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 2018 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 2018 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 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

- The Company's auditor 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 new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

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

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

HKFRS 16, *Leases*

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

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

– right-of-use assets that meet the definition of investment property are carried at fair value; and

– right-of-use assets related to interests in leasehold land where the interest in the land is held as properties held for sale are carried at the lower of cost and net realisable value.

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

1 Basis of Preparation *(continued)*

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

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

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

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 2019		Half year ended 30 June 2018	
in HK$ million	Revenue	Expenses	Revenue	Expenses
Railway-related subsidiaries outside of Hong Kong				
– Melbourne Train	**5,526**	**5,194**	5,842	5,527
– MTR Nordic*	**2,408**	**2,466**	2,485	2,622
– London Crossrail	**1,040**	**953**	793	751
– Shenzhen Metro Longhua Line	**368**	**277**	373	280
– Sydney Metro Northwest	**711**	**689**	780	701
– Macau Light Rapid Transit Taipa Line	**409**	**275**	102	102
	10,462	**9,854**	10,375	9,983
Property rental and management businesses in Mainland of China	**96**	**32**	78	60
	10,558	**9,886**	10,453	10,043
Property development in Mainland of China	**–**	**10**	–	17
Total Mainland of China and international subsidiaries	**10,558**	**9,896**	10,453	10,060

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

The Group's 60% owned subsidiary, Metro Trains Sydney Pty Ltd, commenced the train services of Sydney Metro North West on 26 May 2019.

3 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

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

4 Interest and Finance Charges

Interest and finance charges comprise:

in HK$ million	**Half year ended 30 June 2019**		Half year ended 30 June 2018	
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments	**523**		540	
– Obligations under service concession	**350**		352	
– Lease liabilities	**32**		13	
– Others	**11**		11	
Finance charges	**23**		31	
Exchange gain	**(15)**		(19)	
		924		928
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(38)**		(54)
Derivative financial instruments:				
– Fair value hedges	**–**		22	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**(14)**		(7)	
– transferred from hedging reserve to offset exchange gain	**23**		74	
– Hedge of net investments:				
– ineffective portion	**(1)**		(1)	
– Derivatives not adopted hedge accounting	**(1)**		(32)	
		7		56
Interest expenses capitalised		**(213)**		(182)
		680		748
Interest income in respect of:				
– Deposits with banks	**(231)**		(168)	
– Others	**(7)**		–	
		(238)		(168)
		442		580

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 2019**	Half year ended 30 June 2018
Share of profit or loss before taxation	**84**	434
Share of income tax expenses	**(158)**	(148)
	(74)	286

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

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

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

6 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	**Half year ended 30 June 2019**	Half year ended 30 June 2018
Current tax		
– Hong Kong Profits Tax	**1,055**	920
– Tax outside Hong Kong	**162**	146
	1,217	1,066
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(31)**	(32)
	1,186	1,034
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**(32)**	4
– depreciation allowances in excess of related depreciation	**(32)**	(56)
– revaluation of properties	**(3)**	–
– provisions and others	**28**	(10)
	(39)	(62)
	1,147	972

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

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

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

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

7 Dividends

Ordinary dividends paid and proposed to shareholders of the Company comprise:

in HK$ million	**Half year ended 30 June 2019**	Half year ended 30 June 2018
Ordinary dividends attributable to the period		
– Interim ordinary dividend declared after the reporting period of HK$0.25 (2018: HK$0.25) per share	**1,535**	1,526
Ordinary dividends attributable to the previous year		
– Final ordinary dividend of HK$0.95 (2018: HK$0.87 per share attributable to year 2017) per share approved and payable/paid during the period	**5,835**	5,228

The Company has recognised 2018 final ordinary dividend payable of HK$4,402 million to the Financial Secretary Incorporated (the "FSI") of the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") and HK$1,433 million to other shareholders in the amounts due to related parties (note 19) and creditors, other payables and provisions (note 20) respectively in the consolidated statement of financial position as at 30 June 2019.

