MTR

GROWTH
IN MOTION

INTERIM REPORT 2012

HIGHLIGHTS

Financial

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

Operational

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

CONTENTS

HONG KONG OPERATING NETWORK WITH FUTURE EXTENSIONS

LEGEND

- Station
- Interchange Station
- Proposed Station
- Proposed Interchange Station
- Shenzhen Metro Network
- * Racing days only

EXISTING NETWORK

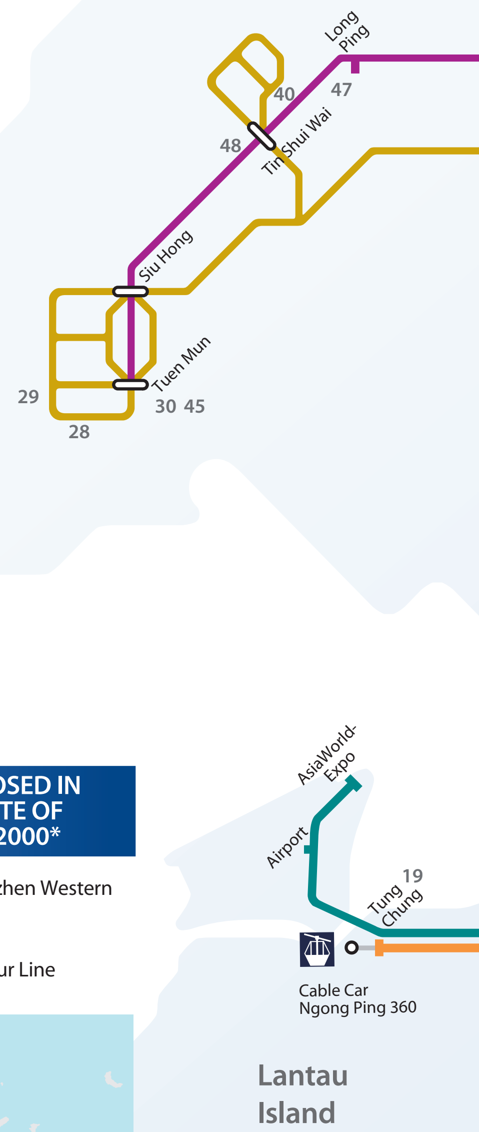
- Airport Express
- Disneyland Resort Line
- East Rail Line
- Island Line
- Kwun Tong Line
- Light Rail
- Ma On Shan Line
- Tseung Kwan O Line
- Tsuen Wan Line
- Tung Chung Line
- West Rail Line

PROJECTS IN PROGRESS

- Guangzhou-Shenzhen-Hong Kong Express Rail Link
- Kwun Tong Line Extension
- South Island Line (East)
- West Island Line
- Shatin to Central Link

POTENTIAL FUTURE EXTENSIONS

- North Island Link
- Northern Link
- South Island Line (West)
- Extension to Central South



PROPERTIES OWNED / DEVELOPED / MANAGED BY THE CORPORATION

01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Towers
11 Hongway Garden / Infinitus Plaza
12 Perfect Mount Gardens
13 New Jade Garden
14 Southorn Garden
15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall
16 Park Towers
17 Felicity Garden
18 Tierra Verde / Maritime Square
19 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Coastal Skyline / Caribbean Coast
20 Central Park / Island Harbourview / Park Avenue / Harbour Green / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two
21 The Waterfront / Sorrento / The Harbourside / The Arch / Elements / The Cullinan / The Harbourview Place / W Hong Kong / International Commerce Centre / The Ritz-Carlton, Hong Kong
22 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place
23 Central Heights / The Grandiose / The Edge / The Wings / PopCorn / Crowne Plaza, Hong Kong, Kowloon East / Holiday Inn Express, Hong Kong, Kowloon East
24 Residence Oasis / The Lane
25 No.8 Clear Water Bay Road / Choi Hung Park & Ride
26 Metro Town
27 Royal Ascot / Plaza Ascot
28 Pierhead Garden / Ocean Walk
29 Sun Tuen Mun Centre / Sun Tuen Mun Shopping Centre
30 Hanford Garden / Hanford Plaza
31 Citylink Plaza
32 MTR Hung Hom Building / Hung Hom Station Carpark
33 Trackside Villas
34 The Capitol / Le Prestige / Le Prime
35 The Palazzo
36 Lake Silver
37 Festival City

PROPERTY DEVELOPMENTS UNDER CONSTRUCTION / PLANNING

34 LOHAS Park Package 2C-10
38 Che Kung Temple Station
39 Tai Wai Station
40 Tin Shui Wai Light Rail
41 Austin Station Site C
42 Austin Station Site D
52 Wong Chuk Hang Station
53 Ho Man Tin Station

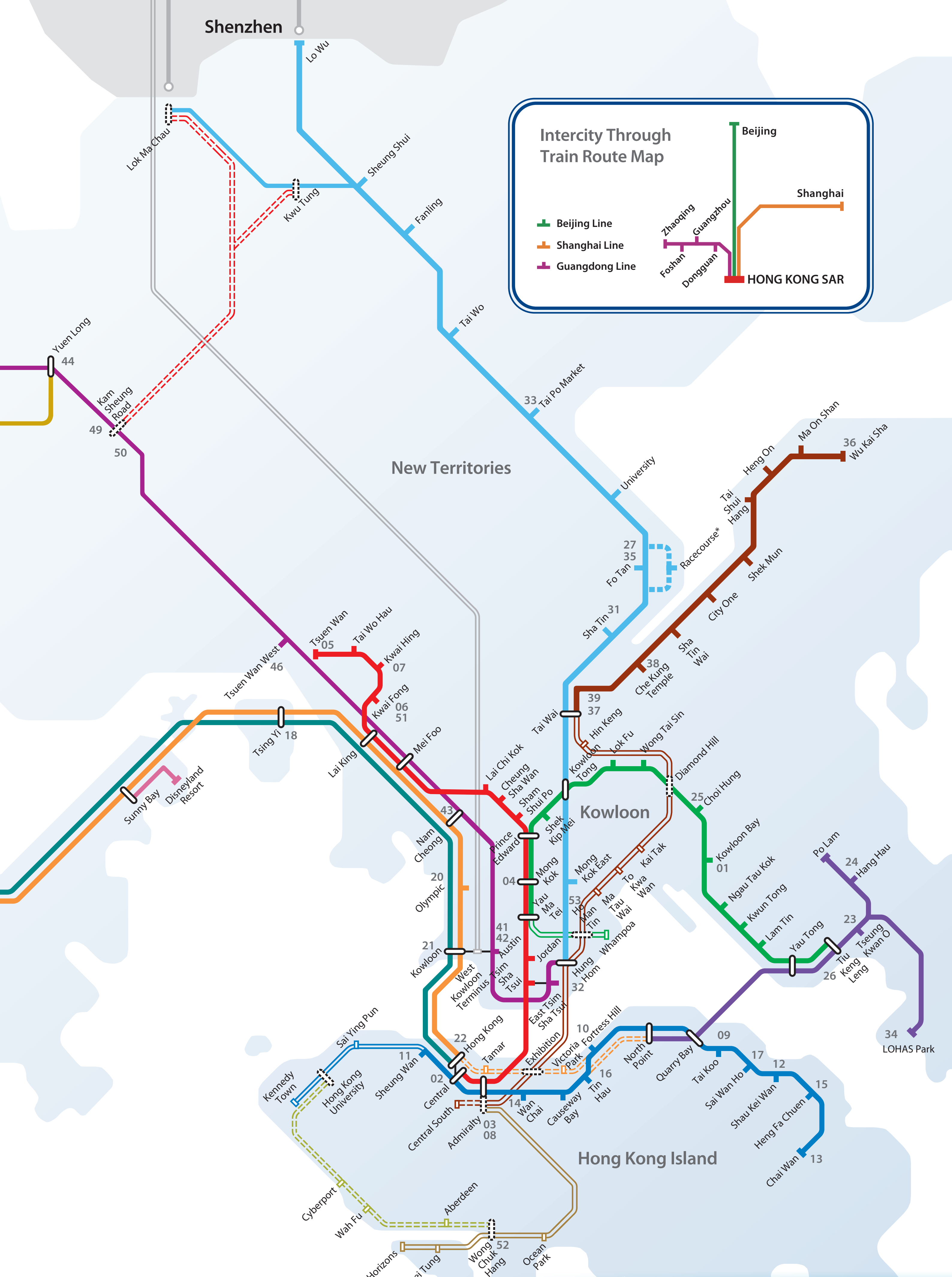
WEST RAIL LINE PROPERTY DEVELOPMENT (AS AGENT FOR THE RELEVANT SUBSIDIARIES OF KCRC)

43 Nam Cheong Station
44 Yuen Long Station
45 Tuen Mun Station
46 Tsuen Wan West Station
47 Long Ping Station
48 Tin Shui Wai Station
49 Kam Sheung Road Station
50 Pat Heung Maintenance Centre
51 Kwai Fong Site

MAJOR REGIONAL RAILWAY CORRIDORS PROPOSED IN THE STAGE 1 STUDY OF THE REVIEW AND UPDATE OF THE RAILWAY DEVELOPMENT STRATEGY (RDS) 2000*

- Existing Network
- Northern Link
- Tuen Mun – Tsuen Wan Link
- Hong Kong – Shenzhen Western Express Line
- Domestic Spur Line
- Cross-boundary Spur Line

* Stage 1 Public Engagement Consultation Document of the Review and Update of the Railway Development Strategy (RDS) 2000, undertaken by the Hong Kong SAR Government


Shenzhen
Intercity Through Train Route Map
Beijing Line
Shanghai Line
Guangdong Line
Beijing
Shanghai
Zhaoqing
Guangzhou
Foshan
Dongguan
HONG KONG SAR
New Territories
Kowloon
Hong Kong Island
Lo Wu
Lok Ma Chau
Sheung Shui
Kwu Tung
Fanling
Tai Wo
33 Tai Po Market
University
Racecourse*
27 35 Fo Tan
31 Sha Tin
39 37 Tai Wai
Yuen Long 44
Kam Sheung Road 49
50
Tsuen Wan West 46
Tsuen Wan 05
Tai Wo Hau
Kwai Hing 07
Kwai Fong 06 51
Lai King
Mei Foo
Tsing Yi 18
Sunny Bay
Disneyland Resort
Ma On Shan
36 Wu Kai Sha
Heng On
Tai Shui Hang
Shek Mun
City One
Sha Tin Wai
38 Che Kung Temple
Hin Keng
Kowloon Tong
Lok Fu
Wong Tai Sin
Diamond Hill
25 Choi Hung
Kowloon Bay 01
Ngau Tau Kok
Kwun Tong
Lam Tin
Yau Tong
23 Tiu Keng Leng 26
Tseung Kwan O
Po Lam
24 Hang Hau
34 LOHAS Park
Lai Chi Kok
Cheung Sha Wan
Sham Shui Po
Shek Kip Mei
Prince Edward
43 Nam Cheong
20 Olympic
04 Mong Kok
Mong Kok East
Kai Tak
Yau Ma Tei
53 Ho Man Tin
Ma Tau Wai
To Kwa Wan
Whampoa
41 42 Austin
21 Kowloon
West Kowloon Terminus
Jordan
Tsim Sha Tsui
Hung Hom 32
East Tsim Sha Tsui
Exhibition
Sai Ying Pun
Kennedy Town
Hong Kong University
11 Sheung Wan
22 Hong Kong
Tamar
02 Central
Central South
Admiralty 03 08
14 Wan Chai
10 Victoria Park
Fortress Hill
Causeway Bay
16 Tin Hau
North Point
Quarry Bay
09 Tai Koo
17 Sai Wan Ho
12 Shau Kei Wan
15 Heng Fa Chuen
13 Chai Wan
Cyberport
Wah Fu
Aberdeen
South Horizons
Lei Tung
Wong Chuk Hang 52
Ocean Park

CHAIRMAN'S LETTER

> *"...we intend to accelerate the pace of growth in the Mainland of China and overseas, while continuing to invest in Hong Kong..."*

Dear Shareholders and other Stakeholders,

MTR continued to perform strongly in the first half of 2012, with our businesses delivering good results despite economic uncertainties. In our recurrent businesses, Hong Kong transport operations further increased patronage as well as market share, while our station commercial and property rental businesses also fared well. Property development profits, which were mainly derived from the sale of inventory units at Festival City in Tai Wai, were lower during the first half of this year than the same period in 2011.

The Company's operating profit before property development, depreciation, amortisation and variable annual payment increased by 8.6% to HK$6,519 million, with recurrent profits after tax, being all underlying profits before property development, increasing 17.6% to HK$3,597 million. However, as a result of the lower property development profits, our underlying profits before revaluation of investment property decreased by 5.7% to HK$4,121 million compared to the first half of 2011 while underlying earnings per share dropped by 6.6% to HK$0.71. Including investment property revaluation, net profit attributable to shareholders was HK$5,861 million. Your Board has declared an interim dividend of HK$0.25 per share.

FARE AND FARE CONCESSIONS

Our fares are determined by the annual Fare Adjustment Mechanism (FAM), which resulted in a 5.4% fare increase in June 2012.

The FAM is an open, objective and transparent formula, which is based solely on Government published figures. It is designed with fairness and affordability in mind, since it aligns fare adjustments to economic conditions. Specifically, it references annual changes in inflation as measured by the composite consumer price index as well as wage levels in the transportation sector.

Having an objective and transparent mechanism by which to adjust fares was one of the five parameters set down by Government for the Rail Merger in 2007. After extensive discussions, including in the Legislative Council, MTR agreed to give up its autonomy to set fares, which was later accepted by our independent shareholders. The result is that we have one of the most open and transparent fare adjustment systems in the world, that ensures fairness in pricing for passengers while allowing MTR sufficient resources to ride out economic cycles and to invest for the future.

In line with the June fare increase this year, we announced our largest ever package of fare promotions, which gives back to passengers the estimated value of the additional revenue MTR will receive in the first year of implementation of this fare adjustment. This equates to estimated savings of about HK$670 million for passengers. The concessions introduced include our popular "Ride 10 Get 1 Free", free travel for children on weekends and public holidays, a 10% discount for every second journey taken on the same day, the Tung Chung Line Monthly Pass and HK$20 MTR Shop coupons for Monthly Pass purchasers. These promotions are in addition to the numerous other fare concessions we already offer, which include discounted fares for children, the elderly, persons with disabilities and students.

Overall, the fare concessions offered by MTR, including the ones just introduced or announced, will amount to an estimated HK$2.3 billion in the coming year. We also worked closely with the Government to implement the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities on 28 June 2012.

It is through a combination of operational efficiency, the FAM and our strong commitment to corporate responsibility that we have been able to ensure that travel on our network remains affordable to the general public.

The FAM is subject to review every five years, and we have been encouraged by its effectiveness thus far. The earliest time for the first such review will be later this year, and we will use this opportunity to work closely and constructively with the new Government for the long-term interest of Hong Kong.

