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 72. 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 and joint venture since the issuance of the 2017 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 2017 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 2017 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 HKICPA has issued a number of new HKFRSs and 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:

- HKFRS 9, *Financial Instruments*
- HKFRS 15, *Revenue from Contracts with Customers*
- Amendments to HKFRS 2, *Classification and Measurement of Shared-based Payment Transactions*
- Amendments to HKAS 40, *Investment Property: Transfers of Investment Properties*

The adoption of these new HKFRSs and amendments to HKFRSs does not have a significant impact on the financial results and the financial position of the Group.

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

The accounting policies adopted for the preparation of this interim financial report are the same as those adopted in the preparation of the 2017 annual accounts, except for the accounting policy changes that are expected to be reflected in the 2018 annual accounts. Details of any changes in accounting policies are set out in notes 1 (a) and (b) below as a result of the adoption of HKFRS 9 and HKFRS 15.

(a) HKFRS 9, *Financial Instruments*

HKFRS 9 replaces HKAS 39, *Financial Instruments: Recognition and Measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(i) Classification of Financial Assets and Financial Liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's four classification categories: held-to-maturity investments, loans and receivables, available-for-sale and financial assets measured at FVPL.

The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. The adoption of HKFRS 9 does not affect the measurement basis, and hence the carrying amounts, of the Group's financial assets as at 1 January 2018.

HKFRS 9 largely retains the existing requirements in HKAS 39 for the classification and measurement of financial liabilities. Hence, the adoption of HKFRS 9 does not affect the carrying amounts of the Group's financial liabilities as at 1 January 2018.

The Group did not designate or de-designate any other financial assets or financial liabilities at FVPL at 1 January 2018.

1 Basis of Preparation *(continued)*

(ii) Credit Losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than the "incurred loss" accounting model in HKAS 39. The ECL model applies to the Group's financial assets measured at amortised cost, but not to the Group's financial assets measured at fair value.

For the Group's debtors and other receivables, the loss allowance is measured at an amount equal to "lifetime ECLs" (which are the losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies). For the Group's other financial assets measured at amortised cost, the loss allowance is measured at an amount equal to "12-month ECLs" (which are losses that are expected to result from possible default events within the 12 months after the reporting date) unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to "lifetime ECLs".

There is no significant change in the amount of provision for impairment losses recognised as at 1 January 2018 as a result of the adoption of the ECL model.

(iii) Hedge Accounting

The Group has adopted the new general hedge accounting requirements in HKFRS 9. Depending on the complexity of the hedge, the new accounting requirements allow a more qualitative approach to assessing hedge effectiveness as compared to HKAS 39, and the assessment is forward looking. The adoption of HKFRS 9 does not have a significant impact on the Group's accounts in this regard.

(b) HKFRS 15, *Revenue from Contracts with Customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction Contracts*, which specified the accounting for construction contracts.

Previously under HKAS 18 and HKAS 11, revenue arising from provision of services and construction contracts was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had been passed to the customers.

Under HKFRS 15, revenue is recognised when a performance obligation is satisfied. This is when the customer obtains control of the promised goods or services in the contract, which may be at a single point in time or over time.

HKFRS 15 identifies certain situations in which control of the promised goods or services is regarded as being transferred over time, then the entity recognises revenue for the sale of that goods or services over time. If the contract terms and the entity's activities do not fall into any of those situations, then the entity recognises revenue for the sale at a single point in time, being when control has been passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue.

