MTR CORPORATION LIMITED
香港鐵路有限公司

(the "Company")
(Incorporated in Hong Kong with limited liability)
(Stock code: 66)

ANNOUNCEMENT OF UNAUDITED RESULTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

HIGHLIGHTS

Financials

- Revenue from recurrent businesses	HK$23,160	million	up 8.7%
Revenue from Mainland of China property development subsidiary	HK$6,844	million	up HK$6,844 million
Total revenue of the Group	HK$30,004	million	up 40.8%
- Post-tax profit attributable to shareholders of the Company:			
Recurrent business profit	HK$4,478	million	down 8.0%
Underlying business profit	HK$5,848	million	up 15.3%
Profit after investment property revaluation	HK$7,480	million	up 46.1%

- Interim ordinary dividend of HK$0.25 per share declared (with scrip dividend alternative)

Hong Kong Business Operations

- Hong Kong transport patronage increased by 2.5%, buoyed by the opening of the Kwun Tong Line Extension and new South Island Line last year
- Train service delivery and passenger journeys on-time in our heavy rail network maintained at world-class level of 99.9%
- Early review of the Fare Adjustment Mechanism concluded in March 2017, benefiting all passengers
- New retail space on the seventh and eighth floors of Telford Plaza II opened in July 2017
- First property development package at Wong Chuk Hang Station awarded in February 2017
- Two more new rail project proposals submitted under Railway Development Strategy 2014

Mainland of China & International Businesses

- Concession Agreement for Hangzhou Metro Line 5 signed in June 2017
- Further development profits at Tiara in Shenzhen recognised in the first half of 2017
- South Western rail franchise in the UK awarded to our 30% owned associate company, First MTR South Western Trains Limited, in March 2017

Outlook

- Business growth may be impacted by economic uncertainties
- Kwun Tong Line Extension and South Island Line will continue to contribute to patronage growth, albeit related costs, especially depreciation and interest charges, will impact profits
- New shops in Maritime Square extension targeted for progressive opening starting in the fourth quarter of 2017
- Over the next six months, subject to market conditions, the Company aims to tender out one property package being our second development package at Wong Chuk Hang Station

The Directors of the Company are pleased to announce the unaudited interim results of the Company and its subsidiaries ("the Group") for the half year ended 30 June 2017 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (HK$ MILLION)

	Half year ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Revenue from Hong Kong transport operations	**8,957**	8,617
Revenue from Hong Kong station commercial businesses	**2,788**	2,695
Revenue from Hong Kong property rental and management businesses	**2,432**	2,359
Revenue from Mainland of China and international railway, property rental and management subsidiaries	**7,924**	6,526
Revenue from other businesses	**1,059**	1,110
	23,160	21,307
Revenue from Mainland of China property development subsidiary	**6,844**	-
	30,004	21,307
Expenses relating to Hong Kong transport operations		
- Staff costs and related expenses	**(2,530)**	(2,360)
- Energy and utilities	**(705)**	(700)
- Operational rent and rates	**(119)**	(99)
- Stores and spares consumed	**(252)**	(229)
- Maintenance and related works	**(665)**	(621)
- Railway support services	**(136)**	(136)
- General and administration expenses	**(223)**	(253)
- Other expenses	**(154)**	(135)
	(4,784)	(4,533)
Expenses relating to Hong Kong station commercial businesses	**(239)**	(253)
Expenses relating to Hong Kong property rental and management businesses	**(344)**	(361)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	**(7,498)**	(6,147)
Expenses relating to other businesses	**(1,090)**	(1,046)
Project study and business development expenses	**(159)**	(130)
	(14,114)	(12,470)
Expenses relating to Mainland of China property development subsidiary	**(4,658)**	(27)
Operating expenses before depreciation, amortisation and variable annual payment	**(18,772)**	(12,497)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment		
- Arising from recurrent businesses	**9,046**	8,837
- Arising from Mainland of China property development	**2,186**	(27)
	11,232	8,810

	Half year ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Profit on Hong Kong property development	**622**	219
Operating profit before depreciation, amortisation and variable annual payment	**11,854**	9,029
Depreciation and amortisation	**(2,390)**	(2,008)
Variable annual payment	**(915)**	(867)
Operating profit before interest and finance charges	**8,549**	6,154
Interest and finance charges	**(403)**	(268)
Investment property revaluation	**1,632**	48
Share of profit or loss of associates	**180**	297
Profit before taxation	**9,958**	6,231
Income tax	**(2,425)**	(1,037)
Profit for the period	**7,533**	5,194
Attributable to:		
- Shareholders of the Company	**7,480**	5,121
- Non-controlling interests	**53**	73
Profit for the period	**7,533**	5,194
Profit for the period attributable to shareholders of the Company:		
- Arising from recurrent businesses	**4,478**	4,866
- Arising from property development	**1,370**	207
- Arising from underlying businesses	**5,848**	5,073
- Arising from investment property revaluation	**1,632**	48
	7,480	5,121
Earnings per share:		
- Basic	**HK$1.27**	HK$0.87
- Diluted	**HK$1.26**	HK$0.87

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK$ MILLION)

	Half year ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Profit for the period	**7,533**	5,194
Other comprehensive income for the period (after taxation and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
- Surplus on revaluation of self-occupied land and buildings	**85**	70

	Half year ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences on translation of:		
- financial statements of overseas subsidiaries and associates	**423**	(290)
- non-controlling interests	**20**	5
- Cash flow hedges: net movement in hedging reserve	**(314)**	142
	129	(143)
	214	(73)
Total comprehensive income for the period	**7,747**	5,121
Attributable to:		
- Shareholders of the Company	**7,674**	5,043
- Non-controlling interests	**73**	78
Total comprehensive income for the period	**7,747**	5,121

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$ MILLION)

	As at 30 June 2017 (Unaudited)	As at 31 December 2016 (Audited)
Assets		
Fixed assets		
- Investment properties	**72,156**	70,060
- Other property, plant and equipment	**102,807**	103,613
- Service concession assets	**28,809**	28,269
	203,772	201,942
Property management rights	**26**	27
Goodwill	**62**	57
Property development in progress	**14,687**	17,484
Deferred expenditure	**608**	463
Interests in associates	**6,138**	7,015
Deferred tax assets	**68**	25
Investments in securities	**436**	370
Assets held for sale	**1,269**	-
Properties held for sale	**1,451**	1,394
Derivative financial assets	**91**	183
Stores and spares	**1,556**	1,484
Debtors, deposits and payments in advance	**3,919**	4,073
Amounts due from related parties	**2,400**	2,171
Tax recoverable	**-**	362
Cash, bank balances and deposits	**26,008**	20,290
	262,491	257,340
Liabilities		
Bank overdrafts	**42**	-
Short-term loans	**3,127**	1,350

	As at 30 June 2017 (Unaudited)	As at 31 December 2016 (Audited)
Creditors and accrued charges	**25,141**	30,896
Current taxation	**1,984**	123
Contract retentions	**950**	1,012
Amounts due to related parties	**14,927**	11,783
Loans and other obligations	**39,300**	38,589
Obligations under service concession	**10,485**	10,507
Derivative financial liabilities	**577**	569
Loan from holders of non-controlling interests	**117**	109
Deferred income	**1,042**	721
Deferred tax liabilities	**12,104**	12,125
	109,796	107,784
Net assets	**152,695**	149,556
Capital and reserves		
Share capital	**48,212**	47,929
Shares held for Share Incentive Scheme	**(171)**	(227)
Other reserves	**104,540**	101,759
Total equity attributable to shareholders of the Company	**152,581**	149,461
Non-controlling interests	**114**	95
Total equity	**152,695**	149,556

Notes: -

1. INDEPENDENT REVIEW

The interim results for the half year ended 30 June 2017 are unaudited, but have been reviewed by the Group's auditor, 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"). The unmodified review report of KPMG is included in the interim report to be sent to shareholders. The interim results have also been reviewed by the Group's Audit Committee.

2. BASIS OF PREPARATION

The preliminary announcement of the Company's interim results 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. It was authorised for issue on 10 August 2017.

The financial information relating to the financial year ended 31 December 2016 that is included in this preliminary announcement of the interim results as comparative information does not constitute the Company's statutory annual consolidated accounts for that financial year but is derived from those accounts. Further information relating to these statutory accounts required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

- The Company has delivered the accounts for the year ended 31 December 2016 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

- The Company's auditor, KPMG, has reported on the accounts for the year ended 31 December 2016. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

The unaudited interim results should be read in conjunction with the 2016 annual accounts. The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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

3. RETAINED PROFITS

The movements of the retained profits during the half year ended 30 June 2017 and the year ended 31 December 2016 are as follows:

HK$ Million	
Balance as at 1 January 2017	**99,392**
Profit for the period attributable to shareholders of the Company	**7,480**
Award shares of Share Incentive Scheme forfeited	**1**
Dividends declared and approved	**(4,868)**
Balance as at 30 June 2017	**102,005**

HK$ Million	
Balance as at 1 January 2016	121,144
Profit for the year attributable to shareholders of the Company	10,254
Other comprehensive income for the year	123
Award shares of Share Incentive Scheme forfeited	3
Employee share options forfeited	1
Dividends declared and approved	(32,133)
Balance as at 31 December 2016	99,392

4. PRE-TAX PROFIT ON HONG KONG PROPERTY DEVELOPMENT

Pre-tax profit on Hong Kong property development comprises:

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

5. INCOME TAX

HK$ Million	**Half year ended 30 June 2017**	2016
Current tax		
- Hong Kong Profits Tax	**944**	862
- Mainland of China and overseas tax	**1,523**	152
	2,467	1,014
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(24)**	(55)
	2,443	959
Deferred tax		
- Origination and reversal of temporary differences on:		
- tax losses	**(5)**	-
- depreciation allowances in excess of related depreciation	**(1)**	76
- provisions and others	**(12)**	2
	(18)	78
Income tax in the consolidated profit and loss account	**2,425**	1,037
Share of income tax expense of associates	**107**	74

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2017 is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits for the period after deducting accumulated tax losses brought forward, if any. Current taxes for the Mainland of China and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

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

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2016: 16.5%), while those arising in the Mainland of China and overseas are calculated at the appropriate current rates of taxation ruling in the relevant countries.