CREATION OF LONG-TERM VALUE

We undertook a comprehensive review of our strategy in the first half of the year, which re-affirmed our vision for MTR's future. Following our review, we intend to accelerate the pace of growth in the Mainland of China and overseas, while continuing to invest in Hong Kong through the enhancement of services and the development of new rail lines as well as further creation of value from our Hong Kong businesses.

We made good progress on the five major railway projects in Hong Kong during the first six months of 2012. At the beginning of the year, four of these projects were already under construction, namely the West Island Line, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, South Island Line (East) and Kwun Tong Line Extension. These have advanced according to programme. We have also begun construction of the Shatin to Central Link, for which an Entrustment Agreement was signed in May this year. This project is funded largely by Government. Studies estimate that the line will create about 15,000 jobs throughout the construction period, until 2020.

Beyond these five new rail lines, we are excited about the opportunities which will be created from the Review and Update of the Second Railway Development Study (RDS-2U). Following completion of the Public Engagement undertaken by Government, we look forward to receiving positive feedback from the community in support of sustainable rail development in Hong Kong to meet future demand in domestic and cross-boundary travel, which calls for more comprehensive rail network coverage, better connectivity and higher capacity.

Outside of our home markets, all our businesses continue to perform well. Approval from the National Development and Reform Commission of the Chinese Central Government was obtained in June 2012, allowing us to proceed with the Hangzhou Metro Line 1 joint venture. The line's opening is anticipated to take place in the fourth quarter of this year. We continue to explore opportunities to build and operate additional rail lines in the Mainland, and on 10 August our 49% owned associate, Beijing MTR Corporation Limited, submitted a bid to invest in a Public-Private-Partnership project for the 47-km Beijing Metro Line 14. Internationally, we have been shortlisted to bid for two rail operating franchises in the UK, namely the Essex Thameside and Thameslink.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

Our approach to Sustainability is guided by our goal of "Transport at its Best." We continue to work towards creating social, environmental and economic value by building long-lasting, sustainable communities for generations to come. This includes optimising energy efficiency, improving customer service and ensuring safe and healthy work environments while also integrating the needs of our community in decision-making processes. Our Sustainability Report 2011, published in June 2012, discusses our strategic priorities and how we are progressing towards our goal.

CHAIRMAN'S LETTER

MTR is one of the first Hong Kong companies to require all our future residential developments meet the Hong Kong BEAM Plus Gold Standard. Our first achievement is a BEAM Plus Gold provisional certification for Austin Station Residential Developments. This is the highest rating for residential buildings that has been issued by the Hong Kong Green Building Council to date.

We also take the environmental impact of our railway construction work very seriously, and we work closely with contractors to optimise results from an environmental point of view. We have carefully considered and reviewed electrical and mechanical systems that have potential for energy savings and efficiencies for our future new rail lines, including water-cooled air-conditioning systems and the adoption of new technologies to optimise rolling stock efficiencies. For our existing railway operations, our Energy Management Committee has been looking for better asset performance and optimisation, for example through the installation of LED lighting in our trains and in advertising panels in certain stations.

COMMUNITY CARE ACTION

Our Community Care Action programme focuses on Youth Development, Art & Culture, Green & Healthy Living and Community Outreach.

The "More Time Reaching Community" Scheme has been lent additional impetus by the strong community focus of Mr Jay Walder, our new CEO. In January, Jay and staff volunteers led some 100 children from the HKGGA Tin Shui Wai Pansy Ho Activity Centre and Mong Kok Kai Fong Association Chan Hing Social Services Centre on a visit to the Kowloon Bay Depot. The 120 secondary school students participating in the "'Friend' for life's journeys" programme, meanwhile, completed their activities in May this year.

Our "art in station architecture" programme saw a dramatic addition at Tuen Mun Station in March with the unveiling of a six-metre-long exhibit called "Dragon Boat", reflecting the traditional culture of the area.

Art and community care came together in Sai Wan Ho and Tiu Keng Leng stations in March and April with a display of Japanese SAORI hand-weaving, a collaboration between students of the Hong Kong Design Institute and people with disabilities from the rehabilitation service of The Salvation Army.

As we build five new railway lines for the city, we are taking the opportunity to further embrace public art throughout our rail system. The first ever MTR open art competition was launched to invite proposals for original art pieces from local and overseas artists to help decorate and enrich the appearance of our new railway stations. We have also reserved spaces in many new stations for artwork to be produced jointly by artists and local communities so the public can participate in enhancing our station environments.

For the eighth consecutive year, MTR athletes joined the annual Green Power Hike run to promote green and healthy living, and we are pleased to note that one of our teams won the 10-km Corporation/Organisation Cup. As many as 70 staff and their families turned out as volunteers to assist with logistics and crowd control.

We continued to reach out to communities throughout the period in a variety of ways. MTR organised 97 community projects under the "More Time Reaching Community" Scheme, which involved more than 2,500 volunteers and raised over HK$166,000 through staff donations for the Community Chest. A Community Recruitment Programme was also launched in Tung Chung to provide employment opportunities for those living in remote districts.

RECOGNITION FOR CORPORATE RESPONSIBILITY

Our achievements in Sustainability and Corporate Responsibility have been recognised internationally. In January 2012, Sustainable Asset Management and PricewaterhouseCoopers recognised our efforts in Sustainability by awarding us the SAM Bronze Class award. We also retained our listings on the FTSE4Good Index, the Dow Jones Sustainability Indexes and Hong Kong's Hang

Seng Corporate Sustainability Index. In the area of Corporate Responsibility, we have received the "5 Years Plus Caring Company Logo" from the Hong Kong Council of Social Service for two consecutive years and the "Prime Awards for Eco-Business 2012" from MetroBox Magazine.

MANAGEMENT TRANSITIONS

In the last 12 months, we have made significant changes at the senior management level, including the appointment of Mr Jay Walder as our new CEO. I am pleased to report that the transition has been exceedingly smooth and that the new team is diligently building on the excellent work of its predecessors.

I would like to welcome Professor Anthony Cheung Bing-leung and Ms Susie Ho Shuk-yee, who joined the Board in July 2012, on taking up the office of Secretary for Transport and Housing and Commissioner for Transport respectively. I would also like to thank their respective predecessors, Ms Eva Cheng and Mr Joseph Lai, for their contributions to the work of the Board during their tenures.

CONCLUSION

The first half of 2012 saw MTR continue to make good progress towards delivering sustainable value to stakeholders by connecting and growing communities through excellent service. As ever, I wish to thank my fellow directors for their counsel, our staff for their hard work during the past six months, as well as our other stakeholders for their invaluable support.

Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 13 August 2012

CEO'S REVIEW OF OPERATIONS AND OUTLOOK

"...MTR achieved good results in the first half of 2012 by leveraging off reasonable economic conditions in Hong Kong."

Dear Shareholders and other Stakeholders,

I am pleased to report that MTR achieved good results in the first half of 2012 by leveraging off reasonable economic conditions in Hong Kong. The Company's financial results were further supported by continued strong operational performance together with world-class safety standards. We maintained our growth momentum by achieving a number of important milestones in Hong Kong and elsewhere. In addition, we carried out a comprehensive review of our strategy to take the Corporation forward and re-affirmed our vision to become a leading multinational company that connects and grows communities with caring service. In our home market of Hong Kong, we strive for continuous service improvements, network growth and value maximisation. Beyond Hong Kong, we seek to accelerate our pace of growth in the Mainland and other selected international markets.

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

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

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

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

HONG KONG TRANSPORT OPERATIONS

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

PATRONAGE

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

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

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

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

MARKET SHARE

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

FARE REVENUE

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

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

Under the Fare Adjustment Mechanism (FAM), the overall fare adjustment rate for MTR fares in 2012 was calculated at +5.4% and was implemented on 17 June. At the same time, we introduced fare concessions estimated at HK$670 million, which is the largest package of promotions that the Company has ever offered. These concessions will be launched at different times, and they have been carefully structured to benefit a wide range of customers with different travel patterns and to encourage family and community activities. Fare concessions introduced include "Ride 10 Get 1 Free", free travel for children on weekends and public holidays, a 10% discount for every second journey taken on the same day, a Tung Chung Line Monthly Pass and HK$20 MTR Shops coupons for Monthly Pass purchasers. These promotions are in addition to the numerous other fare concessions we already offer, which include discounted fares for children, the elderly, persons with disabilities and students. The FAM is subject to review every five years. The first such review will be later this year, and we will work closely and constructively with Government on this exercise.

PROMOTIONS AND CONCESSIONS

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

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

OPERATIONS PERFORMANCE IN FIRST HALF 2012

Service performance item	Performance Requirement	Customer Service Pledge Target	**Actual Performance**
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	**99.9%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.8%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥ 5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	500,000	**3,193,756**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	500,000	**4,682,710**
Ticket reliability: magnetic ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	8,000	**15,372**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.5%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.7%**
– Light Rail	N/A	99.0%	**99.6%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.6%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.7%**
– West Rail Line	97.0%	99.0%	**99.6%**
– Light Rail	N/A	99.0%	**99.9%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.8%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability	N/A	99.0%	**99.9%**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.0%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	90.0%	**99.9%**
Cleanliness			
– Train compartment: cleaned daily	N/A	98.5%	**99.9%**
– Train exterior: washed every 2 days (on average)	N/A	99.0%	**100.0%**
Northwest Transit Service Area Bus Service			
– Service Delivery	N/A	99.0%	**99.8%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

SERVICE AND PERFORMANCE

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

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

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

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

The programme has also seen enhancement to station facilities that make MTR journeys more convenient and comfortable, especially for elderly passengers, passengers using wheelchairs and those travelling with baby prams. In the past few months, three new lifts have been put into service at Cheung Sha Wan, Jordan and Sham Shui Po stations. The fourth one will commence service soon in Sheung Wan Station. Nine more lifts are also planned to be added into the railway network so that all 83 stations (excluding Racecourse) will be equipped with at least one lift in the future. In addition, we plan to install 52 more wide gates and 231 platform seats at stations by 2013.

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

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

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

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

HONG KONG STATION COMMERCIAL BUSINESS

Revenue from our Hong Kong station commercial business in the first half of 2012 was HK$1,699 million, an increase of 11.3% compared to the first half of 2011, on the back of further improvements in station shop rentals and advertising revenues.

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

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

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

PROPERTY AND OTHER BUSINESSES

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

PROPERTY DEVELOPMENT PACKAGES AWARDED AND TO BE COMPLETED

Location	Developers	Type	Gross floor area *(sq. m.)*	Period of package tenders	Expected completion date
LOHAS Park Station					
Package Two (Le Prestige, Le Prime, La Splendeur)	Cheung Kong (Holdings) Ltd.	Residential Kindergarten	309,696 800	Awarded in January 2006	By phases from 2010-2012
Package Three	Cheung Kong (Holdings) Ltd.	Residential Kindergarten	128,544 1,000	Awarded in November 2007	2013
Che Kung Temple Station					
The Riverpark	New World Development Co. Ltd.	Residential Retail Kindergarten	89,792 193 670	Awarded in April 2008	2012
Austin Station					
Sites C and D	New World Development Co. Ltd. and Wheelock Properties Limited	Residential	119,116	Awarded in March 2010	2014
Tuen Mun Station#	Sun Hung Kai Properties Ltd.	Residential Retail	119,512 25,000	Awarded in August 2006	By phases from 2012-2013
Tsuen Wan West Station#					
TW7	Cheung Kong (Holdings) Ltd.	Residential	113,064	Awarded in September 2008	2013
TW5 Cityside	Chinachem Group	Residential Retail	66,114 11,210	Awarded in January 2012	2018
TW5 Bayside	Cheung Kong (Holdings) Ltd.	Residential Retail Kindergarten	167,100 40,000 550	Awarded in August 2012	2018
Nam Cheong Station#	Sun Hung Kai Properties Ltd.	Residential Retail Kindergarten	214,700 26,660 1,000	Awarded in October 2011	By phases from 2017-2019

as a development agent for the relevant subsidiaries of KCRC

PROPERTY DEVELOPMENT PACKAGES TO BE AWARDED NOTES 1 AND 2

Location	No. of packages envisaged	Type	Gross floor area *(sq. m.)*	Period of package tenders	Expected completion date
LOHAS Park Station	6 – 10	Residential Retail	1,025,220 – 1,035,220 39,500 – 49,500	2013-2017	2020
Tai Wai Station	1	Residential Retail	190,480 62,000	2013	2018-2019
Tin Shui Wai Light Rail	1	Residential Retail	91,051 205	2013	2018
Wong Chuk Hang Station	3	Residential Retail	357,500 47,000	2015-2020	2024
Ho Man Tin Station	2	Residential	128,400	2015-2018	2021

Notes:
1. Property development packages for which we are acting as development agent for the relevant subsidiaries of KCRC are not included.
2. These property development packages are subject to review in accordance with planning approval, land grant conditions and completion of statutory processes.

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

PROPERTY DEVELOPMENT

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

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

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

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

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

PROPERTY RENTAL AND MANAGEMENT BUSINESSES

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

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

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

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

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

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

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

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

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

OTHER BUSINESSES

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

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

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

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

Project management income from KCRC and Government in the first half of 2012 was HK$331 million, 26.3% higher than the comparable period of 2011, mainly due to higher project management fees related to the Entrustment Agreement for the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link).

MAINLAND OF CHINA AND OVERSEAS BUSINESSES

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

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

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

MAINLAND OF CHINA

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

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

OVERSEAS

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

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

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

FUTURE GROWTH

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

GROWTH IN HONG KONG

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

The 3-km West Island Line, an extension of the Island Line, is targeted to open in 2014. As at the end of June, 93% of excavation works for tunnels and 95% of excavation works for stations were complete. Structural works at Hong Kong University Station commenced in May 2012. At Sheung Wan, station modification works have continued, and the removal of a portion of the existing tunnel overrun is in progress to make way for the construction of the new west-bound tunnel towards Sai Ying Pun. The method being employed is a major innovation in the world of tunnel construction.

All electrical and mechanical (E&M) contracts have been awarded and are progressing well, with all key E&M system design works completed.

