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 68. 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 2016 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 2016 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 required to be 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 2016 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.

The accounting policies adopted for the preparation of this interim financial report are the same as those adopted in the preparation of the 2016 annual accounts.

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

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

	Half year ended 30 June 2017		Half year ended 30 June 2016	
in HK$ million	Revenue	Expenses	Revenue	Expenses
Railway-related subsidiaries outside of Hong Kong				
– Melbourne Train	**4,177**	**3,968**	3,819	3,579
– MTR Nordic*	**2,350**	**2,239**	1,480	1,468
– London Crossrail	**542**	**510**	527	493
– Shenzhen Metro Longhua Line	**313**	**249**	326	248
– Sydney Metro Northwest	**476**	**478**	302	302
	7,858	**7,444**	6,454	6,090
Property rental and management businesses in Mainland of China	**66**	**54**	72	57
	7,924	**7,498**	6,526	6,147
Property development in Mainland of China	**6,844**	**4,658**	–	27
Total Mainland of China and international subsidiaries	**14,768**	**12,156**	6,526	6,174

* MTR Nordic comprises the Stockholm Metro, MTR Tech, MTR Express and Stockholm Commuter Rail ("Stockholms pendeltåg") operations in Sweden.

3 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK$ million	Half year ended 30 June 2017	Half year ended 30 June 2016
Share of surplus from property development	**359**	159
Income from receipt of properties for investment purpose	**–**	83
Agency fee and other income from West Rail property development	**286**	19
Other overhead costs net of miscellaneous income	**(23)**	(42)
	622	219

4 Interest and Finance Charges

Interest and finance charges comprise:

in HK$ million	Half year ended 30 June 2017		Half year ended 30 June 2016	
Interest expenses	**830**		693	
Finance charges	**31**		26	
Exchange loss	**164**		181	
		1,025		900
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(64)**		(80)
Derivative financial instruments:				
– Fair value hedges	**(7)**		3	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**6**		8	
– transferred from hedging reserve to offset exchange loss	**(196)**		(189)	
– Derivatives not qualified for hedge accounting	**1**		6	
		(196)		(172)
Interest expenses capitalised		**(177)**		(271)
		588		377
Interest income in respect of deposits with banks		**(185)**		(109)
		403		268

5 Share of Profit or Loss of Associates

Share of profit or loss of associates comprises:

in HK$ million	Half year ended 30 June 2017	Half year ended 30 June 2016
Share of profit or loss before taxation	**287**	371
Share of income tax expenses	**(107)**	(74)
	180	297

6 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	Half year ended 30 June 2017	Half year ended 30 June 2016
Current tax		
– Hong Kong Profits Tax	**944**	862
– Mainland of China and overseas tax	**1,523**	152
	2,467	1,014
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(24)**	(55)
	2,443	959
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**(5)**	–
– depreciation allowances in excess of related depreciation	**(1)**	76
– provisions and others	**(12)**	2
	(18)	78
	2,425	1,037

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2017 is calculated at 16.5% (2016: 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.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant Mainland of China tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions. During the half year ended 30 June 2017, Land Appreciation Tax of HK$758 million (2016: nil) was charged to profit or loss.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2016: 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 shareholders of the Company comprise:

in HK$ million	Half year ended 30 June 2017	Half year ended 30 June 2016
Ordinary dividends payable attributable to the period		
– Interim ordinary dividend declared after the reporting period of HK$0.25 (2016: HK$0.25) per share	**1,501**	1,470
Ordinary dividends paid attributable to the previous year		
– Final ordinary dividend of HK$0.82 (2015: HK$0.81) per share approved and payable/paid during the period	**4,848**	4,763

The Company has recognised 2016 final ordinary dividend payable of HK$3,636 million to the Financial Secretary Incorporated (the "FSI") of the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") and HK$1,212 million to other shareholders in the amounts due to related parties (note 21) and creditors and accrued charges (note 22) respectively in the consolidated statement of financial position as at 30 June 2017.

Pursuant to the agreement entered into between the HKSAR Government and the Company dated 30 November 2015 (the "XRL Agreement"), the Company will pay a special dividend of HK$4.40 in aggregate per share in two equal tranches (HK$2.20 per share in cash in each tranche) conditional on satisfaction of the following conditions specified in the XRL Agreement (the "Conditions"):

(i) independent shareholder approval; and

(ii) HKSAR Legislative Council approval in respect of the HKSAR Government's additional funding obligations,

being granted prior to the Back Stop Date (being 30 September 2016 or earlier, if a termination of XRL Entrustment Agreement is commenced prior to that date).