6. DIVIDEND

The Board has resolved to pay an interim dividend of HK$0.25 per share and offer a scrip dividend option to all shareholders except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions. The interim dividend, with a scrip dividend option, is expected to be distributed on 13 October 2017 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 30 August 2017.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the half year ended 30 June 2017 of HK$7,480 million (2016: HK$5,121 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme during the period amounting to 5,903,027,438 (2016: 5,861,970,034).

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the half year ended 30 June 2017 of HK$7,480 million (2016: HK$5,121 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme during the period after adjusting for the dilutive effect of the Company's share option scheme and Share Incentive Scheme amounting to 5,915,749,270 (2016: 5,876,212,307).

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

8. SEGMENTAL INFORMATION

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

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

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

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

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

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

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

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

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

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

HK$ Million	Turnover Half year ended 30 June **2017**	2016	Contribution to profit Half year ended 30 June **2017**	2016
Hong Kong transport operations	**8,957**	8,617	**1,320**	1,631
Hong Kong station commercial businesses	**2,788**	2,695	**2,202**	2,121
Hong Kong property rental and management businesses	**2,432**	2,359	**2,080**	1,989
Mainland of China and international railway, property rental and management businesses	**7,924**	6,526	**360**	320
Mainland of China property development	**6,844**	-	**2,186**	(27)
Other businesses	**1,059**	1,110	**(62)**	31
	30,004	21,307	**8,086**	6,065
Hong Kong property development			**622**	219
Project study and business development expenses			**(159)**	(130)
			8,549	6,154
Interest and finance charges			**(403)**	(268)
Investment property revaluation			**1,632**	48
Share of profit or loss of associates			**180**	297
Income tax			**(2,425)**	(1,037)
Profit for the period			**7,533**	5,194

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.

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

9. RAILWAY CONSTRUCTION IN PROGRESS

A. Island Line Extension Project

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

Pursuant to the agreement, the HKSAR Government provided a grant of HK$12.3 billion to the Company in March 2010 (having already made HK$0.4 billion available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism whereby, within 24 months of commercial operations of the extension of Island Line to the Western District i.e. December 2016 (based on commencement of commercial operation on 28 December 2014), the Company has to pay to the HKSAR Government amounts to reflect the excess of the original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest). Under a supplemental agreement signed in December 2016, the Company and the HKSAR Government agreed to extend the timeframe for the repayment mechanism to not later than 30 June 2018. During the half year ended 30 June 2017, no payment has been made by the Company to the HKSAR Government under the repayment mechanism (year ended 31 December 2016: principal of HK$48 million and interest of HK$18 million).

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

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

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

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

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

C. Kwun Tong Line Extension ("KTE") Project

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

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

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

10. OTHER RAILWAY CONSTRUCTION IN PROGRESS UNDER ENTRUSTMENT BY THE HKSAR GOVERNMENT

A. HONG KONG SECTION OF THE GUANGZHOU-SHENZHEN-HONG KONG EXPRESS RAIL LINK ("XRL") PROJECT

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

b) XRL Entrustment Agreement: In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the XRL on the understanding that the Company would subsequently be invited to undertake the operation of the XRL under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the XRL (the "XRL Entrustment Agreement"). Pursuant to the XRL Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the XRL and the HKSAR Government, as owner of XRL, is responsible for bearing and financing the full amount of the total cost of such activities (the "Entrustment Cost") and for paying to the Company a fee in accordance with an agreed payment schedule (the "Project Management Fee") (subsequent amendments to these arrangements are described below). As at 30 June 2017 and up to the date of the interim report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

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

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

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

   - the XRL being completed in the third quarter of 2018 (including programme contingency of six months) (the "XRL Revised Programme"); and

   - the total project cost of HK$85.3 billion (including contingency), based on the XRL Revised Programme.

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

c) XRL Agreement: On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "XRL Agreement") relating to the further funding and completion of the XRL. The XRL Agreement contains an integrated package of terms (subject to conditions as set out in note 10A(c)(vi) below) and provides that:

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

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

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

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

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;

- seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and

- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;

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

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

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

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

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

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

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in note 10A(c)(iv) above), given that (a) the Company has not received any notification from Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the XRL Agreement, cannot take place until after commencement of commercial operations on the XRL) (as of 30 June 2017 and up to the date of the interim report); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the XRL Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and

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

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

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

B. SHATIN TO CENTRAL LINK ("SCL") PROJECT

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

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

Agreement"). Pursuant to the SCL Advance Works Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the agreed works while the HKSAR Government is responsible to bear and pay to the Company all the work costs ("SCL Advance Works Costs").

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

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

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

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

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

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

d) Given (i) the SCL Agreements provide that the HKSAR Government shall bear and finance the full amount of the relevant costs to the extent described above; and (ii) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company in relation to any SCL Agreement (as of 30 June 2017 and up to the date of the interim report), the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any) arising from the matters described above.

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

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

11. ASSETS HELD FOR SALE

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

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

12. DEBTORS AND CREDITORS

A As at 30 June 2017, the Group's debtors, deposits and payments in advance amounted to HK$3,919 million (31 December 2016: HK$4,073 million), of which debtors accounted for HK$3,044 million (31 December 2016: HK$2,902 million). Receivables in respect of rentals, advertising and telecommunication activities are due from immediately to 50 days. Receivables in respect of income from railway subsidiaries outside of Hong Kong are due within 30 days or in the following month. Receivables relating to consultancy services and entrustment works are due within 30 days. Receivables under interest rate and currency swap agreements are due in accordance with the terms of the agreements. Receivables relating to property development are due in accordance with the terms of the relevant development agreements or sale and purchase agreements. As at 30 June 2017, HK$240 million (31 December 2016: HK$540 million) were overdue, out of which HK$102 million (31 December 2016: HK$110 million) were overdue by more than 30 days.

B As at 30 June 2017, creditors and accrued charges amounted to HK$25,141 million (31 December 2016: HK$30,896 million). As at 30 June 2017, HK$6,146 million (31 December 2016: HK$5,000 million) of creditors and accrued charges were due within 30 days or on demand whilst the remainder was not yet due.

13. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company's wholly owned subsidiary redeemed its US$550 million bonds at par on 12 April 2017. The bonds were listed on the Hong Kong Stock Exchange prior to the redemption. Save as disclosed above, the Group did not purchase, sell or redeem any of the Group's listed securities during the six month period ended 30 June 2017. The Trustee of the 2014 Share Incentive Scheme did not purchase any Ordinary Shares of the Company on the Hong Kong Stock Exchange during the same period.

14. CHARGE ON GROUP ASSETS

As at 30 June 2017, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB2,433 million bank loan facility granted to it.

Saved as disclosed above, none of the other assets of the Group was charged or subject to any encumbrance as at 30 June 2017.

15. CORPORATE GOVERNANCE

During the six month period ended 30 June 2017, the Company has complied with the Code Provisions set out in the Corporate Governance Code, contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

16. PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.mtr.com.hk and the website of the Stock Exchange. The Interim Report will also be available at the Company's and the Stock Exchange's websites and will be despatched to shareholders of the Company in mid-September 2017.

KEY STATISTICS

	Half year ended 30 June **2017**	2016
Total passenger boardings in Hong Kong (in millions)		
- Domestic Service	**798.3**	774.5
- Cross-boundary Service	**54.8**	55.4
- Airport Express	**8.0**	7.8
- Light Rail and Bus	**112.5**	112.5
Average number of passengers (in thousands)		
- Domestic Service (weekday)	**4,700**	4,537
- Cross-boundary Service (daily)	**303.0**	304.5
- Airport Express (daily)	**44.2**	42.8
- Light Rail and Bus (weekday)	**642.6**	638.5
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment as a percentage of turnover ("EBITDA margin")		
- Excluding Mainland of China and international subsidiaries	**56.6%**	57.2%
- Including Mainland of China and international subsidiaries	**37.4%**	41.3%

MANAGEMENT REVIEW AND OUTLOOK

Building on the success of previous years, further progress was delivered across all of our businesses in the first six months of 2017. The early review of the Fare Adjustment Mechanism ("FAM"), conducted jointly with Government, was concluded in March 2017, resulting in new arrangements that balance the interests of different stakeholders. These arrangements will benefit all passengers, while ensuring the financial sustainability of the Company to continue to provide safe, reliable and efficient railway services for Hong Kong. Our latest corporate strategy review took place in early 2017 and reaffirmed our three-pronged strategy which has successfully guided the Company over these past years; namely strengthening and growing the Hong Kong business, accelerating growth in our Mainland of China and international businesses, and enhancing our corporate reputation.

Stable economic conditions in Hong Kong led to further revenue growth in our Hong Kong businesses. Patronage of our Hong Kong transport operations increased by 2.5%, in part buoyed by the opening of the extension of the Kwun Tong Line and the new South Island Line towards the end of last year. Our services remained at world-class levels, with train service delivery and passenger journeys on-time in our heavy rail network being maintained at 99.9%. Safety performance was also excellent. Despite a further decline in Hong Kong retail sales, our station commercial and property rental businesses achieved modest revenue growth. An important milestone for MTR's property rental portfolio expansion programme was achieved with the opening of the new retail space on the seventh and eighth floors of Telford Plaza II in July 2017. Hong Kong property development profit for the period came mainly from sundry sources. In our property tendering activities, we awarded our first property package at Wong Chuk Hang Station in February 2017 to a consortium formed by Road King Infrastructure Limited and Ping An Real Estate Company Limited. Acting as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation ("KCRC"), we also awarded the first package at Kam

Sheung Road Station to a consortium formed by Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited in May 2017.