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

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

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

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

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

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

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

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

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

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

GROWTH IN THE MAINLAND OF CHINA AND OVERSEAS

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

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

FINANCIAL REVIEW

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

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

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

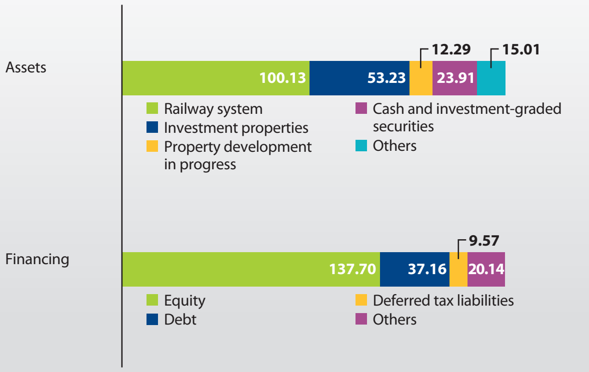
Interest and finance charges decreased by 5.9% to HK$432 million. The increase in value of investment properties since the end of 2011 was HK$1,740 million as compared with HK$4,408 million for the same period last year. The share of profits from non-controlled subsidiaries and associates grew significantly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

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

SIMPLIFIED BALANCE SHEET

As at 30 June 2012

(HK$ billion)

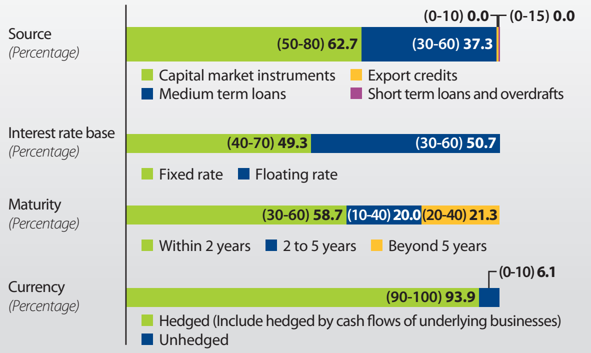


PREFERRED FINANCING MODEL AND DEBT PROFILE

The Preferred Financing Model exemplifies the Company's prudent approach to debt management and helps ensure a well balanced debt portfolio.

(Preferred Financing Model) vs. Actual debt profile

As at 30 June 2012



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

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

FINANCING ACTIVITIES

Growth of the US economy significantly slowed in the first half of 2012. This, together with safe haven demand from the deepening European sovereign debt crisis and the Federal Reserve's Operation Twist, drove Treasury yields to their lowest levels ever, with 10-year yield reaching a historical low of

1.452% per annum. Interbank rates, whilst remaining subdued, crept up slightly with the average 3-month USD-LIBOR and 3-month HKD-HIBOR rising to around 0.49% per annum and 0.40% per annum, from 0.29% per annum and 0.25% per annum respectively during the same period last year.

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

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

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

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

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

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

HUMAN RESOURCES

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

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

Our Corporate Leadership Pipeline ensures a sustainable supply of leaders at all levels. The fourth batch of Executive Associate Scheme entrants completed their group learning activity during the first half, and nomination for the succeeding batch has commenced. Recruitment for the 2012 intake of Graduate Trainees, Graduate Engineers and Functional Associates was completed, with a total of 40 young talents ready to join the Company.

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

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

COMMUNITY ENGAGEMENT

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

In support of our new railway projects under construction in Hong Kong, we hold regular community liaison meetings. These meetings enable us to communicate the proposed designs, construction programmes and methods to the local communities and receive their feedback. We have been especially active in recent months with consultations on the Shatin to Central Link.

OUTLOOK

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

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

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

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

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

Jay H Walder

Jay H Walder, *Chief Executive Officer*
Hong Kong, 13 August 2012

KEY FIGURES

	Half-year ended 30 June 2012	Half-year ended 30 June 2011	% Increase/ (Decrease)
Financial highlights *(HK$ million)*			
Revenue			
– Hong Kong transport operations	**6,914**	6,471	6.8
– Hong Kong station commercial business	**1,699**	1,527	11.3
– Property rental and management businesses	**1,730**	1,560	10.9
– Railway subsidiaries outside of Hong Kong	**6,335**	6,171	2.7
– Other businesses	**476**	440	8.2
Operating profit before property developments, depreciation, amortisation and variable annual payment	**6,519**	6,001	8.6
Profit on property developments	**627**	1,445	(56.6)
Operating profit before depreciation, amortisation and variable annual payment	**7,146**	7,446	(4.0)
Profit attributable to equity shareholders	**5,861**	8,777#	(33.2)
Profit attributable to equity shareholders arising from underlying businesses	**4,121**	4,369	(5.7)
Total assets	**204,573**	197,870^#	3.4
Loans, other obligations and bank overdrafts	**26,302**	23,168^	13.5
Obligations under service concession	**10,701**	10,724^	(0.2)
Total equity attributable to equity shareholders	**137,499**	134,463^#	2.3
Financial ratios			
Operating margin *(%)*	**38.0**	37.1	0.9%pt.
Operating margin (excluding railway subsidiaries outside of Hong Kong) *(%)*	**57.2**	57.6	(0.4%)pt.
Net debt-to-equity ratio* *(%)*	**9.9**	11.4^#	(1.5%)pts.
Interest cover *(times)*	**12.1**	13.4	(1.3)times
Share information			
Basic earnings per share *(HK$)*	**1.01**	1.52#	(33.6)
Basic earnings per share arising from underlying businesses *(HK$)*	**0.71**	0.76	(6.6)
Dividend per share *(HK$)*	**0.25**	0.25	–
Share price at 30 June *(HK$)*	**26.45**	27.60	(4.2)
Market capitalisation at 30 June *(HK$ million)*	**153,053**	159,636	(4.1)
Operations highlights			
Total passenger boardings *(million)*			
– Domestic Service	**687.5**	658.4	4.4
– Cross-boundary Service	**53.0**	50.2	5.4
– Airport Express	**6.1**	5.6	7.6
– Light Rail	**81.5**	78.2	4.3
Average number of passengers *(thousand)*			
– Domestic Service *(weekday)*	**4,027**	3,871	4.0
– Cross-boundary Service *(daily)*	**291.0**	277.5	4.8
– Airport Express *(daily)*	**33.3**	31.1	7.0
– Light Rail *(weekday)*	**458.1**	442.2	3.6
Fare revenue per passenger *(HK$)*			
– Domestic Service	**6.93**	6.75	2.7
– Cross-boundary Service	**25.51**	25.17	1.4
– Airport Express	**63.85**	63.84	0.02
– Light Rail	**2.77**	2.71	2.3
Proportion of franchised public transport boardings (January to May) *(%)*	**45.8**	44.9	0.9%pt.

* Including obligations under service concession and loan from holders of non-controlling interests as components of debts and investments in bank medium term notes as a component of cash.

^ Figures as at 31 December 2011

Restated

CORPORATE GOVERNANCE PRACTICES

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interests of all of its stakeholders and continuous efforts are therefore taken to identify and formalise best practices for the Company to adopt.

The Company's commitment to the highest standards of corporate governance is driven by the Board who, led by the Chairman, assume overall responsibility for the governance of the Company, taking into account the interests of the Company's stakeholders, the development of its business, and the changing external environment.

The Company has applied the principles of the former Code on Corporate Governance Practices (the "former Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and, in accordance with the commitment of the Board referred to above, adopted a number of the requirements of the new Corporate Governance Code (the "new CG Code") and the associated Listing Rules announced by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 October 2011 in advance of their formal dates for implementation.

During the six months ended 30 June 2012, the Company has complied with the Code Provisions set out in both the former Code and the new CG Code contained in Appendix 14 of the Listing Rules, for the period from 1 January to 31 March 2012 and from 1 April to 30 June 2012 respectively.

A person may be appointed as a Member of the Board at any time either by the shareholders in general meeting or by the Board upon recommendation by the Nominations Committee of the Company. For appointment to be made by shareholders, please refer to the procedures available on the websites of the Company and the Stock Exchange. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment. A Director who retires in this way is eligible for election at that annual general meeting, but is not taken into account when deciding which and how many Directors should retire by rotation. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment. At each annual general meeting of the Company, one third of the Directors (or, if the number of Directors is not divisible by three, such number as is nearest to and less than one third) must retire as Directors by rotation.

The Chief Executive of the Hong Kong Special Administrative Region of the People's Republic of China (the "HKSAR") may, pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong), appoint up to three persons as "additional Directors". Directors appointed in this way may not be removed from office except by the Chief Executive of the HKSAR. These Directors are not subject to any requirement to retire by rotation nor will they be counted in the calculation of the number of Directors who must retire by rotation. In all other respects, the "additional Directors" are treated for all purposes in the same way as other Directors.

The composition of the Board, with 11 non-executive Directors out of the 12-member Board, of whom 7 are independent non-executive Directors (the "INED(s)"), well exceeds both the requirements of the current Listing Rule (every board of directors of a listed issuer has to have at least 3 INEDs), as well as the new Listing Rule (to have INEDs representing at least one-third of the board by not later than 31 December 2012).

Further, and as an integral part of good corporate governance, the Company has, for some time, had a number of Board Committees with written terms of reference to oversee particular aspects of the Company's affairs, and these include the Remuneration Committee (this new Listing Rule requirement took effect on 1 April 2012) and the Nominations Committee (this new CG Code provision became effective on 1 April 2012). In advance of the new CG Code implementation, the Board has, at the January 2012 Board Meeting, adopted revised Terms of Reference for the Remuneration Committee, the Nominations Committee and the Audit Committee (the new CG Code provision for audit committees became effective on 1 April 2012) in order to meet the requirements of the new CG Code. All these Terms of Reference are available on both the websites of the Company and the Stock Exchange.

As mentioned earlier, the Board recognises that corporate governance should be the collective responsibility of all Members of the Board. In light of the new CG Code provision on corporate governance functions (taking effect from 1 April 2012) and alongside the adoption of both the relevant Terms of Reference for the Board (available on both the websites of the Company and the Stock Exchange), and the revised "Protocol: Matters Reserved for the Board" (the "Protocol"), the Board confirmed at the January 2012 Board Meeting, that a separate corporate governance board committee would not be established by the Company.

The overall management of the Company's business is vested in the Board. Pursuant to the Company's articles of association (the "Articles of Association") and the Protocol adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. These include financial statements, dividend policy, significant changes in accounting policy, annual operating budget, certain material contracts, strategies for future growth, major financing arrangements and major investments, corporate governance matters, risk management strategies, treasury policies and fare structures.

At the January 2012 Board Meeting and as part of the Directors' training programme put in place by the Company, the Company's external legal counsel provided a comprehensive update on the corporate governance regime under the Listing Rules to the Board including the requirements of the new CG Code. A discussion then followed during which the Legal Director & Secretary ("LD&S") highlighted the implications of the revised Listing Rules and the new CG Code to both the Company and to individual Directors.

Regarding the Listing Rules requirement (effective on 1 January 2012) for directors to obtain a general understanding of an issuer's business and to follow up anything untoward that comes to their attention, it is considered that the current arrangements for keeping the Board informed of the Company's business performance through regular presentations and/or reports by Management at Board Meetings, and timely reports on urgent key events according to the Protocol at ad hoc Board Meetings are effective, and have satisfied the requirement. To improve on the existing practice, a Chief Executive Officer ("CEO") Executive Summary, covering key business issues and the financial performance of the Company has been made available to Members on a monthly basis from April 2012. A number of site visits to the Company's business operations are being arranged for Directors over the course of the year. The first one was held on 29 June 2012 to the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link to allow directors to obtain a better understanding of the construction progress of the project, including the West Kowloon Terminus. The tour was followed by a visit to a tunnel boring machine launching shaft and bored tunnel. In addition, an off site meeting for the Board to review the Company's corporate strategy was held in June 2012.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Company. In light of the new CG Code Principle on directors' time commitments (taking effect on 1 April 2012), the Chairman held a private Board Meeting (without the presence of the CEO and other Members of Executive Directorate) in April 2012 to review the contribution from each Director in performing his/her responsibilities to the Company, and whether he/she is spending sufficient time in performing them.

As regards the new CG Code provision (effective 1 April 2012) requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved (the "Commitments") to the issuer, all Directors have, at the Board Meeting in January 2012, agreed to disclose their Commitments to the Company in a timely manner. The Company's current practice of requesting Members of the Board to make a disclosure to the Company twice a year will also continue.

In January 2012, a questionnaire was sent to all Members of the Board in order to enable the performance of the Board to be evaluated. The questionnaire sought their views on, for example, the overall performance of the Board, the composition of the Board, conduct of Board Meetings and provision of information to the Board. The responses to the questionnaire were discussed at the private Board Meeting held in April 2012 and any suggestions made by Members of the Board have been incorporated as further improvements to the Company's overall corporate governance regime.

At the 2012 Annual General Meeting on 3 May 2012, Mr. Jay Herbert Walder, who was appointed after the 2011 annual general meeting on 6 May 2011, retired from office pursuant to Article 85 of the Articles of Association, and was elected as a Member of the Board. Dr. Raymond Ch'ien Kuo-fung, Mr. T. Brian Stevenson and Professor Chan Ka-keung, Ceajer retired from office by rotation pursuant to Articles 87 and 88 of the Articles of Association, and were re-elected as Members of the Board.

As outlined earlier, the Company has 7 INEDs on the 12-member Board, and the CEO is the only executive Director on the Board.

Dr. Raymond Ch'ien Kuo-fung, a Member of the Board and the non-executive Chairman of the Company since 1998 and 2003 respectively, was re-appointed by the Government of the HKSAR in November 2009 as the non-executive Chairman with effect from December 2009 until December 2012.

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

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

Professor Anthony Cheung Bing-leung, who was appointed to the post of the Secretary for Transport & Housing ("S for T&H") (held by Ms. Eva Cheng up to 30 June 2012) with effect from 1 July 2012, has by virtue of his appointment become a non-executive Director of the Company on the same date. In addition, with effect from 1 July 2012, Professor Cheung was appointed as a member of the Nominations Committee and the Corporate Responsibility Committee of the Company.

Miss Susie Ho Shuk-yee, who was appointed to the post of the Commissioner for Transport (held by Mr. Joseph Lai Yee-tak up to 27 May 2012) with effect from 16 July 2012, has by virtue of her appointment become a non-executive Director of the Company on the same date. In addition, with effect from 16 July 2012, Miss Ho was appointed as a member of the Audit Committee of the Company.

Mr. Joseph Lai Yee-tak was appointed to the post of the Permanent Secretary for Transport and Housing (Transport) (held by Mr. Ho Suen-wai up to 27 May 2012) with effect from 28 May 2012 and has by virtue of his appointment become an Alternate Director to the office of the S for T&H with effect from the same date.

Ms. Elizabeth Tse Man-yee who took over the post of the Permanent Secretary for Financial Services and the Treasury (Treasury) (held by Mr. Ying Yiu-hong up to 24 July 2012) with effect from 25 July 2012, was appointed as an Alternate Director to Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury), a non-executive Director of the Company, with effect from the same date.

Ms. Mable Chan who took over the post of the Deputy Secretary for Financial Services and the Treasury (Treasury)2 (vacated by Miss Chu Man-ling from 19 June 2012 and doubled up by Ms. Tsang Oi-lin between 19 June to 22 July 2012) with effect from 23 July 2012, was appointed as an Alternate Director to Professor Chan with effect from the same date.

Mr. Andy Chan Shui-fu was appointed to the post of the Deputy Secretary for Transport and Housing (Transport) ("DS for T&H(T)") with effect from 24 July 2012 and has by virtue of his appointment become an Alternate Director to the office of the S for T&H with effect from the same date.

As Mr. Yau Shing-mu ceased to hold the post of the Under Secretary for Transport and Housing with effect from 1 July 2012, he also ceased to be an Alternate Director to the office of the S for T&H with effect from the same date.