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 2019 of HK$5,506 million (2018: HK$7,083 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

	Half year ended 30 June 2019	Half year ended 30 June 2018
Issued ordinary shares at 1 January	**6,139,485,589**	6,007,777,302
Effect of share options exercised	**1,305,985**	858,630
Less: Shares held for Executive Share Incentive Scheme	**(5,623,421)**	(4,463,901)
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 30 June	**6,135,168,153**	6,004,172,031

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 2019 of HK$5,506 million (2018: HK$7,083 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme 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 2019	Half year ended 30 June 2018
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 30 June	**6,135,168,153**	6,004,172,031
Effect of dilutive potential shares under the share option scheme	**2,494,987**	4,248,298
Effect of shares awarded under Executive Share Incentive Scheme	**5,780,265**	5,786,864
Weighted average number of shares (diluted) at 30 June	**6,143,443,405**	6,014,207,193

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

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, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section), light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of China.

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

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

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

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

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

(vii) Other businesses: Businesses not directly relating to transport operations or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business and the provision of project management services to the 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 2019									
Revenue from contracts with customers within the scope of HKFRS 15	**10,690**	**1,059**	**143**	**–**	**10,388**	**–**	**825**	**–**	**23,105**
Revenue from other sources	**–**	**2,496**	**2,492**	**–**	**170**	**–**	**9**	**–**	**5,167**
Total revenue	**10,690**	**3,555**	**2,635**	**–**	**10,558**	**–**	**834**	**–**	**28,272**
Operating expenses	**(6,344)**	**(328)**	**(395)**	**–**	**(9,886)**	**(10)**	**(2,737)**	**–**	**(19,700)**
Project study and business development expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(171)**	**(171)**
Operating profit/(loss) before Hong Kong property development, depreciation, amortisation and variable annual payment	**4,346**	**3,227**	**2,240**	**–**	**672**	**(10)**	**(1,903)**	**(171)**	**8,401**
Profit on Hong Kong property development	**–**	**–**	**–**	**898**	**–**	**–**	**–**	**–**	**898**
Operating profit/(loss) before depreciation, amortisation and variable annual payment	**4,346**	**3,227**	**2,240**	**898**	**672**	**(10)**	**(1,903)**	**(171)**	**9,299**
Depreciation and amortisation	**(2,346)**	**(93)**	**(8)**	**–**	**(112)**	**–**	**(33)**	**–**	**(2,592)**
Variable annual payment	**(1,048)**	**(455)**	**(3)**	**–**	**–**	**–**	**–**	**–**	**(1,506)**
Operating profit/(loss) before interest and finance charges	**952**	**2,679**	**2,229**	**898**	**560**	**(10)**	**(1,936)**	**(171)**	**5,201**
Interest and finance charges	**–**	**–**	**–**	**–**	**(24)**	**38**	**–**	**(456)**	**(442)**
Investment property revaluation	**–**	**–**	**2,110**	**–**	**(44)**	**–**	**–**	**–**	**2,066**
Share of profit or loss of associates and joint venture	**–**	**–**	**–**	**–**	**(194)**	**–**	**120**	**–**	**(74)**
Income tax	**–**	**–**	**–**	**(148)**	**(98)**	**(3)**	**–**	**(898)**	**(1,147)**
Profit/(loss) for the half year ended 30 June 2019	**952**	**2,679**	**4,339**	**750**	**200**	**25**	**(1,816)**	**(1,525)**	**5,604**
Half year ended 30 June 2018									
Total 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/(loss) 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/(loss) 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/(loss) 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/(loss) for the half year ended 30 June 2018	1,148	2,414	4,563	132	430	33	146	(1,695)	7,171

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

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 2019			Half year ended 30 June 2018		
in HK$ million	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax expense	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of subsidiaries, associates and joint venture outside Hong Kong	**(59)**	**–**	**(59)**	(247)	–	(247)
– Non-controlling interests	**(6)**	**–**	**(6)**	(6)	–	(6)
	(65)	**–**	**(65)**	(253)	–	(253)
Surplus on revaluation of self-occupied land and buildings (note 12C)	**75**	**(12)**	**63**	388	(64)	324
Cash flow hedges: net movement in hedging reserve (note 10B)	**154**	**(26)**	**128**	163	(27)	136
Other comprehensive income	**164**	**(38)**	**126**	298	(91)	207

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 2019**	Half year ended 30 June 2018
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	**143**	98
Amounts transferred to profit or loss:		
– Interest and finance charges (note 4)	**9**	67
– Other expenses	**2**	(2)
Deferred tax on the above items	**(26)**	(27)
	128	136

11 Investment Properties

As discussed in note 1, upon adoption of HKFRS 16 on 1 January 2019, the Group recognised a right-of-use asset of HK$361 million in respect of its shopping centre in Beijing in the opening balance of "investment properties" as at 1 January 2019.

