CEO's Review of Operations and Outlook

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Dear Shareholders and other Stakeholders,

Despite a more challenging environment, MTR's businesses made steady progress in the first half of 2016, both in Hong Kong and outside of Hong Kong. Further milestones were also achieved in the four railway expansion projects in Hong Kong, a highlight of which were the approvals, both by our independent shareholders and the Finance Committee of the Legislative Council of the HKSAR ("LegCo"), relating to the agreement ("XRL Agreement") with Government regarding the further funding arrangements of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link").

Revenue growth from our Hong Kong transport operations benefited from a moderate passenger volume increase and fares adjusted in accordance with the Fare Adjustment Mechanism ("FAM"). Station commercial revenue increased, due mainly to positive rental reversions and an increase in rent from Duty Free Shops. Our property rental businesses in Hong Kong continued to benefit from positive rental reversions. Revenue from our Mainland of China and international rail subsidiaries increased mainly as a result of incremental contributions from new operations. As expected, property development profits were modest and in our property tendering activity, we awarded one property development package during the period, our tenth package at LOHAS Park.

Our service performance in Hong Kong remained at world-class levels, with train service delivery and passenger journeys on-time in our heavy rail network both maintained at 99.9% during the six-month period. Furthermore, there were only three delays in our heavy rail network and one delay in our light rail network which lasted for 31 minutes or more attributable to factors within MTR's control. Safety performance remained excellent, with incremental improvement achieved over an already world-class safety standard.

The Company's fares are adjusted based on the FAM, which provides a transparent and objective method for adjusting fares. It has resulted in our Hong Kong fare structure being ranked in the most affordable quartile of the relevant international benchmark while maintaining world-class service performance. In April 2016, the Board agreed to commence an early joint review of the FAM as requested by Government, thereby advancing the next scheduled review by one year.

The Company's growth strategy encompasses both Hong Kong and markets outside of Hong Kong. In our home market, "Rail Gen 2.0" envisages a next generation of rail travel to be implemented over the coming years, comprising completion of the current four network extension projects together with major asset replacement programmes for the existing network. For the network expansion projects, as at 30 June 2016, completion had reached 99.4% for the Kwun Tong Line Extension, 96.8% for the South Island Line (East), 81.5% for the Express Rail Link, and 59.0% for the Shatin to Central Link. Beyond these four projects, we have been asked by Government to prepare proposals for the first three extension projects under the Railway Development Strategy 2014 ("RDS 2014").

Outside of Hong Kong, in Beijing, construction work has begun on Beijing Metro Line 16 ("BJL16"). In Sweden, at the end of 2015, we were awarded the contract to operate and maintain the Stockholm Commuter Rail Systems concession (Stockholms Pendeltåg). The legal challenge from one of the failed bidders has now been resolved, and we will operate the service starting from December this year. In February 2016, we also acquired the remaining 50% shareholding of Tunnelbanan Teknik Stockholm ("TBT"), the Stockholm metro rolling stock maintenance joint-venture company, from our joint-venture partner.

Turning to our financial results, total revenue in the first six months of 2016 increased by 5.4% to HK$21,307 million, with operating profit before Hong Kong property development profits, depreciation, amortisation and variable annual payment being 5.6% higher at HK$8,810 million. Excluding the Company's Mainland of China and international subsidiaries, revenue grew by 5.4% and operating profit by 5.7%, with operating margin increasing by 0.2 percentage point to 57.2%. Recurrent profits attributable to equity shareholders, being net profits before property development profit and investment properties revaluation, increased by 7.8% to HK$4,866 million. Post tax profit from property developments was HK$207 million, mainly derived from sundry sources such as the sharing in kind of the kindergarten at Hemera. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders decreased by 25.7% to HK$5,073 million, representing earnings per share of HK$0.86. Gain in revaluation of investment properties was HK$48 million, as compared with HK$1,362 million in the first half of 2015. As a result, net profit attributable to equity shareholders was HK$5,121 million, equivalent to earnings per share of HK$0.87 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 2016. Furthermore, shareholders are reminded of the special dividend relating to the XRL Agreement, the first tranche (of HK$2.20 per share) of which was paid on 13 July 2016, with the second tranche (also of HK$2.20 per share) to be paid in the second half of 2017.