As Ms. Maisie Cheng Mei-sze ceased to hold the post of the DS for T&H(T) with effect from 4 July 2012, she also ceased to be an Alternate Director to the office of the S for T&H with effect from the same date.

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

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

Mr. William Chan Fu-keung retired from the position of Human Resources Director and as a Member of the Executive Directorate, both effective from 17 July 2012. Mr. Cheung Siu-wa (also known as Mr. Morris Cheung) was appointed as Human Resources Director and a Member of the Executive Directorate, both with effect from 17 July 2012.

Ms. Gillian Elizabeth Meller has been the LD&S and a Member of the Executive Directorate since 1 September 2011. As the LD&S, Ms. Meller reports to the CEO. All Members of the Board have access to the advice and services of the LD&S, who is responsible for ensuring that the correct Board procedures are followed and advises the Board on all corporate governance matters. On appointment to the Board, LD&S has arranged for each of the Directors (including Alternate Directors) to receive a comprehensive, formal and tailored induction programme on key areas of business operations and practices of the Company, as well as the general and specific duties of directors under general law (common law and legislation) and the Listing Rules. To assist Directors' continuing professional development, LD&S recommends Directors to attend relevant seminars and courses and arranges for training on relevant new or amended legislation or other regulations to be provided at Board Meetings. The costs for such training are borne by the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code"). After having made specific enquiry, the Company confirms that Members of the Board and the Executive Directorate complied throughout the half-year ended 30 June 2012 with the Model Code. Senior managers, other nominated managers and staff who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code. In addition, every employee is bound by the Code of Conduct issued by the Company, amongst other things, to keep unpublished price sensitive information in strict confidence.

AUDIT COMMITTEE

The Audit Committee normally meets four times each year with the purpose of monitoring the integrity of the Group's financial statements and to consider the nature and scope of internal and external audit reviews. It also assesses the effectiveness of the systems of internal control.

In line with the new CG Code, the Terms of Reference of the Audit Committee have been revised and were approved at the January 2012 Board Meeting.

Under its Terms of Reference, the Audit Committee consists of four non-executive Directors, at least three of whom are INEDs. The Members of the Committee are Mr. T. Brian Stevenson (chairman), Mr. Ng Leung-sing, the Commissioner for Transport (being Mr. Joseph Lai Yee-tak up to 27 May 2012, Ms. Carolina Yip Lai-ching (Acting Commissioner for Transport) from 28 May to 15 July 2012, and Miss Susie Ho Shuk-yee since 16 July 2012), and Mr. Alasdair George Morrison. Mr. Stevenson, Mr. Ng and Mr. Morrison are INEDs.

REMUNERATION COMMITTEE

The Remuneration Committee meets regularly to consider remuneration issues and its principal responsibilities include (i) formulating a remuneration policy and practices that facilitate the employment of top quality personnel, (ii) recommending to the Board the remuneration of the Members of the Board who are non-executive Directors, (iii) determining with delegated responsibility the remuneration packages of the Members of the Board who are executive Directors and other Members of the Executive Directorate, and (iv) reviewing and approving performance-based remuneration by reference to the Board's corporate goals and objectives.

The model described in (iii) above, which the Committee has adopted, is set out in its Terms of Reference and is consistent with the new CG Code. The Terms of Reference were approved at the January 2012 Board Meeting.

Under its Terms of Reference, the Remuneration Committee consists of at least three non-executive Directors, and the majority of them are INEDs. The Members of the Committee are Mr. Edward Ho Sing-tin (chairman), Mr. T. Brian Stevenson, Mr. Vincent Cheng Hoi-chuen, Professor Chan Ka-keung, Ceajer and Mr. Alasdair George Morrison. Mr. Ho, Mr. Stevenson, Mr. Cheng and Mr. Morrison are INEDs.

NOMINATIONS COMMITTEE

The Nominations Committee nominates and recommends to the Board candidates for filling vacancies on the Board, and the positions of CEO, FD and Chief Operating Officer (the "COO") (provided that the COO position exists). For the positions of FD and COO, the Committee may consider candidates recommended by the CEO, or any other candidates (provided that the CEO shall have the right to first agree to such other candidates).

In line with the new CG Code, the Terms of Reference of the Nominations Committee have been revised and were approved at the January 2012 Board Meeting.

Amongst other things and following the requirements of the new CG Code, the Nominations Committee met in April 2012 to review the structure, size and composition of the Board. The discussion was supported by feedback from Members of the Board, in response to the January 2012 questionnaire on the evaluation of the Board's performance, in relation to which see page 25.

Under its Terms of Reference, the Nominations Committee consists of seven non-executive Directors and the majority of them are INEDs. The Members of the Committee are Mr. Edward Ho Sing-tin (chairman), Dr. Raymond Ch'ien Kuo-fung, Ms. Christine Fang Meng-sang, Mr. Abraham Shek Lai-him, Mr. Ng Leung-sing, Professor Chan Ka-keung, Ceajer and the S for T&H (being Ms. Eva Cheng up to 30 June 2012, and Professor Anthony Cheung Bing-leung since 1 July 2012). Mr. Ho, Ms. Fang, Mr. Shek and Mr. Ng are INEDs.

CORPORATE RESPONSIBILITY COMMITTEE

The Corporate Responsibility Committee normally meets twice a year. The duties of the Committee are to recommend a corporate responsibility policy to the Board for approval, monitor and oversee the implementation of the Company's corporate responsibility policy and initiatives, identify emerging corporate responsibility issues arising from external trends, review the Company's annual Sustainability Report and recommend endorsement by the Board, and provide updates to the Board as required.

The Corporate Responsibility Committee includes two non-executive Directors (Dr. Raymond Ch'ien Kuo-fung (Chairman) and the S for T&H (being Ms. Eva Cheng up to 30 June 2012, and Professor Anthony Cheung Bing-leung since 1 July 2012)), three INEDs (Ms. Christine Fang Meng-sang, Mr. Abraham Shek Lai-him and Mr. Vincent Cheng Hoi-chuen), and two Members of the Executive Directorate (Ms. Gillian Elizabeth Meller (LD&S) and Mr. Morris Cheung Siu-wa (Human Resources Director)) as Members of the Committee. Dr. Ch'ien is the Chairman of the Committee.

CHANGES IN INFORMATION OF DIRECTORS

The following additional information is set out pursuant to the requirements of Rule 13.51B(1) of the Listing Rules:

Dr. Raymond Ch'ien Kuo-fung is an independent non-executive director of Swiss Re Ltd. Ms. Jeny Yeung Mei-chun is a director of Hong Kong Cyberport Management Company Limited since 5 June 2012.

Mr. Vincent Cheng Hoi-chuen ceased to be a non-executive director of Swire Properties Limited and the Adviser to the Group Chief Executive of HSBC Holdings plc effective from 14 April 2012 and 1 June 2012 respectively. Ms. Christine Fang Meng-sang ceased to be a member of the Commission on Strategic Development effective from 1 July 2012. Mr. Lincoln Leong Kwok-kuen ceased to be a non-executive director of Tai Ping Carpets International Limited effective from 18 May 2012.

INTERNAL CONTROLS

The Board is responsible for the system of internal controls of the Company and its subsidiaries, setting appropriate policies and reviewing the effectiveness of such controls. Internal control is defined as a process effected by the Board, Management and other personnel, designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute assurance of the following:

- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations
- effectiveness of risk management functions

Pursuant to the Protocol adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders.

Supported by the Members of the Executive Committee, the CEO who chairs the Executive Committee is responsible to the Board for the conduct of the business of the Company. A number of committees have been established to assist the Executive Committee in the day-to-day management and control of the various core businesses and functions of the Company and its subsidiaries. The Executive Committee is responsible for implementing the Board's policies on risk and control. In fulfilling its responsibilities, the Executive Committee identifies and evaluates the risks faced by the Company for consideration by the Board, and designs, operates and monitors a suitable system of internal controls which implements the policies adopted by the Board. The Executive Committee is accountable to the Board for monitoring the system of internal controls and providing assurance to the Board that it has done so. Additionally, all employees have responsibility for internal controls within their areas of accountability.

Various risk management strategies have been established by the Board as advised by the Executive Committee to identify, assess and reduce risks, including construction, business operations, finance, treasury, safety and enterprise risks as well as to ensure appropriate insurance coverage.

Risk Assessment and Management

The Company's Enterprise Risk Management (ERM) framework continues to provide a simple and fit-for-purpose management process that aids business units across the organisation to identify and review risks facing the organisation and to prioritise resources to manage the risks arising. It also provides management with a clear and holistic view of the significant risks facing the Company and is used throughout the business to support decision making and project execution and to help deliver better business performance. The framework has been subject to continuous improvement through internal and external reviews.

The operation of the ERM framework, which is overseen by the Enterprise Risk Committee (the "ERC"), is underpinned by line management taking direct risk management responsibilities as risk owners. Changes to existing and emerging risks are regularly reviewed by line management. The ERC reviews the operation of the ERM framework and key business risks every three months. The risk reviews cover changes in the business environment, the key internal and external risks facing the Company, and the risk perspectives of the Executive Committee, business managers and outside stakeholders. The ERC promotes a proactive risk culture by learning from risk events and failures.

Risk assessment is part of the Company's everyday management processes. Risks associated with major changes and new businesses such as local and overseas railway construction, investment and consultancy projects are assessed at key stages and project milestones to support decision making and forward planning. The Enterprise Risk Management Department plays a central role in facilitating risk assessments and reviewing existing and emerging business risks facing the Company.

The Executive Committee reviews key enterprise risks half-yearly and the Board annually to ensure that such risks are under satisfactory control. The Executive Committee and the Board also offer direction in relation to the management of risks which are considered to be strategic in nature.

The Audit Committee also reviews annually the implementation of the ERM framework and the organization and processes that have been put in place to support it.

Control Activities and Processes

The Internal Audit Department plays a major role, independent of the Company's management, in assessing and monitoring the internal controls of the Company. The Head of Internal Audit reports to the CEO and has direct access to the Audit Committee. The Department has unrestricted access to information that allows it to review all aspects of the Company's risk management, control and governance processes.

On behalf of the Board, the Audit Committee evaluates the effectiveness of the Company's system of internal controls, including the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations and effectiveness of risk management functions.

The Company is committed to recruit, train and develop a team of qualified and competent accountants in order to oversee its financial reporting and other accounting-related issues. A process to capture and update relevant laws, rules and regulations applicable to the reporting and accounting function is in place. Designated officers will ensure relevant standards and ordinances including Hong Kong Financial Reporting Standards, the Listing Rules and Hong Kong Companies Ordinance under their responsibility are complied with. Resources and provisions required to perform the accounting and financial reporting function are critically reviewed during the annual budgeting exercise. Company-wide recruitment process and staff development programmes are in place to address the competency, qualifications and experience required. Adherence to the process is confirmed on an annual basis by the designated officers to the Finance & Business Development Director who will conduct a formalized annual review and report the results to the Audit Committee. Confirmation of the process is also monitored by the Internal Audit Department. Based on the above, the Audit Committee considered the resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget were adequate for the year ended 31 December 2011.

The Board has, through the Audit Committee, conducted the review of the effectiveness of the Company's system of internal controls for the year ended 31 December 2011, covering all material financial, operational and compliance controls, and risk management functions, and concluded that adequate and effective internal controls were maintained to safeguard the shareholders' investment and the Company's assets. There were no significant control failings, weaknesses or significant areas of concern identified during the year 2011 which might affect shareholders.

Crisis Management Committee

To uphold the reputation of being one of the best companies in Hong Kong and in order to help ensure that the Company will respond to and recover from crises in an organised and effective manner, including timely communications with principal stakeholders such as shareholders, the Company established a Crisis Management Committee in 1995. The Committee comprises relevant Members of the Executive Directorate and managers, and its operation is governed by a Crisis Management Plan. The Committee conducts regular exercises to validate the crisis management organisation and arrangements and to provide practices for members.

Continuous Disclosure Obligations regarding Price Sensitive Information

The Company has developed a system with established policies, processes and procedures across all relevant Division(s) and Department(s) for complying with the disclosure obligations regarding price sensitive information. The system continues to be effective. Efforts to further enhance the system in the light of the business operation, development of the Company and new regulations and laws will continue.

Governance of Subsidiaries and Affiliated Companies

The Company has a number of subsidiaries and affiliated companies which operate independent businesses in Hong Kong, the Mainland of China and overseas. Notwithstanding these subsidiaries and affiliated companies are separate legal entities, the Company has implemented a management governance framework (the "Governance Framework") to ensure that it exercises an appropriate level of control and oversight as a shareholder of these subsidiaries and affiliated companies.

Pursuant to the Governance Framework, the Company exercises its control and oversight in a number of forms: imposition of internal controls, requirements for consent or consultation, reporting requirements and assurance. The management of each subsidiary or affiliated company is responsible for the adoption of management practices and policies that are appropriate to the business nature and local situation, taking into account the management governance requirements of the Company, and developing a corporate governance manual for the entity which reflects both such management practices and policies as well as the management governance requirements, for approval by the relevant board of directors. Ongoing compliance with the manuals is reported by all subsidiaries and affiliated companies on a regular basis.

The Executive Committee reviews the Governance Framework and compliance by the subsidiaries and affiliated companies with it on an annual basis.

BOARD MEMBERS' AND EXECUTIVE DIRECTORATE'S INTERESTS IN SHARES

As at 30 June 2012, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

	Number of Ordinary Shares held			Derivatives: Share Options	Derivatives: Other		
Member of the Board and/or the Executive Directorate	Personal* interests	Family† interests	Corporate interests	Personal* interests	Personal* interests	Total interests	Percentage of aggregate interests to total issued share capital
Raymond Ch'ien Kuo-fung	52,330	–	–	–	–	52,330	0.00090
Jay Herbert Walder	–	–	–	391,500 (Note 1)	300,000 (Note 2)	691,500	0.01195
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	3,350	0.00006
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
T. Brian Stevenson	5,153	–	–	–	–	5,153	0.00009
William Chan Fu-keung	126,106	–	–	823,500 (Note 1)	–	949,606	0.01641
Chew Tai Chong	–	–	–	609,500 (Note 1)	–	609,500	0.01053
Jacob Kam Chak-pui	2,283	–	–	597,000 (Note 1)	–	599,283	0.01036
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 3)	881,000 (Note 1)	–	927,000	0.01602
Jeny Yeung Mei-chun	13,400	–	–	431,000 (Note 1)	–	444,400	0.00768
Gillian Elizabeth Meller	–	–	–	378,000 (Note 1)	–	378,000	0.00653
David Tang Chi-fai	600	–	–	(i) 401,500 (Note 1) (ii) 22,000 (Note 4)	–	424,100	0.00733

	Number of Ordinary Shares held			Derivatives: Share Options	Derivatives: Other		
Member of the Executive Directorate	Personal* interests	Family† interests	Corporate interests	Personal* interests	Personal* interests	Total interests	Percentage of aggregate interests to total issued share capital
Morris Cheung Siu-wa (Note 5)	5,290	–	–	352,000 (Note 1)	–	357,290	0.00617

Notes

1 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the 2007 Share Option Scheme.