Investment properties of the Group in Hong Kong and Mainland of China were revalued at the reporting date by Jones Lang LaSalle Limited and Cushman & Wakefield Limited respectively. 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, the Group recognised the net increase in fair value of HK$2,066 million for the half year ended 30 June 2019 (2018: HK$2,435 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 profit and loss account in subsequent periods.

12 Other Property, Plant and Equipment

A Right-of-use Assets

As discussed in note 1, upon adoption of HKFRS 16 on 1 January 2019, the Group recognised right-of-use assets of HK$491 million in the opening balance of "other property, plant and equipment" as at 1 January 2019, on leases previously classified as operating leases.

B Acquisitions and Disposals of Owned Assets

During the half year ended 30 June 2019, the Group acquired or commissioned assets (other than right-of-use assets) at a total cost of HK$1,406 million (2018: HK$1,388 million).

C 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 Jones Lang LaSalle Limited. The valuation resulted in a revaluation surplus of HK$75 million (2018: HK$388 million), which, net of deferred tax provision of HK$12 million (2018: HK$64 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 2019, the Group incurred HK$1,065 million (2018: HK$1,093 million) of expenditure for the replacement and upgrade of the Kowloon-Canton Railway Corporation ("KCRC") system ("Additional Concession Property") under the service concession arrangement in the Rail Merger, HK$11 million (2018: HK$nil) of expenditure for the replacement and upgrade of the concession property of the High Speed Rail ("Additional Concession Property (High Speed Rail)") under the supplemental service concession arrangement with KCRC and HK$3 million (2018: HK$4 million) of expenditure for asset additions in respect of Shenzhen Metro Longhua Line.

Shenzhen Metro Longhua Line ("SZL4") forms part of the Shenzhen Metro, which is operated by a wholly-owned subsidiary, MTR Corporation (Shenzhen) Limited ("MTRSZ"). There has been no increase in fare since MTRSZ started operating the line in 2010. However, the Company understands that the Shenzhen Municipal Government is undergoing the statutory process in relation to a fare adjustment in the Shenzhen Metro Network. Based on progress of the fare adjustment made to date, no impairment loss is recognised at 30 June 2019. If appropriate fare adjustments are not implemented, the long-term financial viability of SZL4 is expected to be impacted.

14 Railway Construction Projects under Entrustment by the HKSAR Government

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project

(a) HSR Preliminary Entrustment Agreement:

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

14 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project *(continued)*

(b) HSR Entrustment Agreement:

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

The HKSAR Government has the right to claim against the Company if the Company breaches the HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the HSR Project Management Fee and any other fees that the Company receives under the HSR Entrustment Agreement and certain fees received by the Company under the HSR Preliminary Entrustment Agreement (the "Liability Cap"). In accordance with general principles of law, such Liability Cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has reserved the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement (as more particularly described in note 14A(c)(iv) below), up to the date of this interim financial report, no claim has been received from the HKSAR Government.

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

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

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

As a result of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "Revised Cost Estimate"). Further particulars relating to the Revised Cost Estimate are set out in notes 14A(c) and (e) below.

(c) HSR Agreement:

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

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

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

14 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project *(continued)*

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

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

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

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

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

(d) Operations of HSR:

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

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

Having considered the number of contracts yet to be finalised and the contingency allowance currently available, there can be no absolute assurance that the final project cost will not exceed HK$84.42 billion, particularly if unforeseen difficulties arise in the resolution of commercial issues during the process of negotiating the final accounts. In such case, under the terms of the HSR Agreement, the Company will be required to bear and finance the portion of the project cost that exceeds HK$84.42 billion (if any) except for certain agreed excluded costs (as more particularly described in note 14A(c)(ii) above).