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 2018		Half year ended 30 June 2017	
in HK$ million	Revenue	Expenses	Revenue	Expenses
Railway-related subsidiaries outside of Hong Kong				
– Melbourne Train	**5,842**	**5,527**	4,177	3,968
– MTR Nordic*	**2,485**	**2,622**	2,350	2,239
– London Crossrail	**793**	**751**	542	510
– Shenzhen Metro Longhua Line	**373**	**280**	313	249
– Sydney Metro Northwest	**780**	**701**	476	478
– Macau Light Rapid Transit Taipa Line	**102**	**102**	91	67
	10,375	**9,983**	7,949	7,511
Property rental and management businesses in Mainland of China	**78**	**60**	66	54
	10,453	**10,043**	8,015	7,565
Property development in Mainland of China	**–**	**17**	6,844	4,658
Total Mainland of China and international subsidiaries	**10,453**	**10,060**	14,859	12,223

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

3 Pre-tax Profit on Hong Kong Property Development

Pre-tax profit on Hong Kong property development comprises:

in HK$ million	**Half year ended 30 June 2018**	Half year ended 30 June 2017
Share of surplus from property development	**128**	359
Agency fee and other income from West Rail property development	**52**	286
Overheads and miscellaneous studies	**(22)**	(23)
	158	622

4 Interest and Finance Charges

Interest and finance charges comprise:

in HK$ million	**Half year ended 30 June 2018**		Half year ended 30 June 2017	
Interest expenses	**916**		830	
Finance charges	**31**		31	
Exchange (gain)/loss	**(19)**		164	
		928		1,025
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(54)**		(64)
Derivative financial instruments:				
– Fair value hedges	**22**		(7)	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**(7)**		6	
– transferred from hedging reserve to offset exchange gain/(loss)	**74**		(196)	
– Hedge of net investments:				
– ineffective portion	**(1)**		1	
– Derivatives not adopted hedge accounting	**(32)**		–	
		56		(196)
Interest expenses capitalised		**(182)**		(177)
		748		588
Interest income in respect of deposits with banks		**(168)**		(185)
		580		403

5 Share of Profit or Loss of Associates and Joint Venture

Share of profit or loss of associates and joint venture comprises:

in HK$ million	**Half year ended 30 June 2018**	Half year ended 30 June 2017
Share of profit or loss before taxation	**434**	287
Share of income tax expenses	**(148)**	(107)
	286	180

6 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	**Half year ended 30 June 2018**	Half year ended 30 June 2017
Current tax		
– Hong Kong Profits Tax	**920**	944
– Mainland of China and overseas tax	**146**	1,523
	1,066	2,467
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(32)**	(24)
	1,034	2,443
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**4**	(5)
– depreciation allowances in excess of related depreciation	**(56)**	(1)
– provisions and others	**(10)**	(12)
	(62)	(18)
	972	2,425

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2018 is calculated at 16.5% (2017: 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 2018, no Land Appreciation Tax (2017: HK$758 million) 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% (2017: 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.

Details of the tax reserve certificates purchased by the Company are set out in note 18 to the condensed consolidated interim accounts.

7 Dividends

Dividends paid and proposed to shareholders of the Company comprise:

in HK$ million	**Half year ended 30 June 2018**	Half year ended 30 June 2017
Ordinary dividends payable attributable to the period		
– Interim ordinary dividend declared after the reporting period of HK$0.25 (2017: HK$0.25) per share	**1,526**	1,501
Ordinary dividends paid attributable to the previous year		
– Final ordinary dividend of HK$0.87 (2017: HK$0.82 per share attributable to year 2016) per share approved and payable/paid during the period	**5,228**	4,848

The Company has recognised 2017 final ordinary dividend payable of HK$3,930 million to the Financial Secretary Incorporated (the “FSI”) of the Government of the Hong Kong Special Administrative Region (the “HKSAR Government”) and HK$1,298 million to other shareholders in the amounts due to related parties (note 19) and creditors and accrued charges (note 20) respectively in the consolidated statement of financial position as at 30 June 2018.