2 Mr. Jay Herbert Walder was granted a derivative interest in respect of 300,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Walder's entitlement to be paid an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office is expected to expire (35% of which shall be deemed to be earned at 31 October 2013 subject to certain conditions specified in his employment contract).

3 The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr. Lincoln Leong Kwok-kuen.

4 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the New Joiners Share Option Scheme.

5 Mr. Morris Cheung Siu-wa became the Human Resources Director and a Member of the Executive Directorate on 17 July 2012.

* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE NEW JOINERS SHARE OPTION SCHEME

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2012	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2012	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
David Tang Chi-fai	15/5/2006	213,000	25/4/2007 – 25/4/2016	22,000	–	–	–	–	20.66	22,000	–
Other eligible employees	23/9/2005	213,000	9/9/2006 – 9/9/2015	213,000	–	–	–	–	15.97	213,000	–
	5/10/2006	94,000	29/9/2007 – 29/9/2016	94,000	–	–	–	–	19.732	94,000	–

Notes

1 The exercise price of the share options is determined upon the offer of grant of the options and should not be less than the greatest of (a) the average closing price per share of the Company for the five business days immediately preceding the date of offer of such options; (b) the closing price per share of the Company on the date of offer of such options, which must be a business day; and (c) the nominal value per share of the Company.

2 The proportion of underlying shares in respect of which the above share options will vest is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE 2007 SHARE OPTION SCHEME

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2012	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2012	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Jay Herbert Walder	30/3/2012	391,500	23/3/2013 – 23/3/2019	–	391,500	–	–	–	27.48	391,500	–
William Chan Fu-keung	13/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	–	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–
	30/3/2012	143,500	23/3/2013 – 23/3/2019	–	143,500	–	–	–	27.48	143,500	–
Chew Tai Chong	18/6/2009	85,000	12/6/2010 – 12/6/2016	85,000	–	28,000	–	–	24.50	85,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–
	30/3/2012	184,500	23/3/2013 – 23/3/2019	–	184,500	–	–	–	27.48	184,500	–
Jacob Kam Chak-pui	13/12/2007	75,000	10/12/2008 – 10/12/2014	75,000	–	–	–	–	27.60	75,000	–
	8/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	–	–	–	18.30	65,000	–
	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	21/7/2010	50,000	28/6/2011 – 28/6/2017	50,000	–	17,000	–	–	27.73	50,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–
	30/3/2012	172,000	23/3/2013 – 23/3/2019	–	172,000	–	–	–	27.48	172,000	–
Lincoln Leong Kwok-kuen	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	–	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–
	30/3/2012	201,000	23/3/2013 – 23/3/2019	–	201,000	–	–	–	27.48	201,000	–
Jeny Yeung Mei-chun	12/12/2007	75,000	10/12/2008 – 10/12/2014	75,000	–	–	–	–	27.60	75,000	–
	10/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	–	–	–	18.30	65,000	–
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	–	28.84	65,000	–
	30/3/2012	161,000	23/3/2013 – 23/3/2019	–	161,000	–	–	–	27.48	161,000	–

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE 2007 SHARE OPTION SCHEME *(CONTINUED)*

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2012	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2012	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Gillian Elizabeth Meller	12/12/2007	55,000	10/12/2008 – 10/12/2014	18,000	–	–	–	–	27.60	18,000	–
	11/12/2008	70,000	8/12/2009 – 8/12/2015	46,500	–	–	–	–	18.30	46,500	–
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	17/12/2010	90,000	16/12/2011 – 16/12/2017	90,000	–	–	–	–	28.84	90,000	–
	30/3/2012	158,500	23/3/2013 – 23/3/2019	–	158,500	–	–	–	27.48	158,500	–
David Tang Chi-fai	13/12/2007	65,000	10/12/2008 – 10/12/2014	65,000	–	–	–	–	27.60	65,000	–
	12/12/2008	65,000	8/12/2009 – 8/12/2015	43,000	–	–	–	–	18.30	43,000	–
	15/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	–	28.84	65,000	–
	30/3/2012	163,500	23/3/2013 – 23/3/2019	–	163,500	–	–	–	27.48	163,500	–
Morris Cheung Siu-wa	12/12/2007	65,000	10/12/2008 – 10/12/2014	65,000	–	–	–	–	27.60	65,000	–
(Note 3)	10/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	–	–	65,000	18.30	–	27.85
	11/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	21/7/2010	35,000	28/6/2011 – 28/6/2017	35,000	–	12,000	–	–	27.73	35,000	–
	20/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	–	28.84	65,000	–
	30/3/2012	122,000	23/3/2013 – 23/3/2019	–	122,000	–	–	–	27.48	122,000	–
Other eligible employees	11/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	–	–	–	27.60	45,000	–
	12/12/2007	2,365,000	10/12/2008 – 10/12/2014	1,575,000	–	–	–	–	27.60	1,575,000	–
	13/12/2007	1,495,000	10/12/2008 – 10/12/2014	1,430,000	–	–	–	–	27.60	1,430,000	–
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	820,000	–	–	–	–	27.60	820,000	–
	15/12/2007	435,000	10/12/2008 – 10/12/2014	228,000	–	–	–	65,000	27.60	163,000	27.90
	17/12/2007	835,000	10/12/2008 – 10/12/2014	730,000	–	–	–	–	27.60	730,000	–
	18/12/2007	445,000	10/12/2008 – 10/12/2014	275,000	–	–	45,000	–	27.60	230,000	–
	19/12/2007	115,000	10/12/2008 – 10/12/2014	80,000	–	–	–	–	27.60	80,000	–
	20/12/2007	190,000	10/12/2008 – 10/12/2014	190,000	–	–	–	–	27.60	190,000	–
	22/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	24/12/2007	118,000	10/12/2008 – 10/12/2014	118,000	–	–	–	–	27.60	118,000	–
	28/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	31/12/2007	130,000	10/12/2008 – 10/12/2014	130,000	–	–	–	–	27.60	130,000	–
	2/1/2008	75,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	3/1/2008	40,000	10/12/2008 – 10/12/2014	40,000	–	–	–	–	27.60	40,000	–
	7/1/2008	125,000	10/12/2008 – 10/12/2014	80,000	–	–	–	–	27.60	80,000	–
	28/3/2008	255,000	26/3/2009 – 26/3/2015	199,000	–	–	–	–	26.52	199,000	–
	31/3/2008	379,000	26/3/2009 – 26/3/2015	323,000	–	–	–	25,000	26.52	298,000	27.45
	1/4/2008	261,000	26/3/2009 – 26/3/2015	249,000	–	–	–	–	26.52	249,000	–
	2/4/2008	296,000	26/3/2009 – 26/3/2015	276,000	–	–	–	–	26.52	276,000	–
	3/4/2008	171,000	26/3/2009 – 26/3/2015	140,000	–	–	–	–	26.52	140,000	–
	4/4/2008	23,000	26/3/2009 – 26/3/2015	23,000	–	–	–	–	26.52	23,000	–
	5/4/2008	17,000	26/3/2009 – 26/3/2015	17,000	–	–	–	–	26.52	17,000	–
	7/4/2008	390,000	26/3/2009 – 26/3/2015	330,000	–	–	5,000	23,000	26.52	302,000	27.85
	8/4/2008	174,000	26/3/2009 – 26/3/2015	110,000	–	–	–	–	26.52	110,000	–
	9/4/2008	85,000	26/3/2009 – 26/3/2015	85,000	–	–	–	–	26.52	85,000	–
	10/4/2008	58,000	26/3/2009 – 26/3/2015	58,000	–	–	–	–	26.52	58,000	–
	11/4/2008	134,000	26/3/2009 – 26/3/2015	117,000	–	–	–	–	26.52	117,000	–
	12/4/2008	48,000	26/3/2009 – 26/3/2015	48,000	–	–	–	–	26.52	48,000	–
	14/4/2008	40,000	26/3/2009 – 26/3/2015	40,000	–	–	–	–	26.52	40,000	–
	15/4/2008	34,000	26/3/2009 – 26/3/2015	34,000	–	–	–	–	26.52	34,000	–
	16/4/2008	57,000	26/3/2009 – 26/3/2015	40,000	–	–	–	–	26.52	40,000	–
	17/4/2008	147,000	26/3/2009 – 26/3/2015	124,000	–	–	–	–	26.52	124,000	–
	18/4/2008	32,000	26/3/2009 – 26/3/2015	15,000	–	–	–	–	26.52	15,000	–
	19/4/2008	25,000	26/3/2009 – 26/3/2015	25,000	–	–	–	–	26.52	25,000	–
	21/4/2008	66,000	26/3/2009 – 26/3/2015	66,000	–	–	–	–	26.52	66,000	–
	23/4/2008	34,000	26/3/2009 – 26/3/2015	19,000	–	–	–	–	26.52	19,000	–
	8/12/2008	90,000	8/12/2009 – 8/12/2015	45,000	–	–	–	–	18.30	45,000	–
	9/12/2008	1,123,000	8/12/2009 – 8/12/2015	1,019,000	–	–	–	49,000	18.30	970,000	27.05
	10/12/2008	2,046,400	8/12/2009 – 8/12/2015	1,767,900	–	–	–	316,000	18.30	1,451,900	26.74
	11/12/2008	2,394,200	8/12/2009 – 8/12/2015	1,946,700	–	–	–	297,000	18.30	1,649,700	26.99
	12/12/2008	1,416,500	8/12/2009 – 8/12/2015	1,098,000	–	–	–	200,500	18.30	897,500	27.26

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE 2007 SHARE OPTION SCHEME *(CONTINUED)*

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2012	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2012	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	13/12/2008	84,500	8/12/2009 – 8/12/2015	78,000	–	–	–	12,500	18.30	65,500	27.25
	14/12/2008	88,200	8/12/2009 – 8/12/2015	52,200	–	–	–	7,200	18.30	45,000	26.95
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	873,200	–	–	–	133,000	18.30	740,200	27.76
	16/12/2008	581,500	8/12/2009 – 8/12/2015	450,000	–	–	–	63,500	18.30	386,500	25.87
	17/12/2008	513,500	8/12/2009 – 8/12/2015	470,500	–	–	–	20,000	18.30	450,500	27.05
	18/12/2008	611,500	8/12/2009 – 8/12/2015	470,500	–	–	–	95,000	18.30	375,500	27.56
	19/12/2008	198,000	8/12/2009 – 8/12/2015	198,000	–	–	–	–	18.30	198,000	–
	20/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	–	–	–	18.30	19,000	–
	22/12/2008	772,500	8/12/2009 – 8/12/2015	487,000	–	–	–	78,000	18.30	409,000	26.09
	23/12/2008	306,000	8/12/2009 – 8/12/2015	218,000	–	–	–	8,000	18.30	210,000	25.50
	24/12/2008	500,500	8/12/2009 – 8/12/2015	367,500	–	–	–	76,000	18.30	291,500	26.63
	25/12/2008	45,000	8/12/2009 – 8/12/2015	45,000	–	–	–	–	18.30	45,000	–
	29/12/2008	148,000	8/12/2009 – 8/12/2015	118,000	–	–	–	25,000	18.30	93,000	26.90
	30/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	–	–	–	18.30	19,000	–
	18/6/2009	170,000	12/6/2010 – 12/6/2016	90,000	–	30,000	–	–	24.50	90,000	–
	6/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	15,000	–	–	24.50	45,000	–
	9/7/2009	45,000	12/6/2010 – 12/6/2016	30,000	–	15,000	–	–	24.50	30,000	–
	9/12/2009	670,000	8/12/2010 – 8/12/2016	585,000	–	–	–	–	26.85	585,000	–
	10/12/2009	2,211,000	8/12/2010 – 8/12/2016	2,006,000	–	–	–	11,500	26.85	1,994,500	27.30
	11/12/2009	2,297,000	8/12/2010 – 8/12/2016	2,170,000	–	–	19,000	–	26.85	2,151,000	–
	12/12/2009	610,000	8/12/2010 – 8/12/2016	565,500	–	–	69,000	–	26.85	496,500	–
	13/12/2009	19,000	8/12/2010 – 8/12/2016	12,500	–	–	–	–	26.85	12,500	–
	14/12/2009	2,443,000	8/12/2010 – 8/12/2016	2,372,500	–	–	59,000	30,000	26.85	2,283,500	27.85
	15/12/2009	2,773,000	8/12/2010 – 8/12/2016	2,441,000	–	–	–	–	26.85	2,441,000	–
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	1,414,000	–	–	19,000	–	26.85	1,395,000	–
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	975,000	–	15,000	–	–	26.85	975,000	–
	18/12/2009	389,000	8/12/2010 – 8/12/2016	380,500	–	6,000	–	–	26.85	380,500	–
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	–	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	501,000	–	8,000	15,000	30,000	26.85	456,000	27.40
	22/12/2009	256,000	8/12/2010 – 8/12/2016	215,000	–	–	–	–	26.85	215,000	–
	21/7/2010	270,000	28/6/2011 – 28/6/2017	245,000	–	82,000	66,000	–	27.73	179,000	–
	16/12/2010	194,000	16/12/2011 – 16/12/2017	194,000	–	–	–	–	28.84	194,000	–
	17/12/2010	4,567,000	16/12/2011 – 16/12/2017	4,426,500	–	–	18,500	–	28.84	4,408,000	–
	18/12/2010	673,000	16/12/2011 – 16/12/2017	673,000	–	–	–	–	28.84	673,000	–
	19/12/2010	174,000	16/12/2011 – 16/12/2017	174,000	–	–	–	–	28.84	174,000	–
	20/12/2010	4,789,500	16/12/2011 – 16/12/2017	4,663,000	–	57,000	152,000	–	28.84	4,511,000	–
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	3,001,000	–	22,000	21,000	–	28.84	2,980,000	–
	22/12/2010	975,000	16/12/2011 – 16/12/2017	956,000	–	–	–	–	28.84	956,000	–
	23/12/2010	189,000	16/12/2011 – 16/12/2017	189,000	–	–	45,000	–	28.84	144,000	–
	7/7/2011	215,000	27/6/2012 – 27/6/2018	215,000	–	72,500	–	–	26.96	215,000	–
	30/3/2012	15,219,500	23/3/2013 – 23/3/2019	–	15,219,500	–	–	–	27.48	15,219,500	–

Notes

1 The exercise price of the share options is determined upon the offer of grant of the options and should not be less than the greatest of (a) the average closing price per share of the Company for the five business days immediately preceding the date of offer of such options; (b) the closing price per share of the Company on the date of offer of such options, which must be a business day; and (c) the nominal value per share of the Company.

2 The proportion of underlying shares in respect of which the above share options will vest is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all

3 Mr. Morris Cheung Siu-wa became the Human Resources Director and a Member of the Executive Directorate on 17 July 2012.