Outside of Hong Kong, our rail businesses, which carried an average of 5.8 million passengers every weekday in the first half of 2017, continued to provide good services with high levels of customer satisfaction. In the Mainland of China, we signed the Concession Agreement in June 2017 with the Hangzhou Municipal Government and Hangzhou Metro Group for a Public-Private Partnership ("PPP") project in respect of Hangzhou Metro Line 5 ("HZL5"). In the UK, our 30% owned associate company was awarded the South Western rail franchise, which will run for seven years from August 2017. In our property development business in the Mainland of China, we handed over to buyers the high-rise units at Tiara in Shenzhen and profits were booked accordingly.

Our strategy of expanding in and outside of Hong Kong continued to gain momentum. In Hong Kong, "Rail Gen 2.0", our vision for the next generation of rail travel, encompasses our two remaining rail projects under construction, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link. These projects were 94.3% and 75.1% complete respectively as at 30 June 2017. We have also made progress on the major asset replacements that form part of Rail Gen 2.0, notably the replacement of trains and signalling systems on our existing network. In the future, growth in Hong Kong will be underpinned by Government's strategy of using rail as the backbone of public transportation. In line with this, Government's Railway Development Strategy 2014 ("RDS 2014") to build seven new rail projects is underway with our submission of proposals to Government for the extension of the West Rail Line to Tuen Mun South at the end of 2016 and for the Northern Link (and Kwu Tung Station) in March 2017. The proposal for the East Kowloon Line was submitted in July 2017 and we have also received requests for proposals for the Tung Chung Line extension to Tung Chung West (and Tung Chung East Station) and the North Island Line on Hong Kong Island. Beyond RDS 2014, Government's long-term vision for development, as encapsulated in "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030", has suggested an additional rail corridor, namely the Northwest New Territories – Lantau – Metro Transport Corridor. Apart from rail development in Hong Kong, we continue to explore opportunities to leverage off existing rail facilities to provide additional residential developments. The proposed development atop our Siu Ho Wan depot in Lantau took a further step forward with the Environmental Impact Assessment reports for the development being exhibited for public inspection in July 2017. Outside of Hong Kong, we are in discussions or exploring opportunities regarding new rail contracts in the Mainland of China, the Nordic region, the UK and Australia. We are also exploring integrated transit-oriented development opportunities in a number of our existing markets outside of Hong Kong.

Turning to our financial results, total revenue for the first six months of 2017 increased by 40.8% to HK$30,004 million, with operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment increasing by 2.4% to HK$9,046 million. The significant increase in revenue was due predominately to the accounting of sales proceeds from the Tiara development in Shenzhen. Excluding this, revenue would have increased 8.7%. Excluding the Company's Mainland of China and international subsidiaries, revenue grew by 3.1% and operating profit by 1.9%, with operating margin down by 0.6 percentage point to 56.6%. Recurrent profit attributable to equity shareholders, being net profit before property development profits (from both Hong Kong and the Mainland of China) and investment properties revaluation, decreased by 8.0% to HK$4,478 million, mainly due to higher costs, particularly fixed costs such as depreciation and interest expenses, after the opening of the two new lines in Hong Kong in the last quarter of 2016. Post tax profit from property developments (from both Hong Kong and the Mainland of China) was HK$1,370 million, and was mainly derived from the booking of profit from Tiara in Shenzhen and sundry sources in Hong Kong. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders rose by 15.3% to HK$5,848 million, mainly due to a higher level of property development profits for the period, representing earnings per share of HK$0.99. Gain in revaluation of investment properties was

HK$1,632 million, as compared with HK$48 million in the corresponding period of 2016. As a result, net profit attributable to equity shareholders was HK$7,480 million, equivalent to earnings per share of HK$1.27 after revaluation.

Your Board has declared an interim ordinary dividend of HK$0.25 per share, the same as last year. In line with our progressive ordinary dividend policy, the Board will assess the final ordinary dividend when reviewing the full year results for 2017. The second and final tranche of the special dividend of HK$2.20 per share relating to the agreement with Government regarding the further funding arrangements for the Express Rail Link ("XRL Agreement") was paid on 12 July 2017, at the same time as payment of the 2016 final ordinary dividend.

Hong Kong Transport Operations

Highlights

- Safety maintained at world-class levels with the number of reportable events reduced by 5.2%
- Maintained world-class 99.9% train service delivery and passenger journeys on-time
- Early review of the FAM concluded with all passengers to benefit
- Patronage growth of 2.5% benefited from the opening of the extension of the Kwun Tong Line and the South Island Line

Financial Performance

The financial performance of the Hong Kong transport operations is summarised as follows:

	Half year ended 30 June		
HK$ million	**2017**	2016	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**8,957**	8,617	3.9
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**4,173**	4,084	2.2
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**1,320**	1,631	(19.1)
EBITDA Margin (in %)	**46.6%**	47.4%	(0.8)% pt.
EBIT Margin (in %)	**14.7%**	18.9%	(4.2)% pts.

Total revenue of Hong Kong Transport Operations increased by 3.9% to HK$8,957 million, benefiting from the growth in patronage and the adjustment to fares under the FAM. EBITDA increased at a lower rate of 2.2% to HK$4,173 million, mainly due to increased staff costs and train trips. However, the opening of the two new lines in the last quarter of 2016 increased the depreciation and amortisation charges significantly, hence EBIT decreased by 19.1% to HK$1,320 million.

Safety

Safety is paramount for MTR and in the first six months of 2017 our performance in this area was excellent. There were 5.2% fewer reportable events on the Hong Kong heavy rail network and Light Rail network during the period.

As noted in our 2016 Annual Report, the effectiveness of our "safety first" culture was demonstrated by our response to an arson attack on one of our trains on 10 February 2017, with our staff acting quickly to evacuate the train and station, and working with the emergency services to minimise injuries and damage.

An investigation by an Executive Review Panel concluded that the handling of the incident by MTR staff and emergency services was robust, orderly, speedy and effective. The panel also considered that the dissemination of information to passengers and the public was adequate and effective throughout and after the incident. Following the investigation, we submitted a report to Government on 25 April 2017 which contains a number of initiatives to raise public awareness and further enhance risk management. Initiatives to promote safety during the first half of 2017 included programmes to strengthen customers' awareness about fire safety and improve their knowledge of station evacuation procedures, using videos and posters. More portable fire extinguishers were also installed in stations.

Although safety performance was excellent overall, a staff fatality occurred on 23 May 2017. One of our maintenance technicians was found in the early morning lying on the tracks at a reception track near Tai Wai Depot, and was later certified dead at the scene. We again express our deepest condolences to the deceased's family, and are providing whatever care and assistance is required. We are co-operating with the police and Government departments to assist in their investigation into the incident and we have also launched our own internal investigation.

Patronage and Revenue

Fare revenue from our Hong Kong transport operations is summarised below:

	Half year ended 30 June		
HK$ million	**2017**	2016	Inc./(Dec.) %
Fare Revenue			
Domestic Service	**6,349**	6,051	4.9
Cross-boundary Service	**1,608**	1,586	1.4
Airport Express	**503**	486	3.5
Light Rail and Bus	**353**	346	2.0
Intercity	**65**	68	(4.4)
Total Fare Revenue	**8,878**	8,537	4.0

Our patronage benefited from the opening of the two new railway lines, as well as a slight recovery in tourist arrivals. Total patronage for all of our rail and bus passenger services increased moderately by 2.5% to 975.4 million in the first six months of 2017.

For the Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail, Ma On Shan and South Island lines), total patronage reached 798.3 million, a 3.1% increase for the period. The Cross-boundary Service to Lo Wu and Lok Ma Chau recorded a 1.0% decrease in patronage to 54.8 million, mainly as a result of strong competition from other modes of transport at Lok Ma Chau. Patronage on the Airport Express increased by 2.7% to 8.0 million, supported by an increase in air passenger traffic.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong for the first six months of 2017 increased by 3.0% to 5.67 million. The Domestic Service, which accounts for the majority of this patronage, saw a 3.6% rise to 4.70 million.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong in the first five months of 2017 was 48.8%, compared to 48.3% in the corresponding period of 2016. Within this total, the share of cross-harbour traffic was 69.3%, compared to 68.6%. Competition from other modes of transport saw our share of the Cross-boundary business for the first five months of 2017 decrease from 51.4% to 50.2%, and our market share to and from the airport declined from 21.4% to 21.3%.

Fare Adjustments, Promotions and Concessions

Fare revenue growth was supported by adjustments to fares, as well as patronage increase. In accordance with the FAM, an overall 2.65% adjustment to applicable fares was implemented on 26 June 2016. Simultaneously, we announced our 2016/2017 fare promotions package, bringing savings of more than HK$500 million to customers between June 2016 and June 2017. This package was in addition to our ongoing fare concessions and promotions, such as those offered to the elderly and students, which amounted to over HK$2.5 billion in 2016.

On 21 March 2017, we announced that MTR and Government had concluded the early review of the FAM with revised arrangements designed to benefit all passengers, whilst ensuring the financial sustainability of the Company. During the review process, we listened to the opinions of different stakeholders, including passengers and shareholders. Two important pillars of the FAM remain unchanged, namely the FAM formula itself and the "direct-drive" nature of the application of the formula. However, three key new features are being introduced that benefit passengers directly:

- Special adjustment for six years. The calculated fare adjustment rate will be reduced by 0.6 percentage point each year from 2017/18 to 2022/23 through a special annual adjustment outside of the FAM formula. For 2017/18, the overall fare adjustment rate will be further reduced by 10%
- Rebate linked directly to business profit. A 3% rebate will be offered for each Octopus trip for at least six months each year from 2017/18 to 2022/23. This will be done by topping up where necessary the concession amount set aside in accordance with an enhanced Profitability-Linked Arrangement and Service Performance-Linked Arrangement
- Interchange discounts for Green Minibus ("GMB") passengers. A new discount of HK$0.3 for interchange between MTR and all 500-plus GMB routes will be offered to Octopus users, subject to further discussion and agreement with the GMB operators. Discounts on existing routes remain unchanged

The next scheduled review of the FAM will be carried out in 2022/23.