Given the Company's independent shareholders gave their approval at the General Meeting held on 1 February 2016 and the approval from HKSAR Legislative Council in respect of the HKSAR Government's additional funding obligations was obtained on 11 March 2016, the Conditions have been satisfied. The first tranche of the special dividend was paid on 13 July 2016 and the second tranche was paid on 12 July 2017. There was no scrip alternative for the special dividend. Details are set out in note 15A.

In addition, the Company has recognised the second tranche of special dividend payable of HK$9,756 million to the FSI of the HKSAR Government and HK$3,243 million to other shareholders in the amounts due to related parties (note 21) and creditors and accrued charges (note 22) respectively in the consolidated statement of financial position as at 30 June 2017.

8 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the half year ended 30 June 2017 of HK$7,480 million (2016: HK$5,121 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 2017	Half year ended 30 June 2016
Issued ordinary shares at 1 January	**5,905,290,065**	5,858,228,236
Effect of share options exercised	**3,099,360**	8,212,267
Less: Shares held for Share Incentive Scheme	**(5,361,987)**	(4,470,469)
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 30 June	**5,903,027,438**	5,861,970,034

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the half year ended 30 June 2017 of HK$7,480 million (2016: HK$5,121 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 scheme and Share Incentive Scheme, which is calculated as follows:

	Half year ended 30 June 2017	Half year ended 30 June 2016
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 30 June	**5,903,027,438**	5,861,970,034
Effect of dilutive potential shares under the share option scheme	**7,031,502**	9,868,911
Effect of shares awarded under Share Incentive Scheme	**5,690,330**	4,373,362
Weighted average number of shares (diluted) at 30 June	**5,915,749,270**	5,876,212,307

C Both basic and diluted earnings per share would have been HK$0.99 (2016: HK$0.86) if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$5,848 million (2016: HK$5,073 million).

9 Segmental Information

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

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

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

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

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

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

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

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

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

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		Other businesses	Un-allocated amount	Total
					Mainland of China and international railway, property rental and management businesses	Mainland of China property development			
Half year ended 30 June 2017									
Revenue	8,957	2,788	2,432	–	7,924	6,844	1,059	–	30,004
Operating expenses	(4,784)	(239)	(344)	–	(7,498)	(4,658)	(1,090)	–	(18,613)
Project study and business development expenses	–	–	–	–	–	–	–	(159)	(159)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	4,173	2,549	2,088	–	426	2,186	(31)	(159)	11,232
Profit on Hong Kong property development	–	–	–	622	–	–	–	–	622
Operating profit before depreciation, amortisation and variable annual payment	4,173	2,549	2,088	622	426	2,186	(31)	(159)	11,854
Depreciation and amortisation	(2,208)	(79)	(6)	–	(66)	–	(31)	–	(2,390)
Variable annual payment	(645)	(268)	(2)	–	–	–	–	–	(915)
Operating profit before interest and finance charges	1,320	2,202	2,080	622	360	2,186	(62)	(159)	8,549
Interest and finance charges	–	–	–	–	(11)	68	–	(460)	(403)
Investment property revaluation	–	–	1,632	–	–	–	–	–	1,632
Share of profit or loss of associates	–	–	–	–	93	(1)	88	–	180
Income tax	–	–	–	(103)	(46)	(1,402)	–	(874)	(2,425)
Profit for the half year ended 30 June 2017	1,320	2,202	3,712	519	396	851	26	(1,493)	7,533
Half year ended 30 June 2016									
Revenue	8,617	2,695	2,359	–	6,526	–	1,110	–	21,307
Operating expenses	(4,533)	(253)	(361)	–	(6,147)	(27)	(1,046)	–	(12,367)
Project study and business development expenses	–	–	–	–	–	–	–	(130)	(130)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	4,084	2,442	1,998	–	379	(27)	64	(130)	8,810
Profit on Hong Kong property development	–	–	–	219	–	–	–	–	219
Operating profit before depreciation, amortisation and variable annual payment	4,084	2,442	1,998	219	379	(27)	64	(130)	9,029
Depreciation and amortisation	(1,836)	(73)	(7)	–	(59)	–	(33)	–	(2,008)
Variable annual payment	(617)	(248)	(2)	–	–	–	–	–	(867)
Operating profit before interest and finance charges	1,631	2,121	1,989	219	320	(27)	31	(130)	6,154
Interest and finance charges	–	–	–	–	(6)	40	–	(302)	(268)
Investment property revaluation	–	–	48	–	–	–	–	–	48
Share of profit or loss of associates	–	–	–	–	152	–	145	–	297
Income tax	–	–	–	(25)	(93)	–	–	(919)	(1,037)
Profit for the half year ended 30 June 2016	1,631	2,121	2,037	194	373	13	176	(1,351)	5,194