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

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

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

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

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

14 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project

(a) SCL Preliminary Entrustment Agreement:

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

(b) SCL Advance Works Entrustment Agreement:

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

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

(c) SCL Entrustment Agreement:

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

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

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

(d) Claims and Indemnification:

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses incurred by the HKSAR Government as a result of the negligence of the Company in performing its obligations under the relevant SCL Agreement or breach thereof by the Company. Under the SCL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. In accordance with general principles of law, such cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the Commission of Inquiry into the Construction Works at and near the Hung Hom Station extension under the Shatin to Central Link ("COI") (as stated in note 14B(e) below), up to the date of this interim financial report, no claim has been received from the HKSAR Government in relation to any SCL Agreement. It is uncertain as to whether such claim will be made against the Company in the future and, if made, the nature and amount of such claim.

14 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

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

(e) Hung Hom Incidents:

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

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

(f) Commission of Inquiry:

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

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

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

(g) Hung Hom Incidents Related Costs:

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

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

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

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

This amount does not take into account any potential recovery from any other party (whether in the circumstances that no overall settlement is reached and / or as a result of an award, settlement or otherwise). Accordingly, if any such potential recovery becomes virtually certain, the amount of any such recovery will be recognised and credited to the Company's consolidated profit and loss account in that financial period. The eventual outcome of the discussions between the Company and the HKSAR Government, the timing of any overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the CTC and the Hung Hom Incidents Related Costs, the level of recovery from relevant parties, and the pending agreement and approval of the increase in the SCL Project Management Fee payable to the Company, remain highly uncertain at the current stage. As a result, no additional provision other than the HK$2,000 million referred to in note 14B (h) above has been made as the Company is currently not able to measure with sufficient reliability the ultimate amount of the Company's obligation or liability arising from the SCL project.

14 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

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

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

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

15 Property Development in Progress

Movements of property development in progress of the Group during the half year ended 30 June 2019 and the year ended 31 December 2018 are as follows:

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Balance at 30 June/ 31 December
At 30 June 2019 (Unaudited)					
Hong Kong Property Development Projects	**14,840**	**245**	**(428)**	**–**	**14,657**
At 31 December 2018 (Audited)					
Hong Kong Property Development Projects	14,810	1,121	(912)	(179)	14,840

16 Properties Held for Sale

in HK$ million	**At 30 June 2019 (Unaudited)**	At 31 December 2018 (Audited)
Properties held for sale		
– at cost	**819**	1,179
– at net realisable value	**120**	190
	939	1,369
Representing:		
Hong Kong property development	**726**	1,156
Mainland of China property development	**213**	213
	939	1,369

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 2019 are stated net of provision of HK$12 million (31 December 2018: HK$18 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 2019 (Unaudited) Notional amount	At 30 June 2019 (Unaudited) Fair value	At 31 December 2018 (Audited) Notional amount	At 31 December 2018 (Audited) Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– cash flow hedges	**11**	**–**	137	1
– not adopted hedge accounting	**1,138**	**14**	73	–
Cross currency swaps				
– cash flow hedges	**5,419**	**48**	277	25
– hedges of net investments	**64**	**1**	–	–
Interest rate swaps				
– fair value hedges	**3,241**	**18**	961	5
– cash flow hedges	**1,250**	**15**	1,350	30
– not adopted hedge accounting	**1,413**	**2**	–	–
	12,536	**98**	2,798	61
Derivative Financial Liabilities				
Foreign exchange forwards				
– cash flow hedges	**350**	**8**	1,169	13
– hedges of net investments	**2,039**	**16**	2,039	14
– not adopted hedge accounting	**1,157**	**9**	202	6
Cross currency swaps				
– fair value hedges	**698**	**1**	698	9
– cash flow hedges	**8,458**	**361**	10,935	469
– hedges of net investments	**–**	**–**	64	3
Interest rate swaps				
– fair value hedges	**2,650**	**8**	1,550	31
– cash flow hedges	**100**	**4**	–	–
– not adopted hedge accounting	**500**	**1**	–	–
	15,952	**408**	16,657	545
Total	**28,488**		19,455	

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 operation (except for that from the High Speed Rail as described in note 18(ii) below) 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) In respect of the High Speed Rail, tickets are sold by the Company and other mainland train operators. The clearance centre of China Railway Corporation administers the revenue allocation and settlement system of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and allocates the revenue of the High Speed Rail to the Company under a "section-based" approach with settlement in the following month.