After applying the FAM formula, the special annual adjustment of 0.6 percentage point and the one-off 10% discount, the calculated Overall Fare Adjustment Rate for 2017/18 comes to +1.49%. This is within the range of ±1.5%, under which, according to the FAM, the adjustment rate will be rolled over to the following year (2018/19). Hence, there will be no adjustment of MTR fares in 2017/18.

As part of the FAM review, to benefit MTR passengers, starting from 18 June 2017 a 3% rebate is being offered for every Octopus trip for six months up to 17 December 2017. In addition to the rebate, frequent MTR travellers commuting on medium to long distance journeys to the urban area and across the harbour can continue to enjoy fare savings by using five types of "Monthly Pass Extra" and MTR City Saver. Furthermore, the validity of the MTR City Saver will be extended from 30 days to 40 days starting from 1 July 2017, counted from the day of first use. The "Early Bird Discount Promotion" Programme has also been extended for one year up to 31 May 2018.

Fares on the Airport Express were raised by an average of 9.6% commencing 18 June 2017. This is the first adjustment to fares on the line since its opening in 1998.

Service Performance

Train service delivery and passenger journeys on-time in our heavy rail network remained at a world-class level of 99.9%, which is above the targets in our Operating Agreement as well as our own more demanding Customer Service Pledges. During the period, more than 1,040,000 train trips were made on our heavy rail network and more than 540,000 train trips were made on our light rail network. In the period there were six delays on the heavy rail network and one delay on the light rail network, each lasting 31 minutes or more that were caused by factors within our control. Our team is continuing efforts to reduce both the number of delays and the impact of the delays.

We won a number of awards for our services during the first six months of 2017. These included "East Week Magazine's "Hong Kong Service Awards 2017 - Public Transportation Category Award" for the 13th consecutive year, "Sing Tao Service Awards 2016 - Category Award of Public Transportation" for the 11th consecutive year and "Next Magazine's Top Service Awards 2017 – Public Transportation Category" for the 18th time in 19 years.

Investing in Network Improvements

Rail Gen 2.0

Announced in 2016, Rail Gen 2.0 is a major programme to enhance the experience of travelling on MTR in the context of an extended "next generation" of railway services for Hong Kong. It comprises new rail projects, major upgrades and replacements to the existing rail network and an enhanced customer experience. Major upgrades and replacements of infrastructure and facilities include new trains and Light Rail vehicles, replacement of signalling systems and chiller systems, and major interfacing works at stations. Further information on the new rail projects under construction can be found under the section headed "Hong Kong Network Expansion".

Major Upgrades and Replacements on the Existing Network

We are spending HK$6 billion on 93 new, more comfortable 8-car trains to replace those on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. Car body production started in February 2017 and the trains will be delivered between 2018 and 2023.

The existing signalling systems on the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express are being replaced at a total cost of HK$3.3 billion. The Tsuen Wan Line is being re-signalled first, and installation of new signalling equipment along the trackside and in indoor equipment rooms is substantially complete. Testing is underway using trains equipped with the new system. The Tsuen Wan Line re-signalling is targeted for completion towards the end of 2018 or early 2019, to be followed by the Island Line.

We are replacing 30 Light Rail vehicles and purchasing ten additional vehicles to meet increasing demand. The HK$745 million procurement contract in respect of the 40 vehicles was awarded in July 2016, and the first batch of vehicles are expected to be ready for passenger service in 2019.

Contracts for the replacement of 154 chillers across the network were awarded in March 2017. In the first phase of the project, chillers at seven stations and two depots will be replaced. The new chillers are scheduled for delivery to sites in December 2017, and installation works will then commence for expected completion in the second quarter of 2018. This will be followed by the replacement of chillers in our other stations and depots.

Under the Shatin to Central Link project, the existing 28 7-car trains on the West Rail Line are being converted to 8-car trains to enhance existing train services and to serve the future East West Corridor of the new line. By 30 June 2017, 17 such 8-car trains had entered service and all are targeted to be in service by mid-2018. The existing 15 4-car trains on the Ma On Shan Line are also being replaced by 8-car trains. As of 30 June 2017, five new and converted 8-car trains had been put into service.

Major modifications have taken place at Hung Hom Station, which will serve as one of the interchange stations for the Shatin to Central Link. Following extensive modifications, the northern and southern concourses were both put back into operation by February 2017. The installation of new lifts and escalators to connect the concourses with the new platforms for Shatin to Central Link services commenced in March 2017.

Steady progress has been achieved in retrofitting Automatic Platform Gates on the Ma On Shan Line. As of 30 June 2017, 67% of the work was complete, and we anticipate substantial completion by the end of 2017.

Enhancing Customer Experience

We have developed a 2030 Customer Experience Vision Blueprint to define customers' desirable travel experience in light of changes, which includes deploying digitisation to improve customer experience and adding age-friendly facilities. The digitisation initiatives focus on providing more real-time and location-based information and services through our MTR Mobile app. These include in station navigation, train alighting reminders and a self-service enquiry Chatbot service for customers. Our age-friendly facilities focus on improvements in four areas including accessibility, mobility, toilet provision and information provision to cater for the needs of the growing aging population.

Responding to Our Customers

Our passengers are enjoying more frequent and convenient train services, especially on Fridays and at weekends. This follows a new round of train service enhancements that commenced in February 2017, with 148 extra weekly train trips added to the Kwun Tong, Tsuen Wan and Island lines.

We continue to make stations more accessible. A new entrance at Yuen Long Station, connecting it with a neighbouring residential development and shopping mall via a footbridge opened in May 2017. During the first half of 2017, 11 station escalators were refurbished.

Service improvements also continue to be made in response to the changing needs of our customers. Initiatives launched during the first half of 2017 include free mobile device charging service at "i-Centres" located in 13 stations and additional "Free Wi-Fi" hotspots at Lo Wu and Lok Ma Chau stations. In view of the growing popularity of breastfeeding, we plan to introduce breastfeeding-friendly facilities in the staff rest area of 20 interchange stations towards the end of 2017.

The popular 12-month long Happy Birthday • Happy Journey programme concluded on 31 March 2017. Hong Kong Identity Card holders whose birthdays fell on the lucky day drawn each month were eligible to redeem a birthday pack containing a specially designed free one-day pass for unlimited domestic rides on MTR, a HK$50 MTR Malls Gift Voucher and merchant coupons.

Hong Kong Station Commercial Businesses

Highlights

- Positive rental reversions in our station shops
- Re-opened seven shops, in addition to the 31 new shops in stations along the two new lines opened last year

Financial Performance

In the first half of 2017, the financial performance of the Hong Kong station commercial businesses was stable.

HK$ million	Half year ended 30 June **2017**	2016	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**1,935**	1,841	5.1
Advertising Revenue	**479**	498	(3.8)
Telecommunication Income	**315**	274	15.0
Other Station Commercial Income	**59**	82	(28.0)
Total Revenue	**2,788**	2,695	3.5
EBITDA	**2,549**	2,442	4.4
EBIT	**2,202**	2,121	3.8
EBITDA Margin (in %)	**91.4%**	90.6%	0.8% pt.
EBIT Margin (in %)	**79.0%**	78.7%	0.3% pt.

Despite the soft retail environment, station retail revenue for the period increased 5.1% to HK$1,935 million. This reflects an increase in the number of shops following the opening of the extension of the Kwun Tong Line and the South Island Line, continuous trade mix refinements, positive rental reversions and increases in rents in accordance with lease contracts for the Duty Free Shops at Lo Wu and Hung Hom stations.

As at 30 June 2017, there were 1,399 station shops, occupying 57,300 square metres of retail space, an increase of seven shops and 149 square metres compared with 31 December 2016. The increase was mainly due to the re-opening of shops at Nam Cheong, Tin Shui Wai, Tsing Yi and Tsuen Wan West stations which were previously closed for renovation. Renovation works continue at Hung Hom, Kowloon and Tai Po Market stations. To strengthen the "Style to Go" brand positioning of MTR Shops, a new thematic campaign featuring two local artists was launched in first half of 2017. During the period, six new brands were introduced and featured in posters across the network.

Advertising revenue in the first half of 2017 decreased by 3.8% to HK$479 million as the Hong Kong advertising market contracted further. The number of advertising units in stations and trains reached 46,608 by 30 June 2017. To improve our competitiveness, new 65" high-definition LCD digital panels were installed during the period at Hong Kong Station, as well as new giant light box panels at Hong Kong and Lo Wu stations.

Revenue from telecommunications in the first six months of 2017 grew by 15.0% to HK$315 million. The increase was mainly the result of incremental revenue from the newly opened extension of the Kwun Tong Line and the South Island Line, as well as from contract renewals. The first phase of the installation of a new mobile phone network offering increased data capacity and more 4G services was completed at the concourses of seven stations and one tunnel section during the period. The upgrade of Wi-Fi equipment at 84 stations to enhance Wi-Fi service was completed in April 2017.

Hong Kong Property and Other Businesses

Highlights

- Awarded Wong Chuk Hang Station Package One. Acting as agent for KCRC, awarded Kam Sheung Road Station Package One
- Telford Plaza II seventh and eighth floors opened in July
- Rental revenue increased 3.5% but rental reversion recorded a 2.2% drop in our shopping malls in Hong Kong in the first half of 2017

The Hong Kong residential market remained strong on the back of robust demand, despite the introduction of further Government cooling measures and tighter mortgage lending rules. The primary market saw a good recovery, with monthly transactions more than doubling year-on-year from February 2017 onwards, as interest rates remained low and developers offered competitive financing schemes. The secondary market also performed well, with the Mass Centa-City Leading Index ending the period at 161.68, having started the year at 146.16. Secondary transactions recovered to levels seen prior to the introduction of the 15% stamp duty in November 2016, while prices were underpinned by muted supply.