During the six months ended 30 June 2012, 16,917,000 options to subscribe for shares of the Company were granted to 444 employees under the 2007 Share Option Scheme. Details of the grant are set out in the tables above. The closing price per share immediately before the date of grant of options is set out below. Pursuant to the terms of the Scheme, each grantee undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the options. The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average value per option granted, estimated at the date of grant using the Black-Scholes pricing model is as follows:

Date granted	Closing price per share immediately before the date of grant (HK$)	Estimated risk-free interest rate (%)	Expected life (Years)	Estimated Volatility	Expected dividend per share (HK$)	Weighted average value per option granted (HK$)
30/3/2012	27.50	0.37	3.5	0.22	0.76	3.08

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and requires input of highly subjective assumptions, including the expected life and stock price volatility. Since the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Save as disclosed above:

A none of the Members of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the six months ended 30 June 2012, no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Set out below is the name of the party which was interested in 5% or more of the nominal value of the share capital of the Company and the number of shares in which it was interested as at 30 June 2012 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
The Financial Secretary Incorporated (in trust on behalf of the Government)	4,434,552,207	76.64

The Company has been informed by the Government that, as at 30 June 2012, approximately 0.40% of the shares of the Company were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

LOAN AGREEMENTS WITH COVENANT RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

As at 30 June 2012, the Group had borrowings of HK$22,643 million with maturities ranging from 2012 to 2020 and undrawn committed and uncommitted banking and other facilities of HK$10,380 million, which were subject to the condition that the Government, being the Company's controlling shareholder, owns more than half in nominal value of the voting share capital of the Company during the lives of the borrowings and the undrawn facilities. Otherwise, immediate repayment of the borrowings may be demanded and cancellation of the undrawn facilities may result.

PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2012.

CLOSURE OF REGISTER OF MEMBERS

The closure of the Register of Members of the Company is from 28 August 2012 to 3 September 2012 (both dates inclusive). During that period, no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 27 August 2012. The 2012 interim dividend is expected to be paid, in cash in Hong Kong dollars, on or about 19 September 2012 to shareholders whose names appear on the Register of Members of the Company on 3 September 2012.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

in HK$ million	Note	**Half year ended 30 June 2012 (Unaudited)**	Half year ended 30 June 2011 (Unaudited and restated)
Revenue from Hong Kong transport operations		**6,914**	6,471
Revenue from Hong Kong station commercial business		**1,699**	1,527
Revenue from property rental and management businesses		**1,730**	1,560
Revenue from railway subsidiaries outside of Hong Kong	3	**6,335**	6,171
Revenue from other businesses		**476**	440
Other net income		**–**	–
		17,154	16,169
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses		**(1,763)**	(1,648)
– Energy and utilities		**(561)**	(513)
– Operational rent and rates		**(113)**	(101)
– Stores and spares consumed		**(226)**	(221)
– Maintenance and related works		**(484)**	(461)
– Railway support services		**(103)**	(99)
– General and administration expenses		**(179)**	(165)
– Other expenses		**(105)**	(94)
		(3,534)	(3,302)
Expenses relating to Hong Kong station commercial business		**(188)**	(159)
Expenses relating to property rental and management businesses		**(335)**	(336)
Expenses relating to railway subsidiaries outside of Hong Kong	3	**(6,002)**	(5,925)
Expenses relating to other businesses		**(476)**	(395)
Project study and business development expenses		**(100)**	(51)
Operating expenses before depreciation, amortisation and variable annual payment		**(10,635)**	(10,168)
Operating profit before property developments, depreciation, amortisation and variable annual payment		**6,519**	6,001
Profit on property developments	4	**627**	1,445
Operating profit before depreciation, amortisation and variable annual payment		**7,146**	7,446
Depreciation and amortisation		**(1,613)**	(1,611)
Variable annual payment		**(402)**	(301)
Operating profit before interest and finance charges		**5,131**	5,534
Interest and finance charges		**(432)**	(459)
Investment property revaluation		**1,740**	4,408
Share of profits of non-controlled subsidiaries and associates	5	**299**	155
Profit before taxation		**6,738**	9,638
Income tax	6	**(796)**	(775)
Profit for the period		**5,942**	8,863
Attributable to:			
– Equity shareholders of the Company		**5,861**	8,777
– Non-controlling interests		**81**	86
Profit for the period		**5,942**	8,863
Profit for the period attributable to equity shareholders of the Company:			
– Arising from underlying businesses before property developments		**3,597**	3,058
– Arising from property developments	4	**524**	1,311
– Arising from underlying businesses		**4,121**	4,369
– Arising from investment property revaluation		**1,740**	4,408
		5,861	8,777
Earnings per share:	8		
– Basic		**HK$1.01**	HK$1.52
– Diluted		**HK$1.01**	HK$1.52

The notes on pages 40 to 55 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 7.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in HK$ million	Note	Half year ended 30 June 2012 (Unaudited)	Half year ended 30 June 2011 (Unaudited and restated)
Profit for the period		**5,942**	8,863
Other comprehensive income for the period (after taxation and reclassification adjustments):			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries and non-controlled subsidiaries		**(49)**	94
– non-controlling interests		**(1)**	10
	10	**(50)**	104
Cash flow hedges: net movement in hedging reserve	10	**(1)**	4
Self-occupied land and buildings: net movement in fixed assets revaluation reserve	10	**119**	411
		68	519
Total comprehensive income for the period		**6,010**	9,382
Attributable to:			
– Equity shareholders of the Company		**5,930**	9,286
– Non-controlling interests		**80**	96
Total comprehensive income for the period		**6,010**	9,382

The notes on pages 40 to 55 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

in HK$ million	Note	At 30 June 2012 (Unaudited)	At 31 December 2011 (Audited and restated)
Assets			
Fixed assets			
– Investment properties	11	**53,226**	51,453
– Other property, plant and equipment	12	**76,150**	76,687
– Service concession assets	13	**23,980**	23,928
		153,356	152,068
Property management rights		**31**	31
Railway construction in progress	14	**5,373**	3,566
Property development in progress	15	**12,293**	11,964
Deferred expenditure		**15**	14
Interests in non-controlled subsidiaries		**525**	579
Interests in associates		**1,099**	948
Deferred tax assets	24	**27**	24
Investments in securities	16	**2,111**	2,974
Properties held for sale	17	**1,240**	3,757
Derivative financial assets	18	**322**	344
Stores and spares		**1,202**	1,135
Debtors, deposits and payments in advance	19	**4,647**	3,964
Amounts due from related parties	20	**538**	402
Cash, bank balances and deposits		**21,794**	16,100
		204,573	197,870
Liabilities			
Creditors and accrued charges	21	**15,984**	16,402
Current taxation		**871**	597
Contract retentions		**787**	643
Amounts due to related parties	20	**1,592**	1,481
Loans and other obligations	22	**26,302**	23,168
Obligations under service concession	23	**10,701**	10,724
Derivative financial liabilities	18	**161**	151
Loan from holders of non-controlling interests		**154**	154
Deferred income		**757**	403
Deferred tax liabilities	24	**9,568**	9,498
		66,877	63,221
Net assets		**137,696**	134,649
Capital and reserves			
Share capital, share premium and capital reserve	25	**44,099**	44,062
Other reserves	26	**93,400**	90,401
Total equity attributable to equity shareholders of the Company		**137,499**	134,463
Non-controlling interests		**197**	186
Total equity		**137,696**	134,649

The notes on pages 40 to 55 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in HK$ million	Note	Share capital, share premium and capital reserve	Other reserves: Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total equity attributable to equity shareholders of the Company	Non-controlling interests	Total equity
30 June 2012 (Unaudited)										
Balance as at 1 January 2012, as previously reported		**44,062**	**1,888**	**(90)**	**201**	**340**	**82,458**	**128,859**	**186**	**129,045**
Effect of adoption of the Amendments to HKAS 12	1	**–**	**–**	**–**	**–**	**–**	**5,604**	**5,604**	**–**	**5,604**
Balance as at 1 January 2012, as restated		**44,062**	**1,888**	**(90)**	**201**	**340**	**88,062**	**134,463**	**186**	**134,649**
Changes in equity for the half year ended 30 June 2012:										
– Profit for the period		**–**	**–**	**–**	**–**	**–**	**5,861**	**5,861**	**81**	**5,942**
– Other comprehensive income for the period		**–**	**119**	**(1)**	**–**	**(49)**	**–**	**69**	**(1)**	**68**
– Total comprehensive income for the period		**–**	**119**	**(1)**	**–**	**(49)**	**5,861**	**5,930**	**80**	**6,010**
– 2011 final dividend	7	**–**	**–**	**–**	**–**	**–**	**(2,951)**	**(2,951)**	**–**	**(2,951)**
– Dividend paid to holders of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(69)**	**(69)**
– Employee share-based payments		**–**	**–**	**–**	**25**	**–**	**–**	**25**	**–**	**25**
– Employee share options exercised	25	**37**	**–**	**–**	**(5)**	**–**	**–**	**32**	**–**	**32**
– Employee share options forfeited		**–**	**–**	**–**	**(2)**	**–**	**2**	**–**	**–**	**–**
Balance as at 30 June 2012		**44,099**	**2,007**	**(91)**	**219**	**291**	**90,974**	**137,499**	**197**	**137,696**
31 December 2011 (Audited and restated)										
Balance as at 1 January 2011, as previously reported		43,734	1,417	(78)	102	194	71,781	117,150	143	117,293
Effect of adoption of the Amendments to HKAS 12	1	–	–	–	–	–	4,764	4,764	–	4,764
Balance as at 1 January 2011, as restated		43,734	1,417	(78)	102	194	76,545	121,914	143	122,057
Changes in equity for the half year ended 30 June 2011:										
– Profit for the period, as restated		–	–	–	–	–	8,777	8,777	86	8,863
– Other comprehensive income for the period		–	411	4	–	94	–	509	10	519
– Total comprehensive income for the period		–	411	4	–	94	8,777	9,286	96	9,382
– 2010 final dividend	7	288	–	–	–	–	(2,598)	(2,310)	–	(2,310)
– Dividend paid to holders of non-controlling interests		–	–	–	–	–	–	–	(58)	(58)
– Employee share-based payments		–	–	–	36	–	–	36	–	36
– Employee share options exercised	25	24	–	–	(4)	–	–	20	–	20
Balance as at 30 June 2011, as restated		44,046	1,828	(74)	134	288	82,724	128,946	181	129,127
Changes in equity for the half year ended 31 December 2011:										
– Profit for the period, as restated		–	–	–	–	–	6,779	6,779	46	6,825
– Other comprehensive income for the period		–	60	(16)	–	52	–	96	(11)	85
– Total comprehensive income for the period		–	60	(16)	–	52	6,779	6,875	35	6,910
– 2011 interim dividend	7	–	–	–	–	–	(1,446)	(1,446)	–	(1,446)
– Dividend paid to holders of non-controlling interests		–	–	–	–	–	–	–	(30)	(30)
– Employee share-based payments		–	–	–	74	–	–	74	–	74
– Employee share options exercised		16	–	–	(2)	–	–	14	–	14
– Employee share options forfeited		–	–	–	(5)	–	5	–	–	–
Balance as at 31 December 2011, as restated		44,062	1,888	(90)	201	340	88,062	134,463	186	134,649

The notes on pages 40 to 55 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT

in HK$ million	Note	Half year ended 30 June 2012 (Unaudited)		Half year ended 30 June 2011 (Unaudited)	
Cash flows from operating activities					
Cash generated from operations	27	**7,817**		6,174	
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		**637**		–	
Current tax paid					
– Hong Kong Profits Tax paid		**(441)**		(284)	
– Overseas tax paid		**(38)**		(70)	
Net cash generated from operating activities			**7,975**		5,820
Cash flows from investing activities					
Capital expenditure					
– Purchase of assets for Hong Kong transport and related operations		**(1,178)**		(1,153)	
– West Island Line Project		**(1,325)**		(1,625)	
– South Island Line (East) Project		**(1,129)**		(344)	
– Kwun Tong Line Extension Project		**(560)**		(109)	
– Shenzhen Metro Longhua Line Project		**(472)**		(645)	
– Property development projects		**(364)**		(121)	
– Property renovation and fitting out works		**(33)**		(72)	
– Other capital projects		**(39)**		(135)	
Net cash payment in respect of entrustment works of Shatin to Central Link		**(118)**		(439)	
Variable annual payment		**(647)**		(45)	
Receipts in respect of property development		**2,625**		1,018	
Receipt of loan repayment from a property developer		**–**		2,000	
Increase in bank deposits with more than three months to maturity when placed		**(2,969)**		(2,378)	
Purchase of investments in securities		**(183)**		(91)	
Proceeds from sale or redemption of investments in securities		**1,050**		48	
Proceeds from disposal of fixed assets		**4**		3	
Receipt of loan repayment from an associate		**11**		–	
Settlement of loan repayment to an associate		**–**		(12)	
Dividends received from non-controlled subsidiaries and an associate		**202**		63	
Net cash used in investing activities			**(5,125)**		(4,037)
Cash flows from financing activities					
Proceeds from shares issued under share option schemes		**32**		20	
Drawdown of loans		**208**		731	
Proceeds from issuance of capital market instruments		**3,217**		1,206	
Repayment of loans		**(232)**		(417)	
Interest paid		**(404)**		(320)	
Interest received		**108**		78	
Finance charges paid		**(34)**		(6)	
Dividends paid to equity shareholders of the Company		**(2,951)**		(2,308)	
Dividends paid to holders of non-controlling interests		**(69)**		(17)	
Net cash used in financing activities			**(125)**		(1,033)
Net increase in cash and cash equivalents			**2,725**		750
Cash and cash equivalents at 1 January			**3,427**		3,708
Cash and cash equivalents at 30 June			**6,152**		4,458
Analysis of the balances of cash and cash equivalents					
Cash, bank balances and deposits on the consolidated balance sheet			**21,794**		16,453
Bank deposits with more than three months to maturity when placed			**(15,642)**		(11,988)
Bank overdrafts			**–**		(7)
Cash and cash equivalents in the consolidated cash flow statement			**6,152**		4,458

The notes on pages 40 to 55 form part of this interim financial report.

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 56. 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 non-controlled subsidiaries and associates since the issuance of the 2011 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 2011 included in this interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2011, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 8 March 2012, are available from the Company's registered office.

The accounting policies adopted for the preparation of this interim financial report are the same as those adopted in the preparation of the 2011 annual accounts except for the changes required for the first time adoption of new or revised HKFRSs as set out in the subsequent paragraphs.

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, only Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*, has impact on the Group's financial statements. On adoption of the Amendments, the Group has changed its accounting policy on measuring deferred tax arising from investment property that is measured using the fair value model in HKAS 40, *Investment Property*.

