self-occupied land and buildings were revalued by using primarily the direct comparison approach assuming sale of properties in their existing state with vacant possession at the reporting date by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuation resulted in a revaluation surplus of HK\$132 million (2014: HK\$52 million), which, net of deferred tax provision of HK\$22 million (2014: HK\$9 million), has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve account (note 10A).

13 Service Concession Assets

During the half year ended 30 June 2015, the Group incurred HK\$967 million (2014: HK\$774 million) of expenditure for the replacement and upgrade of the rail and bus system leased from the Kowloon-Canton Railway Corporation ("KCRC") ("Additional Concession Property") under service concession arrangement in the Rail Merger and HK\$39 million (2014: HK\$137 million) of expenditure for asset additions in respect of Shenzhen Metro Longhua Line.

14 Railway Construction in Progress

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

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

14 Railway Construction in Progress *(continued)*

A Island Line Extension Project

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

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

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

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

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

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

C Kwun Tong Line Extension ("KTE") Project

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

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

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

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

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

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

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

Notes to the Unaudited Interim Financial Report

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

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

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

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

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

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

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

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

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

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

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

B Shatin to Central Link ("SCL") Project

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

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

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

On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("SCL Entrustment Agreement"). Pursuant to the SCL Entrustment Agreement, the HKSAR Government is responsible to bear all the work costs specified in the SCL Entrustment Agreement except for certain costs of modification, upgrade or expansions of certain assets for which the Company is responsible under the existing service concession agreement with KCRC. The Company is responsible to carry out or procure the carrying out of the works specified in the SCL Entrustment Agreement (and the SCL Preliminary Entrustment Agreement and SCL Advance Works Entrustment Agreement) for a project management fee of HK\$7,893 million. As at 30 June 2015 and up to the date of this interim report, the Company has received payments from the HKSAR Government in accordance with the original agreed payment schedule.

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

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

In May 2014, the Company notified the HKSAR Government of the delays to the completion of the East West Corridor and North South Corridor. In the case of the East West Corridor, this is due to the archaeological finds at a site in the To Kwa Wan area, while for the North South Corridor, it is the result of late site access at the future Exhibition Station caused by third party infrastructure works.

Given the above delays, the Company is reviewing again the project cost estimate and the target completion date. Taking into account the continued difficulties and challenges, including those described above, the Company expects that the cost estimate will be revised upwards, and that the review in respect of the project as a whole will be completed in early 2016, after which the Company will formally report the findings to the HKSAR Government. Thereafter, the Company will continue to monitor and review the project cost and completion date.

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

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

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

16 Property Development in Progress

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

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

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

Notes to the Unaudited Interim Financial Report

17 Properties Held for Sale

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

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

18 Derivative Financial Assets and Liabilities

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

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

19 Debtors, Deposits and Payments in Advance

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

- (i) The majority of fare revenue from Hong Kong transport operations is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.
- (ii) Fare revenue from Shenzhen Metro Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTR Express is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month.
- (iii) Franchise revenue in Melbourne is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue in Stockholm is collected in the transaction month with the remainder being collected in the following month. Franchise revenue for MTR Crossrail is collected once every 4 weeks.
- (iv) Rentals, advertising and telecommunications service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.
- (v) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.
- (vi) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.
- (vii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.
- (viii) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing of debtors is analysed as follows:

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

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

Notes to the Unaudited Interim Financial Report

20 Material Related Party Transactions

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

As at 30 June 2015, amounts due from/to the HKSAR Government and other related parties in respect of material related party transactions with the Group are stated below:

| in HK\$ million | At 30 June 2015 (Unaudited) | At 31 December 2014 (Audited) |
|--------------------|--------------------------------|----------------------------------|
| Amounts due from: | | |
| – HKSAR Government | 1,057 | 1,028 |
| – KCRC | 4 | 5 |
| – associates | 166 | 40 |
| | 1,227 | 1,073 |
| Amounts due to: | | |
| – HKSAR Government | 3,557 | 3 |
| – KCRC | 1,226 | 1,597 |
| – an associate | 100 | 7 |
| | 4,883 | 1,607 |

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

The amount due from KCRC related to the recoverable cost for certain capital works and property enabling works in accordance with the agreements in relation to the Rail Merger. The amount due to KCRC related to mandatory payments and related interest payable to KCRC in respect of the property development site along the Light Rail as well as the accrued portion of fixed annual payment and variable annual payment arising from the Rail Merger.

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

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

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

20 Material Related Party Transactions *(continued)*

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

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

21 Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

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

Notes to the Unaudited Interim Financial Report

22 Loans and Other Obligations

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

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

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

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

23 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2015 and the year ended 31 December 2014 are as follows:

| in HK\$ million | Deferred tax arising from | | | | | |
|--|---|---------------------------|---|------------------|------------|--------|
| | Depreciation allowances in excess of related depreciation | Revaluation of properties | Provision and other temporary differences | Cash flow hedges | Tax losses | Total |
| At 30 June 2015 (Unaudited) | | | | | | |
| Balance as at 1 January 2015 | 10,592 | 520 | (139) | (15) | (31) | 10,927 |
| Charged/(credited) to consolidated profit and loss account | 70 | - | (99) | - | (13) | (42) |
| Charged/(credited) to reserves | - | 22 | - | (13) | - | 9 |
| Exchange difference | (1) | - | - | - | - | (1) |
| Balance as at 30 June 2015 | 10,661 | 542 | (238) | (28) | (44) | 10,893 |
| At 31 December 2014 (Audited) | | | | | | |
| Balance as at 1 January 2014 | 9,833 | 498 | (30) | (24) | (17) | 10,260 |
| Charged/(credited) to consolidated profit and loss account | 760 | - | (37) | - | (15) | 708 |
| Charged/(credited) to reserves | - | 22 | (73) | 9 | - | (42) |
| Exchange difference | (1) | - | 1 | - | 1 | 1 |
| Balance as at 31 December 2014 | 10,592 | 520 | (139) | (15) | (31) | 10,927 |

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

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

24 Share Capital and Shares Held for Share Incentive Scheme

A Share Capital

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

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

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

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

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

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

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

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

Notes to the Unaudited Interim Financial Report

25 Fair Value Measurement of Financial Instruments

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

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

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

Level 3: Fair value measured using significant unobservable inputs

A Financial Assets and Liabilities Carried at Fair Value

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

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

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

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

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

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

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

B Financial Assets and Liabilities Not Carried at Fair Value

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

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

The above fair value measurement is categorised as Level 2. The discount cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's capital market instruments and other obligations. The discount rates used were derived from the swap curves of the respective currencies at the end of the reporting period. Closing exchange rates at the end of the reporting period were used to convert value in foreign currency to local currency.

26 Cash Generated from Operations

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

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

Notes to the Unaudited Interim Financial Report

27 Capital Commitments

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

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

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

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

28 Approval of Interim Financial Report

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