In the commercial sector, Grade-A offices in Central continued to perform well during the first half of 2017. The rent was underpinned by demand from Mainland financial institutions, as well as Mainland and other multinational companies. However, the retail segment continued to feel the impact of lower tourist spending and increased competition from internet-based commerce. The provisional estimate of the total value of retail sales in Hong Kong fell by 0.6% in the first six months of 2017, compared with the same period of 2016.

Property Rental and Management Businesses in Hong Kong

Financial Performance

The financial performance of our Hong Kong property rental and property management businesses is summarised as follows:

	Half year ended 30 June		
HK$ million	**2017**	2016	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**2,296**	2,218	3.5
Revenue from Property Management	**136**	141	(3.5)
Total Revenue	**2,432**	2,359	3.1
EBITDA	**2,088**	1,998	4.5
EBIT	**2,080**	1,989	4.6
EBITDA Margin (in %)	**85.9%**	84.7%	1.2% pts.
EBIT Margin (in %)	**85.5%**	84.3%	1.2% pts.

Property rental revenue saw a 3.5% increase in the period mainly due to rental increases in accordance with existing lease agreements. However, rental reversion in the first six months of 2017 in our shopping mall portfolio in Hong Kong recorded a 2.2% drop. As at 30 June 2017, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre office building remained close to 100% let.

In response to the changing demographics of the eastern side of Hong Kong Island, we are revamping the East Wing of Paradise Mall. In September 2016, a new sports and "well-being" zone was opened on the first floor. In view of the very positive market response to this initiative, the zone will be extended to the second floor of the East Wing. The relevant works are underway, with opening targeted for the final quarter of 2017.

As at 30 June 2017, the Company's attributable share of investment properties in Hong Kong was 212,507 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of offices and 15,267 square metres of property for other use. In July 2017, we opened the converted retail space on the seventh and eighth floors of Telford Plaza II, adding 3,400 square meters of gross floor area ("GFA") to our retail portfolio.

During the first six months of 2017, MTR's property businesses won a number of awards in areas ranging from customer service, to accessibility and the environment. These included a "Certificate of Excellence (Retail Team of the Year)" from the Royal Institute of Chartered Surveyors, and inclusion in the "HKET - Top 10 My Favourite Shopping Mall Awards 2016-2017".

Over the next five years or so our investment properties portfolio in Hong Kong will expand significantly. In addition to the seventh and eighth floors of Telford Plaza II, we will add another 117,220 square metres GFA to our retail portfolio, increasing attributable GFA by approximately 40%. For the Maritime Square extension, structural work is complete and statutory inspection is in progress. Over 90% of the space has been leased out and we target for progressive opening of new shops starting in the fourth quarter of 2017. Foundation and superstructure works for the new LOHAS Park shopping centre and Tai Wai shopping centre are in progress, and their opening is targeted for the second half of 2020 and 2022 respectively.

Hong Kong property management revenue in the first six months of 2017 decreased by 3.5% to HK$136 million, mainly due to lower Octopus access system project income. As at 30 June 2017, 96,066 residential units and over 758,000 square metres of commercial space were managed by MTR.

Property Development in Hong Kong
Profit from Hong Kong property development in the first half of 2017 was modest at HK$622 million, and was derived from sundry sources, such as agency fee income from West Rail property developments (including Cullinan West, Ocean Pride, THE PAVILIA BAY and the Spectra), the sale of inventory units, as well as further profit bookings arising from the finalisation of development accounts in respect of certain property development projects.

For West Rail projects, acting as agent for the relevant subsidiaries of KCRC, we launched a number of presales during the period. THE PAVILIA BAY (the Tsuen Wan West Station (TW6) site) was launched in January 2017, with about 97% of 983 units sold up to the end of July 2017. In March 2017, Cullinan West at Nam Cheong Station was launched, with 92% of 1,050 units sold up to the end of July 2017, while May and July 2017 saw the launches of Ocean Pride and Ocean Supreme (the Tsuen Wan West Station (TW5) Bayside site), with 98% of 970 units and 50% of 1,436 units sold respectively up to the end of July 2017. Pre-sales also continued at the Spectra (the Long Ping Station (North) site), with 96% of 912 units sold up to the end of July 2017.

In our property tendering activities, Wong Chuk Hang Station Package One was awarded to a consortium formed by Road King Infrastructure Limited and Ping An Real Estate Company Limited in February 2017. As agent for the relevant subsidiary of KCRC, in May 2017 we awarded Kam Sheung Road Station Package One to a consortium formed by Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited.

Over the past three and a half years or so, 11 MTR property development packages have been tendered out and are now in various stages of planning and construction. They will provide about 18,000 residential units, with a total GFA of over 1.1 million square metres, when completed over the next three to five years.

We continue to examine opportunities to develop property along our railway lines. Above our depot in Siu Ho Wan on Lantau Island around 14,000 residential units could be built, given the necessary zoning and other statutory approvals. MTR has completed the Environmental Impact Assessment and the reports were submitted to the Environmental Protection Department in May 2017 for approval. The Environmental Impact Assessment reports were exhibited for public inspection in July 2017. The statutory planning procedures are expected to commence later in the year. The rezoning process for a second site, the Yau Tong Ventilation Building, was completed in April 2017. The road gazetting procedure commenced in May 2017 and is expected to be complete in October 2017 at the earliest. At this preliminary stage there can be no assurance that either project would be commercially viable.

Other Businesses

The Ngong Ping Cable Car was closed between 9 January and 4 June 2017 for rope replacement works. During the rope replacement, the associated theme village remained open to the public. Cable Car service resumed on 5 June 2017. Affected by the works, revenue at the Ngong Ping Cable Car and associated theme village ("Ngong Ping 360") decreased by 75.0% in the first six months of 2017 to HK$47 million. Visitor numbers for the period fell by 83% to about 140,000. In June 2017, Ngong Ping 360 was recognised by USA Today as one of "The World's 10 best cable cars". Ngong Ping 360 is the only cable car in Asia to have gained this status three times, following similar awards from CNN.com in the US in 2015 and The Daily Telegraph in the UK in 2014.

The Company's share of net profit from Octopus Holdings Limited in the first half of 2017 decreased by 39.3% to HK$88 million. As at 30 June 2017, more than 9,000 service providers in Hong Kong were accepting Octopus for payment. Total cards and other stored-value Octopus products in circulation reached 33.7 million. Average daily transaction volumes and value reached 14.3 million and HK$188.4 million respectively.

New measures for the newly issued On-Loan Adult Octopus were announced in June 2017 and will become effective starting from 1 October 2017. The "convenience limit" for newly issued On-Loan Octopus will be increased from HK$35 to HK$50 to enhance customer convenience, while an "Inactive Octopus Administrative Fee" applicable to newly issued On-Loan Adult Octopus will be introduced to encourage regular use.

We continue to leverage our experience as one of the world's leading railway operators to offer consultancy services to clients in and outside of Hong Kong. Revenue from our consultancy business in the first half of 2017 increased by 106.0% to HK$171 million, mainly due to the contributions from our contract to provide management and technical assistance to the Macau light rail project, which is progressing smoothly.

Hong Kong Network Expansion

Highlights

- Express Rail Link - 94.3% complete. Target completion remains in the third quarter of 2018
- Shatin to Central Link - 75.1% complete. Target completion remains mid-2019 for the East West Corridor and 2021 for the North South Corridor
- RDS 2014: three proposals submitted to Government; two more in progress

With the opening of the extension of the Kwun Tong Line and the South Island Line, our Hong Kong rail network has expanded from 220.9 km to 230.9 km. Over the coming years, the two remaining new railway projects under construction, namely the Express Rail Link and Shatin to Central Link, will add another 43 km route length to the overall Hong Kong rail network.

New Rail Projects Entrusted to MTR by Government

Express Rail Link

The 26-km Express Rail Link will provide high-speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. It will be served by the approximately 400,000 square metre (usable floor area) West Kowloon Terminus ("the Terminus"), one of the largest underground high-speed rail stations in the world.

As at 30 June 2017, the project was 94.3% complete overall, with civil works at the Terminus 91% complete and all tracks in tunnels laid and overhead lines substantially energised. Installation of the tracks and overhead lines for ten tracks in the Terminus was also substantially complete. Statutory inspection of the southern portion of the Terminus by the Fire Services Department commenced in May 2017. The signalling and communication systems of the Hong Kong and Mainland sections were connected on 5 July 2017. The third high-speed train was delivered in July 2017 to Hong Kong from the factory in Qingdao via the high-speed rail network. This was the first time delivery had been undertaken by rail and is a milestone for the project. Since then, two more trains have been delivered by rail. Installation of the glass panels for the iconic roof of the Station Entrance Building is scheduled for completion in the third quarter of 2017.

The target opening date of the Express Rail Link remains the third quarter of 2018. We are in discussion with Government regarding the future operation and maintenance of the line.

The Company's project management responsibilities are set out in two Entrustment Agreements with Government. The Entrustment Agreements cover, among other things, preliminary and detailed design, site investigation, completion of detailed design and construction and commissioning into service of the Express Rail Link.

The XRL Agreement relating to the further funding arrangements for the project was approved by the Company's independent shareholders on 1 February 2016 and became unconditional upon approval by the Finance Committee of the Legislative Council of the HKSAR ("LegCo") on 11 March 2016 of Government's additional funding obligations.

<u>Shatin to Central Link</u>
The ten-station 17-km Shatin to Central Link connects existing railway lines to form an East West Corridor (Tai Wai to Hung Hom) and a North South Corridor (Hung Hom to Admiralty) with six interchange stations, creating vital new links across Hong Kong. Overall, the project was about 75.1% complete by 30 June 2017, with the East West Corridor and North South Corridor being 89.1% and 54.6% complete respectively.

For the East West Corridor, track laying works had been completed and station structure works were substantially complete as of 30 June 2017. Steady progress is being made on the electrical and mechanical ("E&M") works at these stations.