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

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

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

2 Rail Merger with Kowloon-Canton Railway Corporation ("KCRC")

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of KCRC ("Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, Government of the Hong Kong Special Administrative Region ("HKSAR Government"), KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement. Key elements of the Rail Merger included the following:

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), which may be extended pursuant to the provisions of the MTR Ordinance;

- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds;

- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;

- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted; and

- Property Package Agreements and Merger Framework agreement setting out the acquisition of certain properties, property management rights and property development rights by the Company as well as the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism.

3 Revenue and Expenses from Railway Subsidiaries outside of Hong Kong

Revenue and expenses relating to railway subsidiaries outside of Hong Kong comprise:

in HK$ million	Stockholm Metro	Melbourne Train	Shenzhen Metro Longhua Line	Total
Half year ended 30 June 2012				
Revenue				
– Railway operations related	**1,562**	**3,361**	**188**	**5,111**
– Project related	**–**	**1,221**	**3**	**1,224**
	1,562	**4,582**	**191**	**6,335**
Expenses				
– Railway operations related	**1,517**	**3,166**	**171**	**4,854**
– Project related	**–**	**1,146**	**2**	**1,148**
	1,517	**4,312**	**173**	**6,002**
Half year ended 30 June 2011				
Revenue				
– Railway operations related	1,614	3,124	28	4,766
– Project related	–	1,405	–	1,405
	1,614	4,529	28	6,171
Expenses				
– Railway operations related	1,585	2,968	74	4,627
– Project related	–	1,298	–	1,298
	1,585	4,266	74	5,925

Phase 2 of Shenzhen Metro Longhua Line commenced revenue operation on 16 June 2011.

4 Profit on Property Developments

Profit on property developments comprises:

in HK$ million	**Half year ended 30 June 2012**	Half year ended 30 June 2011
Transfer from deferred income on payments received from developers	**–**	468
Share of surplus from development	**627**	402
Income recognised from sharing in kind	**–**	572
Miscellaneous income net of other overhead costs	**–**	3
	627	1,445

Within the profit attributable to equity shareholders of the Company, the amount attributable to property developments had taken into account the effect of related income tax expense of HK$103 million (2011: HK$145 million of income tax and HK$11 million of net interest income).

5 Share of Profits of Non-controlled Subsidiaries and Associates

Share of profits of non-controlled subsidiaries and associates comprises:

in HK$ million	**Half year ended 30 June 2012**	Half year ended 30 June 2011
Share of profit before taxation of non-controlled subsidiaries	**108**	93
Share of profit before taxation of associates	**173**	78
	281	171
Share of income tax of non-controlled subsidiaries	**(13)**	(12)
Share of income tax of associates	**31**	(4)
	299	155

6 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	**Half year ended 30 June 2012**	Half year ended 30 June 2011 (Restated)
Current tax		
– Provision for Hong Kong Profits Tax at 16.5% (2011: 16.5%) for the period	**666**	654
– Mainland of China and overseas tax for the period	**87**	16
	753	670
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**–**	4
– depreciation allowances in excess of related depreciation	**5**	80
– provision and others	**38**	21
	43	105
	796	775

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

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

7 Dividends

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

in HK$ million	**Half year ended 30 June 2012**	Half year ended 30 June 2011
Dividends payable attributable to the period		
– Interim dividend declared after the balance sheet date of 25 cents (2011: 25 cents) per share	**1,447**	1,446
Dividends paid attributable to the previous year		
– Final dividend of 51 cents (2010: 45 cents) per share approved and paid during the period	**2,951**	2,598

8 Earnings Per Share

A Basic Earnings Per Share

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

	Half year ended 30 June 2012	Half year ended 30 June 2011
Issued ordinary shares at 1 January	**5,784,871,250**	5,772,563,031
Effect of scrip dividends issued	**–**	2,514,447
Effect of share options exercised	**825,039**	494,806
Weighted average number of ordinary shares at 30 June	**5,785,696,289**	5,775,572,284

B Diluted Earnings Per Share

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

	Half year ended 30 June 2012	Half year ended 30 June 2011
Weighted average number of ordinary shares at 30 June	**5,785,696,289**	5,775,572,284
Effect of dilutive potential shares under the Company's share option schemes	**3,082,927**	4,681,992
Weighted average number of ordinary shares (diluted) at 30 June	**5,788,779,216**	5,780,254,276

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

9 Segmental Information

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

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

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

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

9 Segmental Information *(continued)*

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

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

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

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

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

in HK$ million	Hong Kong transport operations	Hong Kong station commercial business	Property rental and management businesses	Railway subsidiaries outside of Hong Kong	Other businesses	Property developments	Total
Half year ended 30 June 2012							
Revenue	**6,914**	**1,699**	**1,730**	**6,335**	**476**	**–**	**17,154**
Operating expenses before depreciation, amortisation and variable annual payment	**(3,534)**	**(188)**	**(335)**	**(6,002)**	**(476)**	**–**	**(10,535)**
	3,380	**1,511**	**1,395**	**333**	**–**	**–**	**6,619**
Profit on property developments	**–**	**–**	**–**	**–**	**–**	**627**	**627**
Operating profit before depreciation, amortisation and variable annual payment	**3,380**	**1,511**	**1,395**	**333**	**–**	**627**	**7,246**
Depreciation and amortisation	**(1,470)**	**(70)**	**(7)**	**(36)**	**(30)**	**–**	**(1,613)**
Variable annual payment	**(321)**	**(81)**	**–**	**–**	**–**	**–**	**(402)**
	1,589	**1,360**	**1,388**	**297**	**(30)**	**627**	**5,231**
Project study and business development expenses							**(100)**
Operating profit before interest and finance charges							**5,131**
Interest and finance charges							**(432)**
Investment property revaluation			**1,740**				**1,740**
Share of profits of non-controlled subsidiaries and associates				**204**	**95**		**299**
Income tax							**(796)**
Profit for the half year ended 30 June 2012							**5,942**
Half year ended 30 June 2011 (Restated)							
Revenue	6,471	1,527	1,560	6,171	440	–	16,169
Operating expenses before depreciation, amortisation and variable annual payment	(3,302)	(159)	(336)	(5,925)	(395)	–	(10,117)
	3,169	1,368	1,224	246	45	–	6,052
Profit on property developments	–	–	–	–	–	1,445	1,445
Operating profit before depreciation, amortisation and variable annual payment	3,169	1,368	1,224	246	45	1,445	7,497
Depreciation and amortisation	(1,461)	(70)	(6)	(43)	(31)	–	(1,611)
Variable annual payment	(241)	(60)	–	–	–	–	(301)
	1,467	1,238	1,218	203	14	1,445	5,585
Project study and business development expenses							(51)
Operating profit before interest and finance charges							5,534
Interest and finance charges							(459)
Investment property revaluation			4,408				4,408
Share of profits of non-controlled subsidiaries and associates				74	81		155
Income tax							(775)
Profit for the half year ended 30 June 2011							8,863

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 2012**	Half year ended 30 June 2011
Hong Kong (place of domicile)	**10,732**	9,902
Australia	**4,582**	4,530
Mainland of China	**260**	97
Sweden	**1,562**	1,614
Other countries	**18**	26
	6,422	6,267
	17,154	16,169

10 Other Comprehensive Income

The changes in each component of equity arising from transactions recognised in other comprehensive income of the Group are as follows:

in HK$ million	**Half year ended 30 June 2012**	Half year ended 30 June 2011
Exchange reserve		
Exchange differences on translation of financial statements of overseas subsidiaries and non-controlled subsidiaries	**(49)**	94
Hedging reserve		
Effective portion of changes in fair value of hedging instruments recognised during the period	**(32)**	(19)
Amounts transferred to initial carrying amount of hedged items	**(2)**	(5)
Transferred to profit or loss	**33**	27
Net deferred tax credited/(debited) to other comprehensive income resulting from:		
– Changes in fair value of hedging instruments recognised during the period	**5**	4
– Amounts transferred to initial carrying amount of hedged items	**–**	1
– Transferred to profit or loss	**(5)**	(4)
Net movement during the period recognised in other comprehensive income	**(1)**	4
Fixed assets revaluation reserve		
Changes in fair value recognised during the period	**142**	492
Net deferred tax debited to other comprehensive income resulting from changes in fair value recognised during the period	**(23)**	(81)
Net movement during the period recognised in other comprehensive income	**119**	411

11 Investment Properties

All investment properties of the Group were revalued at open market value at 30 June 2011 and 2012 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 a "term and reversion basis", which capitalises the existing and reversionary net rental income having regard to market valuation checks on comparable sale and yields. The net increase in fair value of HK$1,740 million (2011: HK$4,408 million) arising from the revaluation has been credited to the consolidated profit and loss account.

12 Other Property, Plant and Equipment

A Acquisitions and Disposals

During the half year ended 30 June 2012, the Group acquired or commissioned assets at a total cost of HK$723 million (2011: HK$688 million). Items of civil works and plant and equipment with a net book value of HK$21 million (2011: HK$14 million) were disposed of during the same period, resulting in a net loss on disposal of HK$10 million (2011: HK$11 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 at an open market value on an existing use basis at 30 June 2011 and 2012 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$142 million (2011: HK$492 million), which, net of deferred tax provision of HK$23 million (2011: HK$81 million), has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve account (note 10).

13 Service Concession Assets

Service concession assets include the right to access, use and operate the KCRC system ("Initial Concession Property"), the expenditures incurred in relation to the replacement and upgrade of the KCRC system ("Additional Concession Property"), the value of construction services provided in respect of the construction of Shenzhen Metro Longhua Line Phase 2, the capitalised present value of the total annual lease payments for the operation of Shenzhen Metro Longhua Line Phase 1, as well as the costs incurred to prepare for the operation and maintenance of the Stockholm Metro in Sweden.

During the half year ended 30 June 2012, the Group had net additions of Additional Concession Property of HK$278 million (2011: HK$224 million) and additions of service concession assets in respect of Shenzhen Metro Longhua Line of HK$242 million (2011: HK$2,717 million). Amortisation charges during the same period amounted to HK$230 million (2011: HK$211 million) for Initial Concession Property and Additional Concession Property, HK$150 million (2011: HK$16 million) for Shenzhen Metro Longhua Line and HK$6 million (2011: HK$6 million) for Stockholm Metro.

14 Railway Construction in Progress

A Railway Projects Owned by the Group

Movements of railway construction in progress for projects owned by the Group are as follows:

in HK$ million	Balance at 1 January	Transfer from deferred expenditure	Expenditure	Utilisation of government grant	Balance at 30 June/ 31 December
At 30 June 2012 (Unaudited)					
West Island Line Project	**–**	**–**	**1,410**	**(1,410)**	**–**
South Island Line (East) Project	**2,612**	**–**	**1,242**	**–**	**3,854**
Kwun Tong Line Extension Project	**954**	**–**	**565**	**–**	**1,519**
	3,566	**–**	**3,217**	**(1,410)**	**5,373**
At 31 December 2011 (Audited)					
West Island Line Project	–	–	2,962	(2,962)	–
South Island Line (East) Project	–	735	1,877	–	2,612
Kwun Tong Line Extension Project	–	286	668	–	954
	–	1,021	5,507	(2,962)	3,566

B Railway Construction Activities Managed by the Group

On 29 May 2012, the Company and HKSAR Government entered into the third entrustment agreement in respect of the Shatin to Central Link ("SCL"). Pursuant to the third entrustment agreement for the construction and commissioning of the SCL, the Company shall carry out or procure to the carrying out of the works specified in the agreement (and the first and second entrustment agreements) for a project management fee of HK$7,893 million. The Government shall bear all the work costs specified in the third entrustment agreement except for approximately HK$7 billion (in 2011 prices), which will be contributed by the Company for the works involving the modification, upgrade or expansions of certain assets for which the Company is responsible under the existing service concession agreement with KCRC.

15 Property Development in Progress

Property development in progress comprises foundation, site enabling works and land costs incurred by the Group for property development projects as well as considerations paid and mandatory payments payable to KCRC for the property development rights acquired in the Rail Merger, net of payments received from developers. Movements of property development in progress during the half year ended 30 June 2012 and the year ended 31 December 2011 are as follows:

in HK$ million	Balance at 1 January	Transfer from deferred expenditure	Expenditure	Offset against payments received from developers	Transfer out on project completion	Exchange difference	Balance at 30 June/ 31 December
At 30 June 2012 (Unaudited)							
Airport Railway Property Projects	**–**	**–**	**1**	**(1)**	**–**	**–**	**–**
Tseung Kwan O Extension Property Projects	**1,088**	**–**	**42**	**(4)**	**–**	**–**	**1,126**
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	**8,081**	**–**	**57**	**–**	**–**	**–**	**8,138**
South Island Line (East) Property Project	**285**	**–**	**183**	**–**	**–**	**–**	**468**
Kwun Tong Line Extension Property Project	**65**	**–**	**67**	**–**	**–**	**–**	**132**
Shenzhen Property Project	**2,445**	**–**	**9**	**–**	**–**	**(25)**	**2,429**
	11,964	**–**	**359**	**(5)**	**–**	**(25)**	**12,293**
At 31 December 2011 (Audited)							
Airport Railway Property Projects	–	–	4	(4)	–	–	–
Tseung Kwan O Extension Property Projects	1,151	–	159	(9)	(213)	–	1,088
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	7,977	–	123	(19)	–	–	8,081
South Island Line (East) Property Project	–	32	253	–	–	–	285
Kwun Tong Line Extension Property Project	–	4	61	–	–	–	65
Shenzhen Property Project	–	–	2,445	–	–	–	2,445
	9,128	36	3,045	(32)	(213)	–	11,964

16 Investments in Securities

Investments in securities, representing bank medium term notes held by the Company and debt securities held by an overseas insurance underwriting subsidiary, comprise:

in HK$ million	**At 30 June 2012 (Unaudited)**	At 31 December 2011 (Audited)
Held-to-maturity securities, at amortised cost		
– maturing within 1 year	**1,702**	2,626
– maturing after 1 year	**–**	–
	1,702	2,626
Trading securities listed overseas, at fair value		
– maturing within 1 year	**93**	126
– maturing after 1 year	**316**	222
	409	348
	2,111	2,974

17 Properties Held for Sale

in HK$ million	At 30 June 2012 (Unaudited)	At 31 December 2011 (Audited)
Properties held for sale		
– at cost	**1,199**	3,718
– at net realisable value	**41**	39
	1,240	3,757

Properties held for sale at net realisable value are stated net of cost provision of HK$16 million (31 December 2011: HK$18 million) in order to state these properties at the lower of their costs and estimated net realisable values.

18 Derivative Financial Assets and Liabilities

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

	At 30 June 2012 (Unaudited)		At 31 December 2011 (Audited)	
in HK$ million	Notional amount	Fair value	Notional amount	Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– cash flow hedges	**73**	**3**	86	3
– not qualified for hedge accounting	**15**	**–**	6	–
Cross currency swaps				
– fair value hedges	**2,021**	**43**	1,245	54
Interest rate swaps				
– fair value hedges	**3,633**	**276**	2,833	287
– cash flow hedges	**–**	**–**	300	–
– not qualified for hedge accounting	**388**	**–**	388	–
	6,130	**322**	4,858	344
Derivative Financial Liabilities				
Foreign exchange forwards				
– cash flow hedges	**128**	**5**	83	4
– not qualified for hedge accounting	**165**	**6**	174	7
Cross currency swaps				
– fair value hedges	**5,080**	**40**	4,663	28
Interest rate swaps				
– cash flow hedges	**2,212**	**110**	1,912	112
	7,585	**161**	6,832	151
Total	**13,715**		11,690	

19 Debtors, Deposits and Payments in Advance

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

(i) The majority of fare revenue from Hong Kong transport operations is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.