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 2017	Half year ended 30 June 2016
Hong Kong (place of domicile)	**15,121**	14,767
Australia	**4,654**	4,121
Mainland of China	**7,240**	402
Sweden	**2,350**	1,480
United Kingdom	**546**	535
Other countries	**93**	2
	14,883	6,540
	30,004	21,307

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 2017			Half year ended 30 June 2016		
	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	**423**	**–**	**423**	(290)	–	(290)
– Non-controlling interests	**20**	**–**	**20**	5	–	5
	443	**–**	**443**	(285)	–	(285)
Surplus on revaluation of self-occupied land and buildings	**102**	**(17)**	**85**	84	(14)	70
Cash flow hedges: net movement in hedging reserve (note 10B)	**(375)**	**61**	**(314)**	170	(28)	142
Other comprehensive income	**170**	**44**	**214**	(31)	(42)	(73)

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 2017	Half year ended 30 June 2016
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	**(191)**	348
Amounts transferred to initial carrying amount of hedged items	**1**	1
Amounts transferred to profit or loss:		
– Interest and finance charges (note 4)	**(190)**	(181)
– Other expenses	**5**	2
Deferred tax on the above items	**61**	(28)
	(314)	142

11 Investment Properties

All investment properties of the Group were revalued 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 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$1,632 million for the half year ended 30 June 2017 (2016: HK$48 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 2017, the Group acquired or commissioned assets at a total cost of HK$1,023 million (2016: HK$1,326 million). Assets with a net book value of HK$17 million (2016: HK$19 million) were disposed during the same period, resulting in a net loss on disposal of HK$14 million (2016: HK$18 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$102 million (2016: HK$84 million), which, net of deferred tax provision of HK$17 million (2016: HK$14 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 2017, the Group incurred HK$1,064 million (2016: HK$894 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 the service concession arrangement in the Rail Merger and HK$9 million (2016: HK$27 million) of expenditure for asset additions in respect of Shenzhen Metro Longhua Line.

14 Railway Construction in Progress

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 i.e. December 2016 (based on commencement of commercial operation on 28 December 2014), 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). Under a supplemental agreement signed in December 2016, the Company and the HKSAR Government agreed to extend the timeframe for the repayment mechanism to not later than 30 June 2018. During the half year ended 30 June 2017, no payment has been made by the Company to the HKSAR Government under the repayment mechanism (year ended 31 December 2016: principal of HK$48 million and interest of HK$18 million).

As at 30 June 2017, the Company has no authorised outstanding commitments on contracts (31 December 2016: nil) 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).

As at 30 June 2017, the project cost estimate remained at HK$17.2 billion (before capitalised interest expense of HK$1.0 billion).

As at 30 June 2017, the Company has authorised outstanding commitments on contracts totalling HK$0.3 billion (31 December 2016: HK$0.4 billion) for this project.

14 Railway Construction in Progress *(continued)*

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.

As at 30 June 2017, the project cost estimate remained at HK$6.9 billion (before capitalised interest expense of HK$0.3 billion).

As at 30 June 2017, the Company has authorised outstanding commitments on contracts totalling HK$8 million (31 December 2016: HK$4 million) for this project.

15 Other Railway Construction in Progress under Entrustment by the HKSAR Government

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

(a) XRL Preliminary Entrustment Agreement: On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the 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.

(b) XRL Entrustment Agreement: 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 a fee in accordance with an agreed payment schedule (the "Project Management Fee") (subsequent amendments to these arrangements are described below). As at 30 June 2017 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.

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 (the "Liability Cap"). 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.

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

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

As a result of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "Revised Cost Estimate").

(c) XRL Agreement: On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "XRL Agreement") relating to the further funding and completion of the XRL. The XRL Agreement contains an integrated package of terms (subject to conditions as set out in note 15A(c)(vi) below) and provides that:

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

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

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

15 Other Railway Construction in Progress under Entrustment by the HKSAR Government *(continued)*

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

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

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
- seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;

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

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

- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and
- HKSAR Legislative Council approval in respect of the HKSAR Government's additional funding obligations.