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 2018 of HK$7,083 million (2017: HK$7,480 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

	Half year ended 30 June 2018	Half year ended 30 June 2017
Issued ordinary shares at 1 January	**6,007,777,302**	5,905,290,065
Effect of share options exercised	**858,630**	3,099,360
Less: Shares held for Executive Share Incentive Scheme	**(4,463,901)**	(5,361,987)
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 30 June	**6,004,172,031**	5,903,027,438

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 2018 of HK$7,083 million (2017: HK$7,480 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme, which is calculated as follows:

	Half year ended 30 June 2018	Half year ended 30 June 2017
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 30 June	**6,004,172,031**	5,903,027,438
Effect of dilutive potential shares under the share option scheme	**4,248,298**	7,031,502
Effect of shares awarded under Executive Share Incentive Scheme	**5,786,864**	5,690,330
Weighted average number of shares (diluted) at 30 June	**6,014,207,193**	5,915,749,270

C Both basic and diluted earnings per share would have been HK$0.77 (2017: HK$0.99) if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$4,648 million (2017: HK$5,848 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:

					Mainland of China and international affiliates				
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 railway, property rental and management businesses	Mainland of China property development	Other businesses	Un-allocated amount	Total
Half year ended 30 June 2018									
Revenue	**9,328**	**3,075**	**2,517**	**–**	**10,453**	**–**	**1,000**	**–**	**26,373**
Operating expenses	**(5,227)**	**(268)**	**(381)**	**–**	**(10,043)**	**(17)**	**(919)**	**–**	**(16,855)**
Project study and business development expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(214)**	**(214)**
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	**4,101**	**2,807**	**2,136**	**–**	**410**	**(17)**	**81**	**(214)**	**9,304**
Profit on Hong Kong property development	**–**	**–**	**–**	**158**	**–**	**–**	**–**	**–**	**158**
Operating profit before depreciation, amortisation and variable annual payment	**4,101**	**2,807**	**2,136**	**158**	**410**	**(17)**	**81**	**(214)**	**9,462**
Depreciation and amortisation	**(2,265)**	**(84)**	**(6)**	**–**	**(71)**	**(2)**	**(33)**	**–**	**(2,461)**
Variable annual payment	**(688)**	**(309)**	**(2)**	**–**	**–**	**–**	**–**	**–**	**(999)**
Operating profit before interest and finance charges	**1,148**	**2,414**	**2,128**	**158**	**339**	**(19)**	**48**	**(214)**	**6,002**
Interest and finance charges	**–**	**–**	**–**	**–**	**(6)**	**63**	**–**	**(637)**	**(580)**
Investment property revaluation	**–**	**–**	**2,435**	**–**	**–**	**–**	**–**	**–**	**2,435**
Share of profit or loss of associates and joint venture	**–**	**–**	**–**	**–**	**188**	**–**	**98**	**–**	**286**
Income tax	**–**	**–**	**–**	**(26)**	**(91)**	**(11)**	**–**	**(844)**	**(972)**
Profit for the half year ended 30 June 2018	**1,148**	**2,414**	**4,563**	**132**	**430**	**33**	**146**	**(1,695)**	**7,171**
Half year ended 30 June 2017									
Revenue	8,957	2,788	2,432	–	8,015	6,844	968	–	30,004
Operating expenses	(4,784)	(239)	(344)	–	(7,565)	(4,658)	(1,023)	–	(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	–	450	2,186	(55)	(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	450	2,186	(55)	(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	384	2,186	(86)	(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)	(50)	(1,402)	–	(870)	(2,425)
Profit for the half year ended 30 June 2017	1,320	2,202	3,712	519	416	851	2	(1,489)	7,533

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 2018**	Half year ended 30 June 2017
Hong Kong (place of domicile)	**15,891**	15,121
Australia	**6,622**	4,654
Mainland of China	**472**	7,240
Sweden	**2,485**	2,350
United Kingdom	**798**	546
Other countries	**105**	93
	10,482	14,883
	26,373	30,004