(iii) 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.

(iv) 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.

(v) 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.

(vi) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.

(vii) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.

(viii) 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.

(ix) 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 2019 (Unaudited)**	At 31 December 2018 (Audited)
Amounts not yet due	**3,123**	2,807
Overdue by 30 days	**205**	275
Overdue by 60 days	**28**	34
Overdue by 90 days	**40**	10
Overdue by more than 90 days	**65**	91
Total debtors	**3,461**	3,217
Other receivables	**6,483**	6,334
Contract assets	**345**	25
	10,289	9,576

Included in other receivables as at 30 June 2019 was HK$1,978 million (31 December 2018: HK$1,959 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.

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

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

19 Material Related Party Transactions

The FSI of the HKSAR Government, which holds approximately 75.45% of the Company's issued share capital on trust for the HKSAR Government as at 30 June 2019, 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 2019, 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 2019 (Unaudited)**	At 31 December 2018 (Audited)
Amounts due from:		
– HKSAR Government	**1,773**	1,713
– KCRC	**609**	215
– associates	**36**	160
	2,418	2,088
Amounts due to:		
– HKSAR Government	**4,450**	70
– KCRC	**2,129**	2,475
– associates	**–**	131
	6,579	2,676

As at 30 June 2019, 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 the 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 2019 related to the 2018 final ordinary dividend payable (note 7) amounting to HK$4,402 million as well as land administrative fees in relation to railway extensions.

The amount due from KCRC mainly related to the recoverable cost for certain capital works in accordance with the agreements in relation to the Rail Merger, as well as amounts in relation to the High Speed Rail. The amount due to KCRC mainly related to the accrued portion of the fixed annual payment and variable annual payment arising from the Rail Merger and Operating Arrangements of the High Speed Rail.

The amounts due from associates as at 30 June 2019 included mainly the outstanding loan balance to an associate, as well as the daily Octopus card transactions with Octopus Cards Limited. During the half year ended 30 June 2019, the Group has settled the payable for the equity contribution to NRT Holdings 2 Pty Ltd amounting to AUD24 million (HK$135 million), and has contributed equity of RMB471 million (HK$544 million) into Hangzhou MTR Line 5 Corporation Limited.

On 13 July 2009, the Company entered into a project agreement with the HKSAR Government for the financing, design, construction and operation of the extension of Island Line to the Western District and related services and facilities. Pursuant to the agreement, the HKSAR Government provided a grant of HK$12.3 billion to the Company in March 2010 (having already made HK$0.4 billion available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism. The timeframe for the repayment mechanism was extended for a period ended on or before 30 June 2019 pursuant to various supplementary agreements between the Company and the HKSAR Government. During the half year ended 30 June 2019, the Company has made a final repayment to the HKSAR Government with a principal of HK$114 million and interest of HK$59 million under the repayment mechanism (year ended 31 December 2018: HK$nil).

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 and Operating Arrangements of the High Speed Rail were described in the Group's audited accounts for the year ended 31 December 2018. In addition, in connection with the property developments along the railway system, the Company has been granted a land lot by the HKSAR Government in respect of the following site during the half year ended 30 June 2019:

Property development site	Land grant/land premium offer acceptance date	Total land premium in HK$ million	Land premium settlement date
Site C2 of the Remaining Portion of Tseung Kwan O Town Lot No. 70	**7 May 2019**	**3,055**	**21 June 2019**

19 Material Related Party Transactions *(continued)*

During the half year ended 30 June 2019, the Group had the following transactions with its associates, namely Octopus Holdings Limited and its subsidiaries ("Octopus Group") and NRT Pty Ltd ("NRT"):

in HK$ million	**Half year ended 30 June 2019**	Half year ended 30 June 2018
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	**79**	77
– 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	**24**	20
NRT		
– Fees received or receivable in respect of the mobilisation service and design and delivery services of electrical and mechanical systems and rolling stock provided to NRT	**518**	734