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

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

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe there is any need to revise further the XRL Revised Programme or the Revised Cost Estimate of HK$84.42 billion;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in note 15A(c)(iv) above), given that a) the Company has not received any notification from Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the XRL Agreement, cannot take place until after commencement of commercial operations on the XRL) (as of 30 June 2017 and up to the date of this interim report); b) the Company has the benefit of the Liability Cap; and c) as a result of the XRL Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and

(iii) any possible insufficiency of the Project Management Fee to enable the Company to recover fully its internal costs incurred in performing its obligations in relation to the XRL project, given that the Company estimates that the increased Project Management Fee under XRL Agreement should be sufficient to cover such costs (based on current known circumstances),

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

(e) During the half year ended 30 June 2017, project management fee of HK$368 million (2016: HK$378 million) was recognised in the consolidated profit and loss account.

B Shatin to Central Link ("SCL") Project

(a) SCL Preliminary Entrustment Agreement: On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the SCL ("SCL Preliminary Entrustment Agreement"). Pursuant to the SCL Preliminary Entrustment Agreement, the Company is responsible 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.

(b) SCL Advance Works Entrustment Agreement: On 17 May 2011, the Company entered into another entrustment agreement with the HKSAR Government for the financing, construction, procurement of services and equipment and other matters associated with certain enabling works in relation to the SCL ("SCL Advance Works Entrustment Agreement"). Pursuant to the SCL Advance Works Entrustment Agreement, the Company is responsible 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 ("SCL Advance Works Costs").

15 Other Railway Construction in Progress under Entrustment by the HKSAR Government *(continued)*

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

In August 2015, the Company notified the HKSAR Government that the Company estimated that the cost for the works carried out under the SCL Advance Works Entrustment Agreement will exceed the original estimate of HK$7,350 million in respect thereof by HK$1,274 million (including contingency). In February 2016, the Company notified the HKSAR Government that the estimated exceedance will be adjusted to HK$1,267 million (including contingency). In December 2016, the Company completed its review for the project cost estimate of the works under the SCL Advance Works Entrustment Agreement and notified the HKSAR Government of the Company's revised estimate for the entrustment cost for such works of HK$8,617.1 million. In January 2017, the HKSAR Government submitted the application for additional funding to the Legislative Council Public Works Subcommittee. The additional funding was approved by Legislative Council Finance Committee in June 2017.

(c) SCL Entrustment Agreement: On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("SCL Entrustment Agreement"). Pursuant to the SCL Entrustment Agreement, the HKSAR Government is responsible to bear all the work costs specified in the SCL Entrustment Agreement including costs to contractors and costs to the Company ("Interface Works Costs") except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The Company is responsible to carry out or procure the carrying out of the works specified in the SCL Preliminary Entrustment Agreement, the SCL Advance Works Entrustment Agreement and the SCL Entrustment Agreement (together, the "SCL Agreements") for a total project management fee of HK$7,893 million. As at 30 June 2017 and up to the date of this interim report, the Company has received payments of the project management fee from the HKSAR Government in accordance with the original agreed payment schedule.

In May 2014, the Company notified the HKSAR Government of the delays to the completion of the East West Corridor and North South Corridor. The programme for delivery of the Shatin to Central Link has been impacted by certain key external events. For the East West Corridor, the discovery of archaeological relics in the To Kwa Wan area has led to an 11-month delay. However, with the successful implementation of a number of delay recovery measures, the length of the delay has been reduced and the estimated completion of this corridor is now in mid-2019. For the North South Corridor, the Company had previously reported a six-month delay due to a number of external factors including the anticipated late handover by a third party of construction sites for the new Exhibition Station. As a result of incomplete entrusted works handed over by a third party contractor at another site at Wan Chai North, the completion of this corridor has been further delayed by an additional three months (to a total expected delay of nine months). However, the North South Corridor is still targeted to be completed in 2021.

For the SCL Entrustment Agreement, taking into account the continuing difficulties and challenges, including those described above, the Company considers that the cost estimate for the SCL Entrustment Agreement will need to be revised upwards significantly to take account of (i) the additional HK$4,100 million that was previously reported as a result of the archaeological finds in the To Kwa Wan area, (ii) the late handover of construction sites at Exhibition Station, (iii) the previously unbudgeted foundation works for top-side development at Exhibition Station, (iv) another site which was handed over with incomplete entrusted works by a third party contractor at Wan Chai North, and (v) other factors such as lower availability of labour experienced in Hong Kong's construction sector. The Company has advised the HKSAR Government that it will therefore conduct a detailed review of the project cost estimate relating to the SCL Entrustment Agreement.

Given the complexity of the project works, the continuing uncertainties associated with some of the issues highlighted above and the fact that the North South Corridor is currently only 54.6% complete, this review will be completed later this year, after which the Company will formally report the findings to the HKSAR Government.