10 Other Comprehensive Income

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

	Half year ended 30 June 2018			Half year ended 30 June 2017		
in HK$ million	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries, associates and joint venture	**(247)**	**–**	**(247)**	423	–	423
– Non-controlling interests	**(6)**	**–**	**(6)**	20	–	20
	(253)	**–**	**(253)**	443	–	443
Surplus on revaluation of self-occupied land and buildings	**388**	**(64)**	**324**	102	(17)	85
Cash flow hedges: net movement in hedging reserve (note 10B)	**163**	**(27)**	**136**	(375)	61	(314)
Other comprehensive income	**298**	**(91)**	**207**	170	44	214

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 2018**	Half year ended 30 June 2017
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	**103**	(191)
Amounts transferred to initial carrying amount of hedged items	**(5)**	1
Amounts transferred to profit or loss:		
– Interest and finance charges (note 4)	**67**	(190)
– Other expenses	**(2)**	5
Deferred tax on the above items	**(27)**	61
	136	(314)

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$2,435 million for the half year ended 30 June 2018 (2017: HK$1,632 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 2018, the Group acquired or commissioned assets at a total cost of HK$1,388 million (2017: HK$1,023 million). Assets with a net book value of HK$13 million (2017: HK$17 million) were disposed of during the same period, resulting in a net loss on disposal of HK$10 million (2017: HK$14 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$388 million (2017: HK$102 million), which, net of deferred tax provision of HK$64 million (2017: HK$17 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 2018, the Group incurred HK$1,093 million (2017: HK$1,064 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$4 million (2017: HK$9 million) of expenditure for asset additions in respect of Shenzhen Metro Longhua Line.

14 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 2018 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 (including, if the Company breaches the warranties it gave in respect of its project management services) 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 any breach of the XRL Entrustment Agreement by the Company. 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.

14 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)*

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 14A(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;

(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) Future operations of XRL: The target opening date for the XRL is September 2018. The Company is in the final stage of discussions with the HKSAR Government regarding the arrangements for the future operations of the XRL.

14 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)*

(e) 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. The final project cost can only be ascertained upon finalisation of all contracts which may take several years after the commencement of commercial operations;

(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 14A(c)(iv) above), given that a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the XRL Agreement, cannot take place until after commencement of commercial operations on the XRL) (as of 30 June 2018 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).

(f) During the half year ended 30 June 2018, project management fee of HK$222 million (2017: HK$368 million) was recognised in the consolidated profit and loss account. As at 30 June 2018, the total project management fee recognised to date in the consolidated profit and loss account amounted to HK$6,290 million (as at 31 December 2017: HK$6,068 million).

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").

In August 2015, the Company notified the HKSAR Government that the Company estimated that the cost for the works carried out under the SCL Advance Works Entrustment Agreement will exceed the original estimate of HK$7,350 million. In February 2016, the Company notified the HKSAR Government that the estimated exceedance would be HK$1,267 million (including contingency). In December 2016, the Company completed its review for the project cost estimate of the works under the SCL Advance Works Entrustment Agreement and notified the HKSAR Government of the Company's revised estimate for the entrustment cost for such works of HK$8,617.1 million. In January 2017, the HKSAR Government submitted to the Legislative Council Public Works Subcommittee the application for additional funding needed in excess of amounts retained by the HKSAR Government from the original funding. The additional funding of HK$848 million 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 2018 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.

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

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

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

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

Towards the end of the first half of 2018, the Company has faced allegations concerning workmanship and timely reporting of certain construction matters relating to three stations of the SCL. The Company has taken immediate steps to investigate the issues, report the Company's findings to the HKSAR Government, identify any rectification work required and reserve the Company's position against relevant contractors and consultants. The Company will continue to take steps to address public concerns and provide reassurance as to the quality of the construction works. To address the allegations relating to the platform at the Hung Hom Station extension, the Company has engaged an independent third party to perform a safety test of this platform. Any significant adverse result from the verification of, or safety test on, the Hung Hom Station platform may potentially impact the latest estimate mentioned above. The Company will also co-operate fully with the Commission of Inquiry that has been set up by the HKSAR Chief Executive in Council to investigate matters relating to the diaphragm wall and the platform slab at the Hung Hom Station extension as well as, amongst others, the adequacy of the Company's project management and supervision systems. On 7 August 2018, the Company announced that the report submitted by the Company to the HKSAR Government on 15 June 2018 in relation to the platform slab at the Hung Hom Station extension contained inaccuracies in respect of the construction methodology of the top side of the platform slab. The Company is investigating this issue and will provide updated information to the HKSAR Government in due course.