Hong Kong Transport Operations

Total revenue from Hong Kong transport operations in the first half of 2016 was HK$8,617 million, representing an increase of 5.8% over the first half of 2015. Operating costs for the period rose by 4.3% to HK$4,533 million resulting in operating profit increasing by 7.5% to HK$4,084 million, with operating margin at 47.4%.

Safety

Safety saw a further improvement during the first half of 2016 with fewer reportable events on the Hong Kong heavy rail network compared with the already world-leading safety standard achieved in the same period of 2015.

Escalator safety remains one of our key priorities and the period saw numerous initiatives designed to promote the safe use of escalators, including outreach events by our Escalator Safety Special Task Force and new escalator safety announcements. We also enhanced efforts to improve safety on the Light Rail network, including a Light Rail and MTR Bus Road Safety Campaign and a Light Rail Junction Safety Promotion.

Patronage

Total patronage of all our rail and bus passenger services in Hong Kong increased by 0.3% to 952.1 million in the first half of 2016.

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 and Ma On Shan lines), total patronage reached 774.5 million, a 0.3% increase over the same period last year.

The Cross-boundary Service to Lo Wu and Lok Ma Chau recorded a 1.4% decrease in patronage to 55.4 million for the period. The decline was due to a fall in visitor arrivals from the Mainland of China.

Patronage on the Airport Express increased by 2.7% to 7.8 million, supported by a moderate increase in air passenger traffic.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong for the period remained at 5.51 million (5.50 million excluding the Intercity service). The Domestic Service, which accounts for the majority of this patronage, increased by 0.1% to 4.54 million.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong was 48.3% in the first five months of 2016 as compared to 48.5% in the first five months of 2015. Within this total, our share of cross-harbour traffic was 68.6%. Our share of the Cross-boundary business for the first five months of 2016 increased from 50.8% to 51.4% due to an increase in the proportion of local residents for land border crossing, who tended to choose railway service. Continued competition from other modes of transport saw our market share to and from the airport decreasing from 21.6 % to 21.4%.

Fare Revenue, Promotions and Concessions

Total Hong Kong fare revenue in the first six months of 2016 was HK$8,537 million, a 5.8% increase over the corresponding period of 2015. The Domestic Service accounted for HK$6,051 million or 71% of this total.

Average fare per passenger on our Domestic Service increased by 6.2% to HK$7.81.

Fare revenue from the Cross-boundary Service during the period was HK$1,586 million, an increase of 3.3% over the corresponding period of 2015. Fare revenue from the Airport Express grew by 5.7% to HK$486 million. Light Rail and Bus fare revenue was HK$346 million, 6.8% higher, while fare revenue from the Intercity service was HK$68 million, the same as in 2015.

The Company's fares are adjusted based on the FAM, which provides a transparent and objective basis for adjusting fares. In accordance with the FAM, on 26 June 2016 an overall fare adjustment of 2.65% was applied to applicable fares. In conjunction with this adjustment, we announced our 2016/2017 fare promotions package. The package will bring fare savings of over HK$500 million to our customers between June 2016 and June 2017, and is in addition to our ongoing fare concessions and promotions, which in 2015 amounted to HK$2.4 billion.

As part of this package, a new fare promotion programme, the "Designated Saturday Offer", will be introduced later this year. On the first Saturday of each of the five months starting November 2016, Adult Octopus holders travelling on the Domestic Service will enjoy concessionary fares equal to Child Octopus fares, while concessionary Octopus holders will enjoy a flat fare of HK$1. In addition, since 1 July 2016, all MTR Fare Savers across Hong Kong have offered a HK$2 discount.

Other 2016/2017 fare promotions include more than four months of the "10% Same-Day Second-Trip Discount" from 26 June to 31 October 2016 using HK$186 million which the Company has set aside under the Profit-related Fare Concession Scheme and Service Performance Arrangement. The "Early Bird Discount Promotion" will be extended for one year to 31 May 2017. Both the "MTR City Saver" and the "Monthly Pass Extra" promotions will also be extended for one year to 30 June 2017. In addition, passengers will receive a HK$50 MTR Shops Cash Coupon for each purchase of any July or August "Monthly Pass Extra" or "MTR City Saver" during these two months.