The HKSAR Government has the right to claim against the Company if the Company breaches 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.

(d) 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 2017 and up to the date of this interim report), the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any) arising from the matters described above.

(e) During the half year ended 30 June 2017, project management fee of HK$457 million (2016: HK$450 million) was recognised in the consolidated profit and loss account.

Additionally, during the half year ended 30 June 2017, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK$596 million (2016: HK$649 million). As at 30 June 2017, the amount of the SCL Advance Works Costs and the Interface Works Costs which remained to be paid to the Company by the HKSAR Government was HK$1,312 million (31 December 2016: HK$1,359 million).

16 Property Development in Progress

Movements of property development in progress of the Group during the half year ended 30 June 2017 and the year ended 31 December 2016 are as follows:

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to properties held for sale	Transfer out to profit or loss	Exchange differences	Balance at 30 June/ 31 December
At 30 June 2017 (Unaudited)							
Airport Railway Property Projects	**–**	**2**	**(2)**	**–**	**–**	**–**	**–**
Tseung Kwan O Extension Property Projects	**3,795**	**94**	**–**	**–**	**–**	**–**	**3,889**
East Rail Line/Light Rail Property Projects	**9,079**	**96**	**–**	**–**	**–**	**–**	**9,175**
South Island Line (East) Property Project	**1,142**	**14**	**–**	**–**	**–**	**–**	**1,156**
Kwun Tong Line Extension Property Project	**463**	**4**	**–**	**–**	**–**	**–**	**467**
Shenzhen Property Project	**3,005**	**272**	**–**	**(178)**	**(3,194)**	**95**	**–**
	17,484	**482**	**(2)**	**(178)**	**(3,194)**	**95**	**14,687**
At 31 December 2016 (Audited)							
Airport Railway Property Projects	–	2	(2)	–	–	–	–
Tseung Kwan O Extension Property Projects	3,643	152	–	–	–	–	3,795
East Rail Line/Light Rail Property Projects	8,928	151	–	–	–	–	9,079
South Island Line (East) Property Project	1,061	81	–	–	–	–	1,142
Kwun Tong Line Extension Property Project	414	49	–	–	–	–	463
Shenzhen Property Project	3,937	525	–	(409)	(791)	(257)	3,005
	17,983	960	(2)	(409)	(791)	(257)	17,484

17 Assets Held for Sale

In August 2013, Tianjin TJ – Metro MTR Construction Company Limited ("Tianjin TJ – Metro MTR"), a company formed by the Company's subsidiary, MTR Property (Tianjin) No.1 Company Limited ("MTR TJ No.1") (49%), and Tianjin Metro (Group) Company Limited (51%), won the bidding for the land use right for a site at Beiyunhe Station on Tianjin Metro Line 6 at a price of RMB2,075 million. Tianjin TJ – Metro MTR was set up on 15 July 2013 with a registered capital of RMB1,800 million, of which 49% is borne by MTR TJ No.1. In January 2014, Tianjin TJ – Metro MTR Construction Company Limited increased its registered capital to RMB2,273 million and MTR TJ No.1 had made a further equity contribution of RMB232 million (HK$294 million) to the associate.

On 23 March 2017, MTR TJ No.1 entered into a Framework Agreement comprising, inter alia, a Share Transfer Agreement, with Tianjin Xingtai Jihong Real Estate Co., Ltd. ("TJXJRE"), a wholly-owned subsidiary of Beijing Capital Land Ltd., for the disposal of MTR TJ No.1's 49% equity interest in Tianjin TJ – Metro MTR at a consideration of RMB1.3 billion; and MTR TJ No.1's conditional future acquisition of a shopping centre with a total area of approximately 91,000 square meters to be developed on the same site at a consideration of RMB1.3 billion subject to the agreement of Tianjin TJ – Metro MTR. The conditions of the Share Transfer Agreement were fulfilled and the disposal of MTR TJ No.1's 49% interest was completed on 10 July 2017. As at 30 June 2017, the Group's interest in Tianjin TJ – Metro MTR was presented as assets held for sale on the consolidated statement of financial position with its result reported under the Mainland of China property development segment. A performance bond in the amount of RMB1.6 billion issued by a Hong Kong licensed bank has been provided by TJXJRE to MTR TJ No.1 to guarantee its obligations under the Framework Agreement.