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the relevant SCL Agreement or any breach thereof by the Company. Under the SCL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. 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;

(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 2018 and up to the date of this interim report); and

(iii) where applicable, 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,

no provision has been made in the Company's accounts in respect of SCL.

(e) During the half year ended 30 June 2018, project management fee of HK$445 million (2017: HK$457 million) was recognised in the consolidated profit and loss account. As at 30 June 2018, the total project management fee recognised to date in the consolidated profit and loss account amounted to HK$6,025 million (as at 31 December 2017: HK$5,580 million).

Additionally, during the half year ended 30 June 2018, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK$196 million (2017: HK$596 million). As at 30 June 2018, 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$1,229 million (31 December 2017: HK$1,318 million).

15 Property Development in Progress

Movements of property development in progress of the Group during the half year ended 30 June 2018 and the year ended 31 December 2017 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 2018 (Unaudited)							
Hong Kong Property Development Projects	**14,810**	**226**	**(12)**	**–**	**–**	**–**	**15,024**
At 31 December 2017 (Audited)							
Hong Kong Property Development Projects	14,479	483	(152)	–	–	–	14,810
Shenzhen Property Project	3,005	272	–	(178)	(3,194)	95	–
	17,484	755	(152)	(178)	(3,194)	95	14,810

16 Properties Held for Sale

in HK$ million	At 30 June 2018 (Unaudited)	At 31 December 2017 (Audited)
Properties held for sale		
– at cost	**1,080**	1,099
– at net realisable value	**231**	248
	1,311	1,347
Representing:		
Hong Kong property development	**844**	876
Mainland of China property development	**467**	471
	1,311	1,347

Properties held for sale represent the Group's interest in unsold properties or properties received by the Group as sharing in kind in Hong Kong, and the Group's unsold properties in Shenzhen.

Properties held for sale at net realisable value as at 30 June 2018 are stated net of provision of HK$18 million (31 December 2017: HK$38 million) made in order to state these properties at the lower of their cost and estimated net realisable value.

17 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 2018 (Unaudited) Notional amount	At 30 June 2018 (Unaudited) Fair value	At 31 December 2017 (Audited) Notional amount	At 31 December 2017 (Audited) Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– cash flow hedges	**147**	**5**	225	13
– not qualified for hedge accounting	**1,033**	**34**	209	7
Cross currency swaps				
– fair value hedges	**775**	**7**	775	3
– cash flow hedges	**2,612**	**88**	2,612	98
Interest rate swaps				
– fair value hedges	**623**	**1**	600	10
– cash flow hedges	**1,350**	**54**	1,350	37
	6,540	**189**	5,771	168
Derivative Financial Liabilities				
Foreign exchange forwards				
– cash flow hedges	**1,163**	**14**	1,107	4
– hedges of net investments	**2,140**	**14**	2,140	22
– not qualified for hedge accounting	**282**	**5**	1,520	15
Cross currency swaps				
– fair value hedges	**388**	**1**	388	3
– cash flow hedges	**8,601**	**251**	8,601	367
– hedges of net investments	**64**	**2**	64	9
Interest rate swaps				
– fair value hedges	**1,988**	**64**	1,550	28
– cash flow hedges	**100**	**–**	600	3
	14,726	**351**	15,970	451
Total	**21,266**		21,741	

18 Debtors and Other Receivables

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.