20 Creditors, Other Payables and Provisions

The analysis of creditors by due dates is as follows:

in HK$ million	**At 30 June 2019 (Unaudited)**	At 31 December 2018 (Audited)
Due within 30 days or on demand	**5,634**	6,152
Due after 30 days but within 60 days	**1,257**	1,142
Due after 60 days but within 90 days	**999**	911
Due after 90 days	**6,251**	4,398
	14,141	12,603
Rental and other refundable deposits	**3,272**	3,209
Accrued employee benefits	**3,497**	2,713
Dividends payable to other shareholders	**1,433**	–
Total creditors and accrued charges	**22,343**	18,525
Other payables and provisions (note 14B(h))	**8,511**	5,306
Contract liabilities	**1,807**	2,116
	32,661	25,947

21 Loans and Other Obligations

Notes issued by the Group during the half year ended 30 June 2019 and 2018 comprise:

	Half year ended 30 June 2019		Half year ended 30 June 2018	
in HK$ million	**Principal amount**	**Net consideration received**	Principal amount	Net consideration received
Debt issuance programme notes	**–**	**–**	1,491	1,488

During the half year ended 30 June 2019, MTR Corporation (C.I.) Limited did not issue any of its notes (2018: HK$1,491 million), while the Company did not issue any of its notes (2018: HK$nil). The obligations of the notes issued by the subsidiary are direct, unsecured and unsubordinated to the other unsecured obligations of the subsidiary which are unconditionally and irrevocably guaranteed by the Company. 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 2019, the Group did not redeem any of its listed debt securities (2018: HK$nil). The Group redeemed HK$200 million of its unlisted debt securities (2018: HK$500 million).

22 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2019 and the year ended 31 December 2018 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 2019 (Unaudited)						
Balance as at 1 January 2019, as previously reported	**12,385**	**751**	**(170)**	**(5)**	**(103)**	**12,858**
Effect of adoption of HKFRS 16	**–**	**8**	**(13)**	**–**	**–**	**(5)**
Balance as at 1 January 2019, as restated	**12,385**	**759**	**(183)**	**(5)**	**(103)**	**12,853**
(Credited)/charged to consolidated profit and loss account	**(32)**	**(3)**	**28**	**–**	**(32)**	**(39)**
Charged to reserves	**–**	**12**	**–**	**26**	**–**	**38**
Exchange differences	**–**	**–**	**2**	**–**	**4**	**6**
Balance as at 30 June 2019	**12,353**	**768**	**(153)**	**21**	**(131)**	**12,858**
At 31 December 2018 (Audited)						
Balance as at 1 January 2018	12,158	648	(107)	–	(8)	12,691
Charged/(credited) to consolidated profit and loss account	228	–	10	–	(102)	136
Charged/(credited) to reserves	–	103	(74)	(5)	–	24
Exchange differences	(1)	–	1	–	7	7
Balance as at 31 December 2018	12,385	751	(170)	(5)	(103)	12,858

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

in HK$ million	**At 30 June 2019 (Unaudited)**	At 31 December 2018 (Audited)
Net deferred tax assets	**(157)**	(121)
Net deferred tax liabilities	**13,015**	12,979
	12,858	12,858

23 Share Capital and Shares Held for Executive Share Incentive Scheme

A Share Capital

	At 30 June 2019 (Unaudited)		At 31 December 2018 (Audited)	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**6,139,485,589**	**57,970**	6,007,777,302	52,307
Shares issued in respect of scrip dividend of 2017 final ordinary dividend	**–**	**–**	93,790,912	4,175
Shares issued in respect of scrip dividend of 2018 interim ordinary dividend	**–**	**–**	32,348,875	1,298
Vesting of shares of Executive Share Incentive Scheme	**–**	**5**	–	15
Shares issued under the share option scheme	**2,499,000**	**79**	5,568,500	175
At 30 June/31 December	**6,141,984,589**	**58,054**	6,139,485,589	57,970

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 2019 comprise:

	Number of shares	Weighted average exercise price HK$
Employee share options exercised:		
– 2007 Share Option Scheme	**2,499,000**	**29.15**

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

	Half year ended 30 June 2019	Half year ended 30 June 2018
	2007 Share Option Scheme	2007 Share Option Scheme
Outstanding at 1 January	**8,170,500**	13,794,000
Exercised during the period	**(2,499,000)**	(1,937,500)
Outstanding at 30 June	**5,671,500**	11,856,500
Exercisable at 30 June	**5,671,500**	11,856,500

D During the half year ended 30 June 2019, 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 244,650 Performance Shares (2018: 1,772,900) and 2,062,150 Restricted Shares (2018: 2,288,950) were awarded and accepted by the grantees on 8 April 2019 (2018: 16 March 2018, 10 April 2018). The fair value of these awarded shares was HK$48.40 per share (2018: HK$43.70 per share on 16 March 2018, HK$42.80 per share on 10 April 2018).