18 Properties Held for Sale

in HK$ million	At 30 June 2017 (Unaudited)	At 31 December 2016 (Audited)
Properties held for sale		
– at cost	**1,176**	1,068
– at net realisable value	**275**	326
	1,451	1,394

Properties held for sale at net realisable value as at 30 June 2017 are stated net of provision of HK$41 million (31 December 2016: HK$47 million) made in order to state these properties at the lower of their cost and estimated net realisable value.

19 Derivative Financial Assets and Liabilities

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

	At 30 June 2017 (Unaudited)		At 31 December 2016 (Audited)	
in HK$ million	Notional amount	Fair value	Notional amount	Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– fair value hedges	**–**	**–**	1,317	1
– cash flow hedges	**200**	**6**	–	–
– not qualified for hedge accounting	**195**	**6**	–	–
Cross currency swaps				
– fair value hedges	**464**	**2**	2,326	17
– cash flow hedges	**450**	**33**	4,699	81
Interest rate swaps				
– fair value hedges	**600**	**21**	600	27
– cash flow hedges	**1,250**	**23**	1,350	57
	3,159	**91**	10,292	183
Derivative Financial Liabilities				
Foreign exchange forwards				
– fair value hedges	**–**	**–**	2,174	3
– cash flow hedges	**37**	**4**	324	15
– net investment hedges	**2,047**	**23**	–	–
– not qualified for hedge accounting	**1,660**	**4**	197	11
Cross currency swaps				
– fair value hedges	**698**	**14**	1,194	137
– cash flow hedges	**9,636**	**507**	2,670	366
– net investment hedges	**64**	**6**	–	–
Interest rate swaps				
– fair value hedges	**650**	**10**	2,701	32
– cash flow hedges	**700**	**9**	600	5
	15,492	**577**	9,860	569
Total	**18,651**		20,152	

20 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 from operations in Stockholm is collected in the transaction month with the remainder being collected in the following month. Concession 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.

20 Debtors, Deposits and Payments in Advance *(continued)*

(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 2017 (Unaudited)	At 31 December 2016 (Audited)
Amounts not yet due	**2,804**	2,362
Overdue by 30 days	**138**	430
Overdue by 60 days	**37**	52
Overdue by 90 days	**34**	16
Overdue by more than 90 days	**31**	42
Total debtors	**3,044**	2,902
Deposits and payments in advance	**875**	1,171
	3,919	4,073

Included in the amounts not yet due as at 30 June 2017 was HK$842 million (31 December 2016: HK$666 million) in respect of Hong Kong and Mainland of China property developments.

21 Material Related Party Transactions

The FSI of the HKSAR Government, which holds approximately 75.0% of the Company's issued share capital on trust for the HKSAR Government as at 30 June 2017, 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 2017, 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 2017 (Unaudited)	At 31 December 2016 (Audited)
Amounts due from:		
– HKSAR Government	**2,296**	2,092
– KCRC	**6**	15
– associates	**98**	64
	2,400	2,171
Amounts due to:		
– HKSAR Government	**13,430**	9,798
– KCRC	**1,356**	1,852
– an associate	**141**	133
	14,927	11,783

As at 30 June 2017, the amount due from the HKSAR Government mainly 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 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 2017 related to the second tranche of special dividend payable under the XRL Agreement (note 7) amounting to HK$9,756 million, the 2016 final ordinary dividend payable (note 7) amounting to HK$3,636 million as well as land administrative fees in relation to railway extensions. The second tranche of special dividend and the 2016 final ordinary dividend were paid to the FSI of the HKSAR Government on 12 July 2017.

21 Material Related Party Transactions *(continued)*

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 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 2017 included mainly receivables in relation to the daily Octopus card transactions with Octopus Cards Limited, and the outstanding balances of loans to Emtrain AB 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 2017 related to the amount payable for the equity contribution to NRT Pty. Limited ("NRT").

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 2016.

During the half year ended 30 June 2017, the Group had the following transactions with its associates, namely Octopus Holdings Limited and its subsidiaries ("Octopus Group"), BJMTR and NRT:

in HK$ million	Half year ended 30 June 2017	Half year ended 30 June 2016
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	**74**	72
– Fees received or receivable in respect of load agent, Octopus card issuance and refund services, computer equipment and relating services and warehouse storage space provided to Octopus Group	**20**	19
BJMTR		
– Fees received or receivable in respect of staff secondment, information technology and other support services provided to BJMTR	**21**	23
NRT		
– Fees received or receivable in respect of the design and delivery of electrical and mechanical systems and rolling stock services provided to NRT	**510**	281