For the North South Corridor, three out of four tunnel drives between Causeway Bay, Exhibition Station and Admiralty Station had been completed by the end of the first half of the year. Following the completion of the piling works at the Hung Hom marine cofferdam and underwater trench dredging works in Victoria Harbour, the first two of the 11 immersed tubes of the cross-harbour rail tunnel were installed on the seabed in the vicinity of Causeway Bay Typhoon Shelter in July 2017.

Good progress has been made on tunnel excavation in the North South Corridor and construction work for the diaphragm walls of Exhibition Station is progressing. Due to space limitation in Wan Chai North, temporary traffic management schemes are being implemented at different stages along Convention Avenue, Fleming Road and Expo Drive to create additional works areas. Exhibition Station, which has been affected by the late site handover, incomplete entrusted works by other parties and unforeseen ground conditions, was about 40% complete at the end of June 2017.

Admiralty Station will become a major interchange hub for the Shatin to Central Link, Island, Tsuen Wan and South Island lines. Upon commissioning of the South Island Line in late December 2016, the works site for the future Shatin to Central Link platforms and concourse at Admiralty Station was handed over to the Shatin to Central Link project team. Civil and building services works on these platforms and concourse areas commenced in January 2017. The excavation of the overrun tunnel for the North South Corridor at Admiralty Station was completed in June 2017, signifying the completion of all tunnel blasting works for the Shatin to Central Link.

As part of the North South Corridor, the existing East Rail Line will be re-signalled. The phased testing of the new signalling systems with East Rail Line trains began in October 2016 during non-service hours and we target the works to be completed towards the end of 2018 or in early 2019.

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

For both the East West Corridor and the North South Corridor, our project teams continue to work diligently to explore and implement measures to improve progress and recover delays caused by external events and third parties.

The funding for construction of the Shatin to Central Link is set out in two Entrustment Agreements with Government. The Entrustment Agreement for Advance Works Relating to the Shatin to Central Link ("SCL Advance Works Entrustment Agreement") relates to advance works for the line predominately undertaken at Admiralty and Ho Man Tin stations. The subsequent agreement, the Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link ("SCL Entrustment Agreement") relates to funding for the construction and commissioning of the Shatin to Central Link.

In December 2016, the Company completed its review for the project cost estimate of the works under the SCL Advance Works Entrustment Agreement and notified Government of the Company's revised estimate for the entrustment cost. In January 2017, Government submitted the application for additional funding to the Public Works Subcommittee of LegCo. The additional funding was approved by the Finance Committee of LegCo in June 2017.

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

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

New Railway Projects Under Discussion
Beyond the two remaining Rail Gen 2.0 new rail projects under construction, Government has identified seven additional rail projects to be implemented under RDS 2014. Government has invited us to submit project proposals for five of these projects, namely the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station), the East Kowloon Line, the Tung Chung West Extension (and Tung Chung East Station) and the North Island Line.

After submission of the proposal at the end of last year, discussion with Government on the Tuen Mun South Extension is now underway. The project proposal for the Northern Link (and Kwu Tung Station), which will connect the West Rail Line and the Lok Ma Chau Spur Line of the East Rail Line, was submitted in March 2017 and the project proposal for the East Kowloon Line was submitted in July 2017. The engineering consultancy for the technical study for the proposed Tung Chung West Extension (and Tung Chung East Station) has commenced. We target to submit this proposal, followed thereafter by the proposal for the North Island Line, in 2018.

In the fourth quarter of 2016, Government released the consultation document "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030", which updates the territorial development strategy promulgated in 2007. The document supports the expansion of the public transport network, with rail as the backbone, and two additional transport corridors are proposed. These are the "Northwest New Territories – Lantau – Metro Transport Corridor" in Hong Kong West and the "North–South Transport Corridor" connecting the north-eastern New Territories with Kowloon. The former has the potential to be a major rail corridor in the longer term.

Mainland of China and International Businesses

Highlights
- Our 30% associate First-MTR was awarded the South Western rail franchise in the UK
- Concession Agreement signed for the HZL5 PPP project

Financial Performance
The financial performance of the Mainland of China and international businesses is summarised below:

	Half year ended 30 June		
HK$ million	**2017**	2016	Inc./(Dec.) %
Mainland of China Businesses			
Railway, Property Rental and Property Management subsidiaries			
Total Revenue	**379**	398	(4.8)
EBITDA	**76**	93	(18.3)
EBIT	**72**	89	(19.1)
Property Development subsidiary			
Total Revenue	**6,844**	-	N/A
EBITDA	**2,186**	(27)	N/A
EBIT	**2,186**	(27)	N/A
Share of profit of associates	**94**	112	(16.1)
International Businesses			
Railway subsidiaries			
Total Revenue	**7,545**	6,128	23.1
EBITDA	**350**	286	22.4
EBIT	**288**	231	24.7
Share of (loss)/profit of associates	**(2)**	40	N/A

HK$ million	Half year ended 30 June **2017**	2016	Inc./(Dec.) %
Total EBITDA	**2,612**	352	642.0
Total EBIT	**2,546**	293	768.9
Total EBITDA Margin (in %)	**17.7%**	5.4%	12.3% pts.
Total EBIT Margin (in %)	**17.2%**	4.5%	12.7% pts.
EBIT from Mainland of China and International Railway, Property Rental and Management Subsidiaries net of non-controlling interest plus share of profit from railway associates (before interest and tax)	**639**	599	6.7
Number of passengers carried by our railway subsidiaries and associates outside of Hong Kong (in million)	**908**	884	2.7

In the Mainland of China businesses, the operating profit from our railway, property rental and property management subsidiaries decreased, mainly due to higher operating expenses at Shenzhen Metro Line 4 ("SZL4"). With the hand-over of high-rise and podium units in Tiara in Shenzhen, the sales proceeds and related costs were booked in the first half of 2017. The decrease of share of profit of associates was mainly due to the expenses of Beijing Metro Line 16 ("BJL16"), which commenced service in December 2016. In our International businesses, the increase in operating profit from our railway related subsidiaries was mainly due to the incremental contribution from our new franchise, MTR Pendeltågen AB in Sweden, which we took over in December 2016. The decrease in share of profit of associates was mainly due to the end of the concession for London Overground Rail Operations Ltd ("LOROL") in November 2016, as well as the start-up costs of First MTR South Western Trains Limited.

Railway Businesses in the Mainland of China

Beijing

In Beijing, our 49% associate Beijing MTR Corporation Limited ("BJMTR") operates four lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14") and the Northern Section of BJL16.

On-time performance in the first six months of 2017 averaged 99.9% across the four lines. For the period, the combined ridership of BJL4 and the Daxing Line was about 218 million passenger trips and average weekday patronage was more than 1.3 million, increases of 3% and 4% respectively over the same period last year.

The first three phases of BJL14 are now in service, with the opening of the station at Chaoyang Park in December 2016. The three phases of BJL14 recorded a combined 105 million passenger trips and average weekday patronage of about 662,000 in the first six months of 2017.

BJL16 is a PPP project and operation of the first phase, the 19.6 km Northern Section, began on 31 December 2016. In the first six months of 2017 it recorded 11 million passenger trips and average weekday patronage of about 67,000. Full line operation, which will mark the start of the service concession, is targeted after 2018.

Shenzhen

SZL4, operated by MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), achieved satisfactory operational performance during the first half of 2017. Patronage rose by 3% to about 98.5

million for the period, with average weekday patronage reaching 550,000. On-time performance remained at a very high level of 99.9% for the period.

Although patronage has continued to increase on SZL4, there has been no increase in fares since we started operating the line in 2010. Unlike our rail businesses in Beijing and Hangzhou, MTR(SZ) does not benefit from a shadow fare subsidy mechanism. We understand that discussions continue within the Shenzhen Municipal Government regarding fare adjustments. If appropriate fare adjustments are not implemented soon, the long-term financial viability of SZL4 is expected to be impacted.

Our consultancy company in Shenzhen entered into a project management agreement to supervise the construction of the Northern Extension of SZL4, which will be financed by the Shenzhen Municipal Government. Works are generally progressing on schedule.

Hangzhou

Our 49% associate in Hangzhou, Hangzhou MTR Corporation Limited ("HZMTR"), operates Hangzhou Metro Line 1 ("HZL1"). Patronage on this line continues to grow and in the first half of 2017 saw a 11% increase to 107.1 million, with average weekday patronage running at 591,000. Operational performance was high, with on-time train performance at 99.9% for the period.

The Concession Agreement for HZL5, another PPP project, was signed by the Company with the Hangzhou Municipal Government and Hangzhou Metro Group on 26 June 2017. The 51.5 km HZL5 is an underground metro line running from Xiangzhanglu Station in Xiaoshan District to Kejidao Station in Yuhang District, with a total of 38 stations. It is expected to enter service around the end of 2019.

The construction of the HZL5 project is divided into Part A and Part B. Part A relates to the line's civil construction and Part B covers E&M systems. Hangzhou Metro Group is responsible for the investment in, and construction of, Part A. We and Hangzhou Metro Group are finalising the details for forming a joint-venture company ("JV Company") to undertake the investment in, and construction of, Part B, as well as the operations and maintenance of HZL5 for 25 years after commencement of passenger service. The JV Company will invest approximately RMB 10.9 billion for the Part B portion of HZL5. This investment will be financed by the JV Company through a combination of non-recourse borrowings from banks (currently estimated at around 60% of the total investment) and equity capital from shareholders (40% of the total investment). Although the shareholding of the JV Company is being finalised, MTR's equity investment is expected not to exceed RMB2.62 billion.

Property Businesses in the Mainland of China

Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1 saw the previously sold high-rise residential units, which form the vast majority of the development, handed over to buyers in June 2017. The project has a total developable GFA of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA), which is scheduled to open in late 2018, subject to government approval. Profits were booked in the first half of the year upon the handover of the sold units.