E During the half year ended 30 June 2019, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 1,870,000 Ordinary Shares (2018: 5,351,600) of the Company for a total consideration of approximately HK$88 million (2018: HK$239 million).

F During the half year ended 30 June 2019, 2,145,215 shares (2018: 3,741,766) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$88 million (2018: HK$146 million). During the half year ended 30 June 2019, HK$5 million (2018: HK$14 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 2019, 97,938 award shares (2018: 250,219) 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 2019 (Unaudited)**	**Fair value measurements as at 30 June 2019**	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**14**	**–**	**14**
– Cross currency swaps	**49**	**–**	**49**
– Interest rate swaps	**35**	**–**	**35**
	98	**–**	**98**
Investments in securities	**371**	**371**	**–**
	469	**371**	**98**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**33**	**–**	**33**
– Cross currency swaps	**362**	**–**	**362**
– Interest rate swaps	**13**	**–**	**13**
	408	**–**	**408**

in HK$ million	Fair value at 31 December 2018 (Audited)	Fair value measurements as at 31 December 2018	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	1	–	1
– Cross currency swaps	25	–	25
– Interest rate swaps	35	–	35
	61	–	61
Investments in securities	294	294	–
	355	294	61
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	33	–	33
– Cross currency swaps	481	–	481
– Interest rate swaps	31	–	31
	545	–	545

There are no Level 3 measurements of financial instruments. During the half year ended 30 June 2019 and the year ended 31 December 2018, 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 2019 and 31 December 2018 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

	At 30 June 2019 (Unaudited)		At 31 December 2018 (Audited)	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**23,366**	**26,813**	23,541	25,636
Other obligations	**478**	**568**	928	1,093

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 2019 (Unaudited)**	Half year ended 30 June 2018 (Unaudited)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses	**8,411**	9,321
Adjustments for:		
– Loss on disposal of fixed assets	**22**	16
– Amortisation of deferred income from transfers of assets from customers	**(29)**	(11)
– (Increase)/decrease in fair value of derivative instruments	**(16)**	14
– Unrealised (gain)/loss on revaluation of investment in securities	**(6)**	3
– Employee share-based payment expenses	**62**	52
– Exchange gain	**(14)**	(5)
– Provision for SCL Project (note 14B)	**2,000**	–
Operating profit before working capital changes	**10,430**	9,390
(Increase)/decrease in debtors and other receivables	**(703)**	45
Increase in stores and spares	**(167)**	(100)
Increase/(decrease) in creditors and other payables	**404**	(4,490)
Cash generated from operations	**9,964**	4,845

26 Capital Commitments

A Outstanding capital commitments as at 30 June 2019 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	Operations outside of Hong Kong	Total
At 30 June 2019 (Unaudited)					
Authorised but not yet contracted for	**10,271**	**–**	**2,537**	**137**	**12,945**
Authorised and contracted for	**14,096**	**171**	**4,619**	**28**	**18,914**
	24,367	**171**	**7,156**	**165**	**31,859**
At 31 December 2018 (Audited)					
Authorised but not yet contracted for	8,444	–	2,560	19	11,023
Authorised and contracted for	14,109	194	4,756	16	19,075
	22,553	194	7,316	35	30,098

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 2019 (Unaudited)				
Authorised but not yet contracted for	**5,330**	**926**	**4,015**	**10,271**
Authorised and contracted for	**10,339**	**303**	**3,454**	**14,096**
	15,669	**1,229**	**7,469**	**24,367**
At 31 December 2018 (Audited)				
Authorised but not yet contracted for	4,577	573	3,294	8,444
Authorised and contracted for	10,113	250	3,746	14,109
	14,690	823	7,040	22,553

27 Approval of Interim Financial Report

The interim financial report was approved by the Board on 8 August 2019.