(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 analysis of debtors based on due date is as follows:

in HK$ million	At 30 June 2018 (Unaudited)	At 31 December 2017 (Audited)
Amounts not yet due	**2,470**	2,322
Overdue by 30 days	**144**	359
Overdue by 60 days	**45**	47
Overdue by 90 days	**23**	62
Overdue by more than 90 days	**27**	16
Total debtors	**2,709**	2,806
Other receivables	**4,325**	4,252
	7,034	7,058

Included in other receivables as at 30 June 2018 was HK$440 million (31 December 2017: HK$381 million) in respect of property development profit in Hong Kong distributable from stakeholding funds based on the terms of the development agreements and sales and purchase agreements.

In the prior year, the Inland Revenue Department of Hong Kong ("IRD") issued notices of assessment/additional assessment for the years of assessment 2010/2011 to 2016/2017 following queries in connection with the tax deductibility of certain payments relating to the Rail Merger.

Based on the strength of advice from external senior counsel and tax advisor, the directors of the Company have determined to strongly contest the assessments raised by the IRD. The Company has lodged objections against these tax assessments and has applied to hold over the additional tax demanded. The IRD has agreed to the holdover of the additional tax demanded subject to the purchase of tax reserve certificates ("TRCs") amounting to HK$1,816 million during the year ended 31 December 2017. The purchase of TRCs does not prejudice the Company's tax position and the purchased TRCs were included in debtors and other receivables in the Group's consolidated statement of financial position. No additional tax provision has been made in respect of the above notices of assessment/additional assessment.

19 Material Related Party Transactions

The FSI of the HKSAR Government, which holds approximately 75.16% of the Company's issued share capital on trust for the HKSAR Government as at 30 June 2018, 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 2018, 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 2018 (Unaudited)**	At 31 December 2017 (Audited)
Amounts due from:		
– HKSAR Government	**1,903**	2,378
– KCRC	**6**	6
– associates	**174**	186
	2,083	2,570
Amounts due to:		
– HKSAR Government	**4,006**	78
– KCRC	**1,440**	1,997
– an associate	**151**	151
	5,597	2,226

As at 30 June 2018, 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 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 2018 related to the 2017 final ordinary dividend payable (note 7) amounting to HK$3,930 million as well as land administrative fees in relation to railway extensions.

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 2018 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 2018 related to the amount payable for the equity contribution to NRT Holdings 2 Pty Ltd..

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. Under a supplemental agreement signed in June 2018, the Company and the HKSAR Government agreed to extend the timeframe for the repayment mechanism to not later than 31 March 2019.

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 2017.

19 Material Related Party Transactions *(continued)*

During the half year ended 30 June 2018, the Group had the following transactions with its associates, namely Octopus Holdings Limited and its subsidiaries ("Octopus Group"), BJMTR and NRT Pty. Limited ("NRT"):

in HK$ million	Half year ended 30 June 2018	Half year ended 30 June 2017
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	**77**	74
– 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**	20
BJMTR		
– Fees received or receivable in respect of staff secondment, information technology and other support services provided to BJMTR	**–**	21
NRT		
– Fees received or receivable in respect of the design and delivery of electrical and mechanical systems and rolling stock services provided to NRT	**734**	510

20 Creditors and Other Payables

The analysis of creditors by due dates is as follows:

in HK$ million	At 30 June 2018 (Unaudited)	At 31 December 2017 (Audited)
Due within 30 days or on demand	**6,293**	11,274
Due after 30 days but within 60 days	**1,613**	1,290
Due after 60 days but within 90 days	**679**	1,332
Due after 90 days	**5,134**	4,766
	13,719	18,662
Rental and other refundable deposits	**3,076**	3,946
Accrued employee benefits	**2,781**	2,079
Dividend payable to other shareholders	**1,298**	–
Total creditors and accrued charges	**20,874**	24,687
Other payables	**4,397**	3,479
	25,271	28,166