22 Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

in HK$ million	At 30 June 2017 (Unaudited)	At 31 December 2016 (Audited)
Due within 30 days or on demand	**6,146**	5,000
Due after 30 days but within 60 days	**1,211**	4,147
Due after 60 days but within 90 days	**1,441**	1,272
Due after 90 days	**4,993**	10,494
	13,791	20,913
Rental and other refundable deposits	**3,849**	3,779
Accrued employee benefits	**3,046**	2,982
Dividends payable to other shareholders (note 7)	**4,455**	3,222
	25,141	30,896

23 Loans and Other Obligations

Notes issued by the Group during the half year ended 30 June 2017 and 2016 comprise:

in HK$ million	Half year ended 30 June 2017 Principal amount	Half year ended 30 June 2017 Net consideration received	Half year ended 30 June 2016 Principal amount	Half year ended 30 June 2016 Net consideration received
Debt issuance programme notes	**3,954**	**3,913**	2,982	2,944

During the half year ended 30 June 2017, notes of HK$2,400 million and AUD145 million (or HK$852 million) (2016: HK$2,050 million and USD80 million (or HK$621 million)) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited, while notes of USD90 million (or HK$702 million) were issued by the Company (2016: USD40 million (or HK$311 million)). 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 notes issued by the Company and 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 2017, the Group redeemed USD550 million (or HK$4,268 million) of its listed securities (2016: nil), and HK$500 million and AUD50 million (or HK$417 million) of its unlisted debt securities (2016: nil).

24 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2017 and the year ended 31 December 2016 are as follows:

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
At 30 June 2017 (Unaudited)						
Balance as at 1 January 2017	**11,795**	**599**	**(314)**	**32**	**(12)**	**12,100**
Credited to consolidated profit and loss account	**(1)**	**–**	**(12)**	**–**	**(5)**	**(18)**
Charged/(credited) to reserves	**–**	**17**	**–**	**(61)**	**–**	**(44)**
Exchange difference	**1**	**–**	**(3)**	**–**	**–**	**(2)**
Balance as at 30 June 2017	**11,795**	**616**	**(329)**	**(29)**	**(17)**	**12,036**
At 31 December 2016 (Audited)						
Balance as at 1 January 2016	11,024	574	(372)	(43)	(65)	11,118
Charged to consolidated profit and loss account	771	–	33	–	49	853
Charged to reserves	–	25	26	75	–	126
Exchange difference	–	–	(1)	–	4	3
Balance as at 31 December 2016	11,795	599	(314)	32	(12)	12,100

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

in HK$ million	At 30 June 2017 (Unaudited)	At 31 December 2016 (Audited)
Net deferred tax assets	**(68)**	(25)
Net deferred tax liabilities	**12,104**	12,125
	12,036	12,100

25 Share Capital and Shares Held for Share Incentive Scheme

A Share Capital

	At 30 June 2017 (Unaudited)		At 31 December 2016 (Audited)	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**5,905,290,065**	**47,929**	5,858,228,236	46,317
Shares issued in respect of scrip dividend of 2015 final ordinary dividend	**–**	**–**	15,683,803	566
Shares issued in respect of scrip dividend of 2016 interim ordinary dividend	**–**	**–**	2,382,026	101
Vesting of shares of Share Incentive Scheme	**–**	**1**	–	1
Shares issued under share option schemes	**8,736,000**	**282**	28,996,000	944
At 30 June/31 December	**5,914,026,065**	**48,212**	5,905,290,065	47,929

B New shares issued and fully paid up during the half year ended 30 June 2017 comprise:

	Number of shares	Weighted average exercise price HK$
Employee share options exercised:		
– 2007 Share Option Scheme	**8,736,000**	**29.33**

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

	Half year ended 30 June 2017	Half year ended 30 June 2016
	2007 Share Option Scheme	2007 Share Option Scheme
Outstanding at 1 January	**25,605,000**	55,034,500
Exercised during the period	**(8,736,000)**	(22,982,000)
Forfeited during the period	**(67,500)**	(264,500)
Outstanding at 30 June	**16,801,500**	31,788,000
Exercisable at 30 June	**16,801,500**	25,642,000

D During the half year ended 30 June 2017, the Company awarded Performance Shares and Restricted Shares under the Company's 2014 Share Incentive Scheme to certain eligible employees of the Company. A total of 112,200 Performance Shares (2016: 187,200) and 2,245,200 Restricted Shares (2016: 2,401,150) were awarded and accepted by the grantees on 10 April 2017 (2016: 8 April 2016). The fair value of these awarded shares was HK$44.45 per share (2016: HK$38.65 per share).