In 2016, we signed a Cooperation Framework Agreement with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and BJMTR to conduct joint preliminary studies on the integrated development of selected existing station and depot sites along BJL4 and the Daxing Line. Studies have commenced, with a focus on an above-depot development. We also signed a Memorandum of Understanding ("MoU") with BIIC in January 2017 to extend the strategic co-operation to other, predominantly rail-related property development projects in Beijing in addition to investment in, construction and operation of other railway projects.

In Tianjin, our 49% owned associate, Tianjin TJ-Metro MTR Construction Company Limited ("TJMTR"), is involved in the development of the Beiyunhe Station project on Tianjin Metro Line 6. The project includes composite development of retail, office and residential properties.

In March 2017, a framework agreement was signed with a subsidiary of Beijing Capital Land for the disposal of our 49% interest in TJMTR, and the conditional future acquisition of a shopping centre to be developed on the Beiyunhe Station site. Relevant government approval was obtained for the disposal of our 49% interest in July 2017.

We are in active discussions with local governments and metro operators in Guangdong Province to explore rail and property development opportunities around stations and depots to leverage our experience and track record in Shenzhen and Hong Kong.

Significant revenue and profit increases were recorded for our property development businesses in the Mainland of China due to development bookings related to Tiara. However, revenue from our property rental and property management businesses in the Mainland of China decreased by 8.3% to HK$66 million in the first half of 2017, as compared with the corresponding period of last year, mainly due to the cessation of the property management service provided to the North Star Paseo Mall in February 2017. The Company also manages self-developed and other third party properties in the Mainland of China which, as at 30 June 2017, had a total GFA of 390,000 square metres. Our shopping mall in Beijing, Ginza Mall, is undergoing a partial revamp and was 99% occupied (excluding the revamp area) as at 30 June 2017.

European Railway Businesses

United Kingdom

MTR Corporation (Crossrail) Limited, operating under the "TfL Rail" brand-name, is providing the initial phase of Crossrail services devolved from the previous Greater Anglia franchise covering 14 stations. The operational performance on the line has been maintained at a high level and in June 2017, the first of 66 new trains came into operation. Crossrail will be renamed the "Elizabeth Line" when the tunnel section through central London is completed and becomes operational, targeted for late 2018. When the fully integrated line is in service in 2019, it will serve 40 stations with a route length of 118 km.

Also in the UK, as a minority 30% shareholder, we partnered with FirstGroup plc to submit a bid in 2016 for the South Western rail franchise. The bid was successful, with the tender awarded to First MTR South Western Trains Limited in March 2017. Preparations are in progress for the take-over of the franchise later in August 2017.

We have, in addition, pre-qualified to bid for the Wales and Borders rail franchise. At the invitation of the Welsh Government we are engaged in the Competitive Dialogue phase of the process, with the formal tender expected in the second half of 2017. We have also partnered with Guangshen Railway Company Limited, an associated company of China Railway Corporation and have been shortlisted to bid for the West Coast Partnership franchise in the UK. The franchisee will be responsible for operating railway services on the West Coast Main Line from April 2019, and will design and operate the initial high speed services between London and Birmingham on the new High Speed Two.

We are also exploring property development opportunities over and around rail stations in the UK to leverage off MTR's "rail plus property" capability.

Sweden

MTR is now the largest rail operator in Sweden in terms of passenger volume, with three key businesses; Stockholm Metro, MTR Express and Stockholms pendeltåg.

The operational performance of the Stockholm metro in the first six months of 2017 was steady. Ridership for the period was estimated at 179 million and average weekday patronage at 1.3 million. MTR Tech AB, which carries out rolling stock maintenance for the Stockholm metro, also performed satisfactorily and was awarded the contract for a mid-life upgrade programme for part of the metro fleet.

The MTR Express service between Stockholm and Gothenburg has continued to deliver best-in-class operational and customer service performance, once again making it the best rail operator in the Swedish Quality Index 2017. Weekly departures have been increased to 100 per week since December 2016 to strengthen our service offering and cater for expected demand.

Our wholly-owned subsidiary MTR Pendeltågen AB began operating the Stockholms pendeltåg service in December 2016 under a concession that runs for ten years, with an option to extend for four more years. This concession includes the maintenance of rolling stock undertaken by Emtrain AB, a 50% owned associate with EuroMaint Rail AB. Stockholms pendeltåg serves the greater Stockholm area, with 53 stations and a total route length of 241 km. The operating performance and patronage in the first six months of 2017 were satisfactory, with record high customer satisfaction levels achieved.

Our bid for the Skåne county commuter rail ("Pågatåg") concession which was submitted in December 2016, was unsuccessful; however, MTR received the best quality scoring out of all the seven bidders.

With the upcoming privatisation of a number of Norwegian rail services, we are actively pursuing rail operating concession opportunities in Norway.

We are also looking into property development opportunities over and around rail stations in Sweden. We were shortlisted in June 2017 by the local government of Upplands Väsby to proceed further with negotiations regarding our possible participation in a redevelopment project around one of the Pendeltågen stations. The result is expected to be announced in 2018.

Australian Railway Businesses

In Melbourne, the performance of our 60% owned subsidiary Metro Trains Melbourne Pty. Ltd. ("MTM"), which operates the Melbourne metro network, was steady in the first six months of 2017. This concession ends in November 2017 and in December last year MTM submitted a proposal to the Government of Victoria to extend the concession for an additional seven years, with a three years extension option. The result should be known by September 2017.

In Sydney, MTR is a member of a consortium which is responsible for the design, construction and financing, as well as the future operations and maintenance of the Sydney Metro North West ("SMNW") PPP project. All design work for the SMNW PPP project has been substantially completed. Construction works for the depot and stations, as well as pre-operational planning for the project are progressing as planned. The first train is expected to be delivered to Sydney in September 2017.

Sydney Metro City and Southwest ("SMCSW") is a 30-km extension of SMNW. Construction of the early works by Transport for New South Wales ("TfNSW") commenced in 2017 and the line is targeted to open in 2024. MTR is exploring potential participation in the SMCSW project. MTR / Northwest Rapid Transit Consortium / Plenary Origination Pty Ltd ("NRT Parties") submitted a non-binding initial proposal to TfNSW in March 2017 for their evaluation of NRT Parties' potential participation in the SMCSW project. TfNSW's evaluation of the initial proposal is ongoing.

Financial Review

Profit and Loss

In the first half of 2017, the Group recorded a substantial 40.8% increase in revenue to HK$30,004 million, reflecting mainly the contributions from Tiara, the operation of the Stockholms pendeltåg service by MTR Pendeltågen AB since December 2016 and the growth in passenger volume from the new lines in Hong Kong.

Operating profit from recurrent businesses (being operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment) increased by 2.4% to HK$9,046 million. The increase was mainly due to the increase in fare revenue in Hong Kong, and rental income growth of our shopping malls, station shops and Duty Free Shops in Hong Kong. The increase was partly offset by higher costs of our Hong Kong Transport Operations mainly due to increased staff costs and train trips, as well as lower revenue from Ngong Ping 360 due to the service suspension of the Ngong Ping Cable Car from 9 January 2017 to 4 June 2017 to carry out rope replacement. Operating margin from recurrent businesses decreased by 2.4 percentage points to 39.1%, mainly due to the continuing investment into our Mainland of China and international businesses and the service suspension of Ngong Ping Cable Car. Excluding the Company's Mainland of China and international subsidiaries, operating margin from recurrent businesses decreased by 0.6 percentage point to 56.6%.

Hong Kong property development profit was HK$622 million, derived from sundry income sources such as the agency fee income from the West Rail property developments (including Cullinan West, Ocean Pride, THE PAVILIA BAY and the Spectra) and sales of inventory units, as well as further surplus proceeds arising from the finalisation of development costs in respect of certain property development sites.

Operating profit from our Mainland of China property development was HK$2,186 million, derived predominantly from profit recognition of the high-rise units handed over at Tiara which comprised the vast majority of the development.

Depreciation and amortisation charges increased by 19.0% to HK$2,390 million, mainly due to the opening of the extension of the Kwun Tong Line and the South Island Line in the last quarter of 2016. Variable annual payment to KCRC increased by 5.5% to HK$915 million as the incremental revenue was charged at the top progressive rate of 35%.

After taking into account Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment, operating profit before interest and tax therefore increased by 38.9% to HK$8,549 million.

Interest and finance charges were HK$403 million, representing an increase of 50.4% over the same period in 2016 due to interest cost relating to the extension of the Kwun Tong Line and the South Island Line which, when the lines opened at the end of 2016, can no longer be capitalised. Investment property revaluation gain amounted to HK$1,632 million. Our share of profit from Octopus Holdings Limited decreased by 39.3% to HK$88 million. Our share of profit from other associates was HK$92 million, a decrease of 39.5% as compared with the same period in 2016. The decrease was primarily due to lower contributions from LOROL as the concession ended in November 2016.

Net profit attributable to shareholders, after deducting income tax of HK$2,425 million and profits shared by non-controlling interests of HK$53 million, increased by 46.1% to HK$7,480 million in the first half of 2017. Earnings per share therefore increased 46.0% from HK$0.87 to HK$1.27. Excluding investment property revaluation, which is a non-cash accounting adjustment, the underlying profit attributable to shareholders increased by 15.3% to HK$5,848 million, with underlying earnings per share of HK$0.99. Within this total, our recurrent profit decreased by 8.0% to HK$4,478 million, while post-tax property development profits increased from HK$207 million to HK$1,370 million.

Statement of Financial Position

Our financial position remains strong. The Group's net assets increased by HK$3,139 million from HK$149,556 million as at 31 December 2016 to HK$152,695 million as at 30 June 2017.