21 Loans and Other Obligations

Notes issued by the Group during the half year ended 30 June 2018 and 2017 comprise:

	Half year ended 30 June 2018		Half year ended 30 June 2017	
in HK$ million	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	**1,491**	**1,488**	3,954	3,913

During the half year ended 30 June 2018, notes of HK$1,491 million (2017: HK$2,400 million and AUD145 million (or HK$852 million)) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited, while the Company did not issue any of its notes (2017: USD90 million (or HK$702 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 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 2018, the Group did not redeem any of its listed securities (2017: USD550 million (or HK$4,268 million)). The Group redeemed HK$500 million of its unlisted debt securities (2017: HK$500 million and AUD50 million (or HK$417 million)).

22 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2018 and the year ended 31 December 2017 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 2018 (Unaudited)						
Balance as at 1 January 2018	**12,158**	**648**	**(107)**	**–**	**(8)**	**12,691**
(Credited)/charged to consolidated profit and loss account	**(56)**	**–**	**(10)**	**–**	**4**	**(62)**
Charged to reserves	**–**	**64**	**–**	**27**	**–**	**91**
Exchange difference	**(1)**	**–**	**5**	**–**	**–**	**4**
Balance as at 30 June 2018	**12,101**	**712**	**(112)**	**27**	**(4)**	**12,724**
At 31 December 2017 (Audited)						
Balance as at 1 January 2017	11,795	599	(314)	32	(12)	12,100
Charged to consolidated profit and loss account	361	–	45	–	4	410
Charged/(credited) to reserves	–	49	166	(32)	–	183
Exchange difference	2	–	(4)	–	–	(2)
Balance as at 31 December 2017	12,158	648	(107)	–	(8)	12,691

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

in HK$ million	**At 30 June 2018 (Unaudited)**	At 31 December 2017 (Audited)
Net deferred tax assets	**(73)**	(69)
Net deferred tax liabilities	**12,797**	12,760
	12,724	12,691

23 Share Capital and Shares Held for Executive Share Incentive Scheme

A Share Capital

	At 30 June 2018 (Unaudited)		At 31 December 2017 (Audited)	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**6,007,777,302**	**52,307**	5,905,290,065	47,929
Shares issued in respect of scrip dividend of 2016 final ordinary dividend	**–**	**–**	87,794,562	3,863
Shares issued in respect of scrip dividend of 2017 interim ordinary dividend	**–**	**–**	3,032,675	137
Vesting of shares of Executive Share Incentive Scheme	**–**	**14**	–	2
Shares issued under share option schemes	**1,937,500**	**61**	11,660,000	376
At 30 June/31 December	**6,009,714,802**	**52,382**	6,007,777,302	52,307

23 Share Capital and Shares Held for Executive Share Incentive Scheme *(continued)*

B New shares issued and fully paid up during the half year ended 30 June 2018 comprise:

	Number of shares	Weighted average exercise price HK$
Employee share options exercised:		
– 2007 Share Option Scheme	**1,937,500**	**29.01**

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

	Half year ended 30 June 2018	Half year ended 30 June 2017
	2007 Share Option Scheme	2007 Share Option Scheme
Outstanding at 1 January	**13,794,000**	25,605,000
Exercised during the period	**(1,937,500)**	(8,736,000)
Forfeited during the period	**–**	(67,500)
Outstanding at 30 June	**11,856,500**	16,801,500
Exercisable at 30 June	**11,856,500**	16,801,500

D During the half year ended 30 June 2018, the Company awarded Performance Shares and Restricted Shares under the Company's Executive Share Incentive Scheme to certain eligible employees of the Company. A total of 1,772,900 Performance Shares (2017: 112,200) and 2,208,950 Restricted Shares (2017: 2,245,200) were awarded and accepted by the grantees on 10 April 2018 (2017: 10 April 2017). The fair value of these awarded shares was HK$42.80 per share (2017: HK$44.45 per share).