(ii) Fare revenue from Shenzhen Metro Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types.

(iii) Franchise revenue in Melbourne is collected either weekly or monthly depending on the revenue nature. The majority of the franchise revenue in Stockholm is collected in the transaction month with the remainder being collected in the following month.

(iv) Rentals, advertising and telecommunication 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 as 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 the relevant development agreements or sale and purchase agreements.

The ageing of debtors is analysed as follows:

in HK$ million	**At 30 June 2012 (Unaudited)**	At 31 December 2011 (Audited)
Amounts not yet due	**3,622**	2,612
Overdue by 30 days	**59**	428
Overdue by 60 days	**49**	21
Overdue by 90 days	**13**	8
Overdue by more than 90 days	**29**	20
Total debtors	**3,772**	3,089
Deposits and payments in advance	**678**	677
Prepaid pension costs	**197**	198
	4,647	3,964

Included in the balance as at 30 June 2012 was HK$1,809 million (31 December 2011: HK$1,203 million) in respect of property development projects.

20 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 76.6% of the Company's issued share capital on trust for HKSAR Government, is the majority shareholder of the Company. Transactions between the Group and HKSAR Government departments or agencies, or entities controlled by HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised 2009), *Related party disclosures*, and are identified separately in this interim financial report.

As at 30 June 2012, amounts due from/to 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 2012 (Unaudited)**	At 31 December 2011 (Audited)
Amounts due from:		
– HKSAR Government	**428**	248
– KCRC	**19**	20
– non-controlled subsidiaries	**22**	23
– associates	**69**	111
	538	402
Amounts due to:		
– HKSAR Government	**11**	31
– KCRC	**1,572**	1,432
– an associate	**9**	18
	1,592	1,481

As at 30 June 2012, the amount due from HKSAR Government related to the costs recoverable for the Shatin to Central Link and Express Rail Link projects, reimbursable costs for the essential public infrastructure works for the South Island Line (East) and Kwun Tong Line Extension projects, as well as receivables and retention for other entrustment and maintenance works. The amount due to HKSAR Government related to land administrative fees for railway extensions.

The amount due from KCRC related to the costs recoverable for certain capital works and property enabling works in accordance with the Rail Merger agreements. The amount due to KCRC related to mandatory payments and the related interest payable to KCRC upon tender award in respect of the property development sites along the East Rail Line and Light Rail as well as the accrued portion of fixed and variable annual payments arising from the Rail Merger.

The amount due from associates related to the outstanding balances of a loan to Tunnelbanan Teknik Stockholm AB ("TBT") as well as staff secondment and other service fees receivable from Beijing (MTR) Corporation Limited. The amount due to an associate related to rolling stock maintenance service fees payable to TBT.

During the half year ended 30 June 2012, cash dividends of HK$2,262 million (2011: HK$1,996 million) were paid to HKSAR Government.

Details of major related party transactions entered into by the Group with HKSAR Government in prior years which are still relevant for the current period and with KCRC in respect of the Rail Merger were described in the Company's audited accounts for the year ended 31 December 2011.

20 Material Related Party Transactions *(continued)*

During the half year ended 30 June 2012, the Group had the following transactions with its non-controlled subsidiaries, Octopus Holdings Limited and its subsidiaries ("Octopus Group"), and associates, TBT, Beijing (MTR) Corporation Limited ("Beijing MTR") and London Overground Rail Operations Ltd ("LOROL"):

in HK$ million	**Half year ended 30 June 2012**	Half year ended 30 June 2011
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	**60**	56
– 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	**14**	13
– Dividend paid by Octopus Group	**149**	63
TBT		
– Expenses paid or payable in respect of rolling stock maintenance and other supporting services provided by TBT for the Stockholm Metro operation	**302**	310
– Fees received or receivable in respect of staff secondment, depots and depot equipment rental and other support services provided to TBT	**71**	72
Beijing MTR		
– Fees received or receivable in respect of staff secondment and other support services provided to Beijing MTR	**7**	10
LOROL		
– Dividend paid by LOROL	**52**	–

21 Creditors and Accrued Charges

As at 30 June 2012, creditors and accrued charges included HK$3,202 million (31 December 2011: HK$4,613 million) of Government grant not yet utilised for the construction of the West Island Line and HK$1,924 million (31 December 2011: HK$1,950 million) of payables in relation to the property development of Lot 1 of Shenzhen Metro Longhua Line Depot. Other creditors and accrued charges mainly related to capital projects to be settled upon certification of work in progress. The Group has no significant balances of trade creditors resulting from its provision of transportation services.

The analysis of creditors as at 30 June 2012 by due dates is as follows:

in HK$ million	**At 30 June 2012 (Unaudited)**	At 31 December 2011 (Audited)
Due within 30 days or on demand	**2,550**	2,765
Due after 30 days but within 60 days	**2,426**	2,379
Due after 60 days but within 90 days	**2,316**	537
Due after 90 days	**2,344**	3,950
	9,636	9,631
Rental and other refundable deposits	**2,646**	1,704
Accrued employee benefits	**500**	454
Government grant on West Island Line Project un-utilised	**3,202**	4,613
	15,984	16,402

22 Loans and Other Obligations

Notes issued by the Group during the half years ended 30 June 2012 and 2011 comprise:

in HK$ million	Half year ended 30 June 2012 Principal amount	Half year ended 30 June 2012 Net consideration received	Half year ended 30 June 2011 Principal amount	Half year ended 30 June 2011 Net consideration received
Debit issuance programme notes	**3,247**	**3,217**	1,206	1,206

The notes were issued by a subsidiary, MTR Corporation (C.I.) Limited. The notes issued 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 years ended 30 June 2012 and 2011, the Group did not redeem any of its unlisted or listed debt securities.

23 Obligations under Service Concession

Obligations under service concession comprise the outstanding balances of the discounted total fixed annual payments for the service concession acquired in the Rail Merger and the discounted total annual lease payments for the service concession in respect of Shenzhen Metro Longhua Line Phase 1.

24 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2012 and the year ended 31 December 2011 are as follows:

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
30 June 2012 (Unaudited)						
Balance as at 1 January 2012, as previously reported	**8,981**	**5,977**	**153**	**(17)**	**(16)**	**15,078**
Effect of adoption of the Amendments to HKAS 12	**–**	**(5,604)**	**–**	**–**	**–**	**(5,604)**
Balance as at 1 January 2012, as restated	**8,981**	**373**	**153**	**(17)**	**(16)**	**9,474**
Charged to consolidated profit and loss account	**5**	**–**	**38**	**–**	**–**	**43**
Charged to reserves	**–**	**23**	**–**	**–**	**–**	**23**
Exchange difference	**(1)**	**–**	**2**	**–**	**–**	**1**
Balance as at 30 June 2012	**8,985**	**396**	**193**	**(17)**	**(16)**	**9,541**
31 December 2011 (Audited and restated)						
Balance as at 1 January 2011, as previously reported	8,669	5,044	154	(15)	(7)	13,845
Effect of adoption of the Amendments to HKAS 12	–	(4,764)	–	–	–	(4,764)
Balance as at 1 January 2011, as restated	8,669	280	154	(15)	(7)	9,081
Charged/(credited) to consolidated profit and loss account, as restated	316	–	(1)	–	(9)	306
Charged/(credited) to reserves	–	93	–	(2)	–	91
Exchange difference	(4)	–	–	–	–	(4)
Balance as at 31 December 2011, as restated	8,981	373	153	(17)	(16)	9,474

B Deferred tax assets and liabilities recognised are as follows:

in HK$ million	At 30 June 2012 (Unaudited)	At 31 December 2011 (Audited and restated)
Net deferred tax assets recognised on the consolidated balance sheet	**(27)**	(24)
Net deferred tax liabilities recognised on the consolidated balance sheet	**9,568**	9,498
	9,541	9,474

25 Share Capital, Share Premium and Capital Reserve

in HK$ million	**At 30 June 2012 (Unaudited)**	At 31 December 2011 (Audited)
Authorised:		
6,500,000,000 shares of HK$1.00 each	**6,500**	6,500
Issued and fully paid:		
5,786,501,450 shares (2011: 5,784,871,250 shares) of HK$1.00 each	**5,787**	5,785
Share premium	**11,124**	11,089
Capital reserve	**27,188**	27,188
	44,099	44,062

A Pursuant to the Articles of Association of the Company, the capital reserve can only be applied in paying up in full unissued shares to be allotted and distributed as fully paid bonus shares to the shareholders of the Company.

Share premium represents the amount by which the issue price of shares exceeds the par value of those shares. The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

B New shares issued and fully paid up during the period comprise:

			Proceeds received / Transfer from employee share-based capital reserve		
	Number of shares	Option price	Share capital account	Share premium account	Total
		HK$	HK$ million	HK$ million	HK$ million
Employee share options exercised					
– 2007 Share Option Scheme	**1,445,700**	**18.30**	**2**	**30**	**32**
	48,000	**26.52**	**–**	**1**	**1**
	71,500	**26.85**	**–**	**2**	**2**
	65,000	**27.60**	**–**	**2**	**2**
	1,630,200		**2**	**35**	**37**

C Key details of the Company's share option schemes are summarised as follows:

	Half year ended 30 June 2012		Half year ended 30 June 2011	
	New Joiners Share Option Scheme	2007 Share Option Scheme	New Joiners Share Option Scheme	2007 Share Option Scheme
No. of previously vested share options exercised during the period	**–**	**1,630,200**	374,700	638,500
No. of share options granted during the period	**–**	**16,917,000**	–	–
No. of share options forfeited during the period	**–**	**533,500**	–	373,500
No. of share options vested during the period	**–**	**379,500**	–	1,025,500
No. of share options outstanding as at 30 June	**329,000**	**64,596,800**	746,500	51,556,500

Details of the movements in respect of these share option schemes are set out under the Corporate Governance and Other Information section on pages 24 to 34.

D During the half year ended 30 June 2012, the Company offered to grant 16,917,000 share options under the Company's 2007 Share Option Scheme to Members of the Executive Directorate and certain eligible employees of the Company (the "Grantees") on 23 March 2012 and all were accepted by the grantees on 30 March 2012.

26 Other Reserves

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties of HK$35,695 million (31 December 2011: HK$33,991 million as restated) included in retained profits are non-distributable as they also do not constitute realised profits. As at 30 June 2012, the Company considered that the total amount of reserves available for distribution to equity shareholders amounted to HK$53,633 million (31 December 2011: HK$52,719 million).

27 Cash Generated from Operations

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

in HK$ million	**Half year ended 30 June 2012 (Unaudited)**	Half year ended 30 June 2011 (Unaudited)
Operating profit before property developments, depreciation, amortisation and variable annual payment	**6,519**	6,001
Adjustments for:		
– Decrease in provision for obsolete stock	**(1)**	–
– Loss on disposal of fixed assets	**10**	11
– Amortisation of deferred income from transfers of assets from customers	**(5)**	(3)
– Increase in fair value of derivative instruments	**(3)**	(5)
– Unrealised gain on revaluation of investment in securities	**(6)**	(5)
– Employee share-based payment expenses	**27**	37
– Exchange (gain)/loss	**(1)**	2
Operating profit from recurrent businesses before working capital changes	**6,540**	6,038
Increase in debtors, deposits and payments in advance	**(20)**	(319)
Increase in stores and spares	**(67)**	(21)
Increase in creditors and accrued charges	**1,364**	476
Cash generated from operations	**7,817**	6,174

28 Capital Commitments

A Outstanding capital commitments as at 30 June 2012 not provided for in the accounts were as follows:

in HK$ million	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas operations	Total
At 30 June 2012 (Unaudited)					
Authorised but not yet contracted for	**2,992**	**–**	**1,248**	**–**	**4,240**
Authorised and contracted for	**1,554**	**11,644**	**138**	**142**	**13,478**
	4,546	**11,644**	**1,386**	**142**	**17,718**
At 31 December 2011 (Audited)					
Authorised but not yet contracted for	2,079	–	824	9	2,912
Authorised and contracted for	1,447	13,099	624	216	15,386
	3,526	13,099	1,448	225	18,298

Excluded from the above table are estimated future project costs relating to the West Island Line, South Island Line (East) and Kwun Tong Line Extension of HK$3,668 million, HK$6,050 million and HK$2,717 million respectively as at 30 June 2012.

28 Capital Commitments *(continued)*

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

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 30 June 2012 (Unaudited)				
Authorised but not yet contracted for	**1,507**	**239**	**1,246**	**2,992**
Authorised and contracted for	**573**	**472**	**509**	**1,554**
	2,080	**711**	**1,755**	**4,546**
At 31 December 2011 (Audited)				
Authorised but not yet contracted for	897	279	903	2,079
Authorised and contracted for	468	602	377	1,447
	1,365	881	1,280	3,526

29 Post Balance Sheet Event

On 17 July 2012, the Company's subsidiary, MTR Hangzhou Line 1 Investment Company Limited, signed a contract with a subsidiary of Hangzhou Metro Group Company Limited to set up a joint venture company to invest in and operate Hangzhou Metro Line 1 for a period of 25 years following the approval by the National Development and Reform Commission on the public-private partnership ("PPP") project for the investment, construction and operations of Hangzhou Metro Line 1. Total capital cost of Hangzhou Metro Line 1 is approximately RMB22 billion. Hangzhou Metro Group Company Limited undertakes to invest in the project's civil construction work, representing 62% of the total project cost. Under the PPP arrangement, the joint venture company is responsible for the electrical and mechanical system as well as rolling stock with a total investment of approximately RMB8.3 billion, which is approximately 38% of the total project cost. The Group has an effective interest of 49% of the joint venture company with the balance owned by Hangzhou Metro Group Company Limited.

30 Approval of Interim Financial Report

The interim financial report was approved by the Board on 13 August 2012.

REVIEW REPORT TO THE BOARD OF DIRECTORS OF MTR CORPORATION LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 35 to 55 which comprises the consolidated balance sheet of MTR Corporation Limited as of 30 June 2012 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review 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. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
13 August 2012

Concept & Design: YELLOW CREATIVE (HK) LIMITED   Printed by C & C SECURITY PRINTING Co., LTD

MTR Corporation Limited
MTR Headquarters Building, Telford Plaza
Kowloon Bay, Kowloon, Hong Kong
GPO Box 9916, Hong Kong
Telephone : (852) 2993 2111
Facsimile : (852) 2798 8822

www.mtr.com.hk

Stock Code: 66