E During the half year ended 30 June 2017, the Trustee of the 2014 Share Incentive Scheme did not purchase any ordinary shares of the Company on the Hong Kong Stock Exchange.

F During the half year ended 30 June 2017, 1,486,069 shares (2016: 769,115) were transferred to the awardees under 2014 Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$56 million (2016: HK$28 million). During the half year ended 30 June 2017, HK$1 million (2016: HK$2 million) was credited to share capital in respect of vesting of shares whose fair values at the grant date were higher than the costs of the vested shares. During the half year ended 30 June 2017, 74,467 award shares (2016: 100,006) were forfeited.

26 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

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

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 2017 (Unaudited)	Fair value measurements as at 30 June 2017	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**12**	**–**	**12**
– Cross currency swaps	**35**	**–**	**35**
– Interest rate swaps	**44**	**–**	**44**
	91	**–**	**91**
Investments in securities	**436**	**436**	**–**
	527	**436**	**91**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**31**	**–**	**31**
– Cross currency swaps	**527**	**–**	**527**
– Interest rate swaps	**19**	**–**	**19**
	577	**–**	**577**

in HK$ million	Fair value at 31 December 2016 (Audited)	Fair value measurements as at 31 December 2016	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	1	–	1
– Cross currency swaps	98	–	98
– Interest rate swaps	84	–	84
	183	–	183
Investments in securities	370	370	–
	553	370	183
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	29	–	29
– Cross currency swaps	503	–	503
– Interest rate swaps	37	–	37
	569	–	569

There are no Level 3 measurements of financial instruments. During the half year ended 30 June 2017 and the year ended 31 December 2016, 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 and the cross currency basis curves of the respective currency pairs 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 Fair Value Measurement of Financial Instruments *(continued)*

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 2017 and 31 December 2016 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 2017 (Unaudited)		At 31 December 2016 (Audited)	
	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**19,732**	**22,251**	20,677	22,194
Other obligations	**936**	**1,173**	894	1,127

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.

27 Cash Generated from Operations

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

in HK$ million	Half year ended 30 June 2017 (Unaudited)	Half year ended 30 June 2016 (Unaudited)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment arising from recurrent businesses	**9,046**	8,837
Adjustments for:		
– Loss on disposal of fixed assets	**24**	26
– Amortisation of deferred income from transfers of assets from customers	**(10)**	(13)
– Decrease/(increase) in fair value of derivative instruments	**98**	(90)
– Unrealised gain on revaluation of investment in securities	**(1)**	(3)
– Employee share-based payment expenses	**61**	54
– Exchange loss	**21**	49
Operating profit before working capital changes	**9,239**	8,860
(Increase)/decrease in debtors, deposits and payments in advance	**(51)**	182
Increase in stores and spares	**(48)**	(169)
(Decrease)/increase in creditors and accrued charges	**(548)**	585
Cash generated from operations	**8,592**	9,458

28 Capital Commitments

A Outstanding capital commitments as at 30 June 2017 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 2017 (Unaudited)					
Authorised but not yet contracted for	**6,792**	**–**	**2,004**	**–**	**8,796**
Authorised and contracted for	**14,633**	**345**	**5,628**	**60**	**20,666**
	21,425	**345**	**7,632**	**60**	**29,462**
At 31 December 2016 (Audited)					
Authorised but not yet contracted for	7,654	–	2,323	10	9,987
Authorised and contracted for	14,339	370	6,198	74	20,981
	21,993	370	8,521	84	30,968

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 2017 (Unaudited)				
Authorised but not yet contracted for	**3,200**	**695**	**2,897**	**6,792**
Authorised and contracted for	**10,228**	**82**	**4,323**	**14,633**
	13,428	**777**	**7,220**	**21,425**
At 31 December 2016 (Audited)				
Authorised but not yet contracted for	3,543	659	3,452	7,654
Authorised and contracted for	9,958	71	4,310	14,339
	13,501	730	7,762	21,993

C Capital Commitment in respect of Hangzhou Metro Line 5

On 26 June 2017, the Group signed a concession agreement with the Hangzhou Municipal Government and Hangzhou Metro Group for the Hangzhou Metro Line 5 public-private-partnership project. The Group will be working together with Hangzhou Metro Group to form a joint venture company to invest in and operate the Hangzhou Metro Line 5 for 25 years after the commencement of passenger service. Under the concession agreement, the Group is responsible to contribute up to RMB2,616 million into the joint venture company's registered capital.

29 Approval of Interim Financial Report

The interim financial report was approved by the Board on 10 August 2017.