E During the half year ended 30 June 2018, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 5,351,600 Ordinary Shares (2017: nil) of the Company for a total consideration of approximately HK$239 million (2017: HK$nil).

F During the half year ended 30 June 2018, 3,741,766 shares (2017: 1,486,069) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$146 million (2017: HK$56 million). During the half year ended 30 June 2018, HK$14 million (2017: HK$1 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 2018, 250,219 award shares (2017: 74,467) were forfeited.

24 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

24 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 2018 (Unaudited)**	**Fair value measurements as at 30 June 2018**	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**39**	**–**	**39**
– Cross currency swaps	**95**	**–**	**95**
– Interest rate swaps	**55**	**–**	**55**
	189	**–**	**189**
Investments in securities	**232**	**232**	**–**
	421	**232**	**189**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**33**	**–**	**33**
– Cross currency swaps	**254**	**–**	**254**
– Interest rate swaps	**64**	**–**	**64**
	351	**–**	**351**

in HK$ million	Fair value at 31 December 2017 (Audited)	Fair value measurements as at 31 December 2017	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	20	–	20
– Cross currency swaps	101	–	101
– Interest rate swaps	47	–	47
	168	–	168
Investments in securities	443	443	–
	611	443	168
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	41	–	41
– Cross currency swaps	379	–	379
– Interest rate swaps	31	–	31
	451	–	451

There are no Level 3 measurements of financial instruments. During the half year ended 30 June 2018 and the year ended 31 December 2017, 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.

24 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 2018 and 31 December 2017 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

	At 30 June 2018 (Unaudited)		At 31 December 2017 (Audited)	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**24,351**	**25,553**	23,451	25,881
Other obligations	**919**	**1,081**	950	1,172

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.

25 Cash Generated from Operations

Reconciliation of the Group's 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 2018 (Unaudited)**	Half year ended 30 June 2017 (Unaudited)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses	**9,321**	9,046
Adjustments for:		
– Loss on disposal of fixed assets	**16**	24
– Amortisation of deferred income from transfers of assets from customers	**(11)**	(10)
– Decrease in fair value of derivative instruments	**14**	98
– Unrealised loss/(gain) on revaluation of investment in securities	**3**	(1)
– Employee share-based payment expenses	**52**	61
– Exchange (gain)/loss	**(5)**	21
Operating profit before working capital changes	**9,390**	9,239
Decrease in debtors and other receivables	**45**	104
Increase in stores and spares	**(100)**	(48)
Decrease in creditors and other payables	**(4,490)**	(548)
Cash generated from operations	**4,845**	8,747

26 Capital Commitments

A Outstanding capital commitments as at 30 June 2018 not provided for in the accounts were as follows:

in HK$ million	Hong Kong transport operations, 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 2018 (Unaudited)					
Authorised but not yet contracted for	**8,507**	**–**	**2,620**	**14**	**11,141**
Authorised and contracted for	**13,678**	**228**	**5,118**	**35**	**19,059**
	22,185	**228**	**7,738**	**49**	**30,200**
At 31 December 2017 (Audited)					
Authorised but not yet contracted for	6,246	–	1,868	22	8,136
Authorised and contracted for	13,758	298	5,497	30	19,583
	20,004	298	7,365	52	27,719

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 2018 (Unaudited)				
Authorised but not yet contracted for	**5,800**	**67**	**2,640**	**8,507**
Authorised and contracted for	**10,087**	**–**	**3,591**	**13,678**
	15,887	**67**	**6,231**	**22,185**
At 31 December 2017 (Audited)				
Authorised but not yet contracted for	3,081	614	2,551	6,246
Authorised and contracted for	9,767	79	3,912	13,758
	12,848	693	6,463	20,004

27 Approval of Interim Financial Report

The interim financial report was approved by the Board on 9 August 2018.