Total assets increased by HK$5,151 million to HK$262,491 million, mainly due to the increase in cash balances in preparation for dividend payments in July 2017 and the increase in fixed assets arising from renewal and upgrade works for our existing Hong Kong railway network and revaluation gain on investment properties. The increase was partly offset by the decrease in property development in progress upon profit recognition of Tiara. Total liabilities increased by HK$2,012 million to HK$109,796 million. This was mainly due to the accrual for 2016 final ordinary dividend and the increase in total borrowings. The increase in total liabilities was partly offset by the decrease in creditors and accrued charges as a result of the sales proceeds of Tiara previously received and accounted for as creditors now being recognised in the profit and loss account. The Group's net debt-to-equity ratio decreased from 20.2% at 31 December 2016 to 17.7% at 30 June 2017.

Cash Flow

Net cash generated from operating activities was HK$8,964 million in the first half of 2017. Receipts from property developments were HK$452 million, a decrease of HK$4,610 million compared to the same period in 2016, mainly due to substantial cash receipts in 2016 from the Tiara development. Including other cash receipts of HK$195 million primarily from the proceeds of share issuance under our share option scheme, net cash receipts amounted to HK$9,611 million in the first half of 2017.

Total capital expenditure was HK$4,080 million. This comprised HK$2,310 million for the purchase of assets for our Hong Kong existing railways and related operations, HK$801 million for the settlement of payables relating to the Hong Kong railway extension projects, HK$676 million for investment in Hong Kong property related businesses and HK$293 million for investment in Mainland of China and overseas subsidiaries. Total capital expenditure was lower than the same period in 2016 by HK$1,177 million due to higher capital expenditure in 2016 for our Hong Kong railway extension projects.

The Group also paid HK$1,787 million in variable annual payment to KCRC in accordance with the Service Concession Agreement with KCRC. Taking into account other payments, total cash outflow amounted to HK$6,292 million in the first half of 2017.

Therefore, net cash inflow before financing amounted to HK$3,319 million. Including the cash inflow from net borrowings of HK$2,097 million and the effect of exchange rate changes on cash position in foreign currencies, the Group's cash balance increased by HK$5,718 million to HK$26,008 million at 30 June 2017.

Financing Activities

The US Federal Reserve raised the federal funds target rate by 25 basis points in March and another 25 basis points in June 2017 on the back of steady economic recovery. Despite these hikes, long-term interest rates fell after their rapid rise following the US presidential election last year, with 10-year and 30-year US treasury yields dropping from 2.44% and 3.07% at the beginning of the year to 2.30% and 2.83% respectively as at 30 June 2017. With ample liquidity, Hong Kong dollar interest rates fell even more, with the 10-year swap rate dropping from 2.63% to 2.05%.

Taking advantage of the attractive interest rate environment, the Group issued a number of Hong Kong dollar, Australian dollar and US dollar fixed rate notes totalling HK$4 billion with maturities ranging from 5 – 30 years through private placements. Amongst these was the Group's debut issuance of a 10-year AU$115 million Green medium term note ("MTN"), the first-ever such privately placed offshore green MTN issuance in Asia. The exposure to Australian dollars under the Green MTN was fully swapped into Hong Kong dollars with a cross currency swap.

During the first half of 2017, the weighted average cost of borrowing of the Group decreased from 3.1% p.a. to 2.5% p.a. compared with the same period last year. The lower weighted average cost of borrowing was mainly due to a higher mix in the Company's borrowings of floating rate loans which carried lower interest rates than fixed rate borrowings.

Moody's downgraded the credit rating of the Company from Aa1 to Aa2 in May following the same rating action on Hong Kong SAR Government. The Company's credit rating assigned by Standard and Poor's remained at AAA, on par with the Hong Kong SAR Government.

Human Resources

The Company, together with its subsidiaries, employed 17,748 people in Hong Kong and 10,305 people outside of Hong Kong as at 30 June 2017. Our associates employed an additional 10,182 people in and outside of Hong Kong.

People are our most valuable asset and we strive to support the development of our talent in line with the growth of our business. We foster their talents and unlock their potential by providing comprehensive training and development programmes covering customer services, operational and management skills. We also offer opportunities for personal growth and career development. In the first half of 2017, we provided an average of 3.4 training days for each employee in Hong Kong. We value the views of our colleagues, and conducted more than 4,000 staff communication sessions during the period, including those setting out the results of our first global Staff Engagement Survey, which was launched in November 2016. The survey demonstrated that we have an engaged management team around the globe and that staff engagement in Hong Kong remains high.

Our workforce is stable, with the staff turnover rate in Hong Kong remaining low at 3.6% during the first six months of 2017. In the period, we received several awards recognising our human resources practices and our commitment to inspiring, engaging and developing our people. At the "Randstad Employer Brand Awards 2017", MTR was named as the most attractive employer in Hong Kong, marking the fifth year in a row we have been included among the top five and the second time we have achieved first place. The Company was also honoured with five awards - Silver Awards for "Best Career Website" and "Best Recruitment Evaluation Technique", Bronze Awards for "Best Graduate Recruitment Programme", "Best On-boarding Experience" and "In-House Recruitment Team of the Year" – at the "Asia Recruitment Awards 2017" organised by Human Resources Magazine, for our achievements in talent acquisition and management.

In support of our business growth outside of Hong Kong, a robust manpower resourcing strategy has been formulated for our Mainland of China and international businesses. Proactive manpower planning is also in place to cater for the needs of our global businesses.

We have also been collaborating closely with our Mainland of China and international hubs in driving global talent mobility and development. A growing number of candidates in our leadership pipeline in Hong Kong are being assigned to business locations such as Beijing, Hangzhou, Shenzhen, the UK, Sweden and Australia. We will continue to explore opportunities for our international talent to work in our headquarters or other hubs in support of our corporate people development plan.

MTR Academy

The MTR Academy ("MTRA") was officially opened in November 2016. It aims to become a globally recognised railway management and engineering centre that offers high quality programmes that extend our rail expertise from Hong Kong to the Mainland of China, as well as "Belt and Road" countries.

MTRA has signed MoUs with several tertiary institutions in Hong Kong and overseas, collaborating in the development of joint programmes. It also provides professional support for organisations in various countries. Of particular significance is the MoU with MRT Jakarta, which is seeking support for its development of Indonesia's first mass transit system. MTRA also offers accredited programmes and short courses to nurture the next generation of railway professionals for the community. Since the establishment of MTRA in November 2016, over 600 participants from Hong Kong and overseas have been attending these programmes and short courses.

Outlook

The outlook for the global economy remains uncertain. Although economic growth has picked up in 2017, political and economic challenges remain, with the prospect of further US interest rate hikes in the second half of the year. The outlook for Hong Kong's economy remains cautious, despite a slight recovery in tourist arrivals and a more moderate decline in retail sales since the start of the year.

Our Hong Kong transport business is defensive by nature, and the full year of operation of the extension of the Kwun Tong Line and the South Island Line will continue to contribute to passenger volume. However, the opening of these two lines will significantly increase depreciation and interest expenses, negatively impacting reported profit. Rental reversions at our station retail and property rental businesses will depend upon market conditions, while our advertising business is more susceptible to the economic environment. After the opening of the seventh and eighth floors of retail space in Telford Plaza II, we target for progressive opening of new shops in our new mall extension in Maritime Square starting in the fourth quarter of 2017, adding to our shopping centre portfolio.

Profit from Hong Kong property development will continue to be modest in the final six months of the year, as there are no new MTR developments scheduled to receive Occupation Permit and hence profit booking. Recently there have been further increases in land supply from both the Government and, particularly, the private sector through lease modifications. Therefore in light of these market changes, over the next six months, subject to market conditions, we aim to tender out one development package, which will be our second package at Wong Chuk Hang Station.

The 2017 financial performance of our businesses outside Hong Kong will be supported by a full year contribution from the Stockholms pendeltåg, as well as an initial contribution from the new South Western rail franchise in the UK starting in August 2017. In Australia, the results of the extension of the existing MTM concession are expected to be announced by September 2017.

Finally, I wish to thank all my colleagues at MTR for their hard work, dedication and professionalism in pursuit of our common vision. They embody the spirit of the Company and are truly the heroes of MTR.

By Order of the Board
Lincoln Leong Kwok-kuen
Chief Executive Officer

Hong Kong, 10 August 2017

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 25 August 2017 to 30 August 2017 (both dates inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for the 2017 interim dividend, all transfer documents, accompanied by the relevant share certificates, have to be lodged for registration 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 no later than 4:30 p.m. (Hong Kong time) on 24 August 2017. The 2017 interim dividend, with a scrip dividend option (except for shareholders with registered addresses in New Zealand or the United States of America or any of its territories or possessions), is expected to be distributed on 13 October 2017 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 30 August 2017.

As at the date of this announcement:

Members of the Board: Professor Frederick Ma Si-hang *(Chairman)* **, Lincoln Leong Kwok-kuen *(Chief Executive Officer)*, Andrew Clifford Winawer Brandler*, Pamela Chan Wong Shui*, Dr Dorothy Chan Yuen Tak-fai*, Vincent Cheng Hoi-chuen*, Anthony Chow Wing-kin*, Dr Eddy Fong Ching*, James Kwan Yuk-choi*, Lau Ping-cheung, Kaizer*, Lucia Li Li Ka-lai*, Alasdair George Morrison*, Abraham Shek Lai-him*, Benjamin Tang Kwok-bun*, Dr Allan Wong Chi-yun*, Johannes Zhou Yuan*, James Henry Lau Jr (Secretary for Financial Services and the Treasury)**, Secretary for Transport and Housing (Frank Chan Fan)**, Permanent Secretary for Development (Works) (Hon Chi-keung)** and Commissioner for Transport**

Members of the Executive Directorate: Lincoln Leong Kwok-kuen, Jacob Kam Chak-pui, Margaret Cheng Wai-ching, Morris Cheung Siu-wa, Peter Ronald Ewen, Herbert Hui Leung-wah, Adi Lau Tin-shing, Gillian Elizabeth Meller, Linda So Ka-pik, David Tang Chi-fai, Philco Wong Nai-keung and Jeny Yeung Mei-chun

* *independent non-executive Director*
** *non-executive Director*

This announcement is made in English and Chinese. In case of any inconsistency, the English version shall prevail.