Meeting our customers' expectations for high levels of service and a more comprehensive network requires billions of dollars in investment each year, in our people, in our assets and in new rail lines; for example, in 2015, apart from new rail line investment, we invested more than HK$7 billion in maintaining, replacing and upgrading our existing Hong Kong transport network. Our ability to maintain such investments is underpinned by the FAM, which was agreed by Government and approved by LegCo at the time of the merger with Kowloon-Canton Railway Corporation ("KCRC") in 2007. This is a transparent mechanism that employs objective criteria to calculate fare adjustments. It has served stakeholders well over the past years. Between 2008 (the first full year after the merger with KCRC) and 2015, our fares have increased at an average annual rate of 2.9%. This is lower than both the average annual increase in inflation of 3.5%, as recorded by the Composite Consumer Price Index, and the average annual increase of 4.6% in payroll as measured by the Hong Kong Payroll Index. Our fares rank in the most affordable quartile according to international benchmarking amongst leading global metro companies, and we achieve this in the context of the world-class level of service performance enjoyed by the Hong Kong public.

Under our Operating Agreement, the FAM is normally reviewed once every five years, with the next scheduled review due in 2017/18. Based on mutual consent, MTR agreed in April 2016 to an early joint review of the FAM with Government after receiving a request from Government in March 2016, thus advancing the next scheduled review by one year. In the review process, we recognise the importance of balancing the interests of all stakeholders, including our customers, staff and shareholders, as well as maintaining a sustainable financial model such that we can continue to invest in our rail network to maintain high quality services. Government has invited views from the public on the review in a consultation that will last until 19 August 2016. We have started our own stakeholder engagement process and are continuing to discuss the review with Government in order to reach a balanced solution.

Service Performance

Service performance during the first six months of 2016 remained at world-class levels, with May 2016 recording the best month of May for passenger journeys on-time since the merger with KCRC in 2007. Train service delivery and passenger journeys on-time in our heavy rail network remained at 99.9%, exceeding the targets in our Operating Agreement as well as our own more demanding Customer Service Pledges. During the period, more than 950,000 and 540,000 train trips were made on our heavy rail and light rail network respectively. Only three delays on the heavy rail network and one delay on the light rail network lasting 31 minutes or more were attributable to factors within MTR's control.

Recognition of our Services

During the first half of 2016, MTR's transport services won a number of key awards, including the "Public Transportation Service Award" in the "Sing Tao Service Awards 2015" from Sing Tao Daily, the "Public

Operations Performance in the first half of 2016

Service performance item	Performance Requirement	Customer Service Pledge Target	Actual Performance
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on-time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	**99.9%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.7%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.8%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥ 5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	650,000	**4,013,470**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	650,000	**6,617,868**
Ticket reliability: Smart ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	8,500	**59,693**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.8%**
– Light Rail	N/A	99.0%	**99.7%**
Ticket machine reliability *			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.7%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.7%**
– West Rail Line	97.0%	99.0%	**99.7%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability	N/A	99.0%	**99.9%**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.7%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.8%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.5%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	91.0%	**99.9%**
Cleanliness			
– Train compartment: cleaned daily	N/A	99.0%	**99.9%**
– Train exterior: washed every 2 days (on average)	N/A	99.0%	**100.0%**
Northwest Transit Service Area Bus Service			
– Service Delivery	N/A	99.0%	**99.8%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

* *The Light Rail ticket machine replacement works and testing are underway. Performance data will be available after completion of installation, testing and trial operations of the new ticket machines.*

Transportation Award" in the "Hong Kong Service Awards 2016" from East Week magazine, and the "Top Service Awards 2016 – Category Award of Public Transportation" from Next Magazine.

Investing in Network Improvements

Rail Gen 2.0

In early 2016, we announced the launch of Rail Gen 2.0, which encompasses both significant on-going enhancements to our existing rail network and completion of the four remaining new railway lines and extensions to be delivered over the next few years. When completed, Rail Gen 2.0 will offer our passengers increased services, enhanced environments and an extended "next generation" rail network.

Under the Rail Gen 2.0 programme, a number of existing major systems and assets are being upgraded and replaced.

A total of 93 new and more comfortable 8-car trains costing HK$6 billion will replace the same number of existing 8-car trains currently operating on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. Following completion of the conceptual design, the train mock-up will be completed in the third quarter of 2016.

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 cost of HK$3.3 billion, which will increase the overall capacity of these lines by about 10%. The Tsuen Wan Line will be the first of these lines to be re-signalled, with target completion in 2018. Installation of new signalling equipment and train modification are underway. For the Island, Kwun Tong and Tseung Kwan O lines, site surveys for the provision of new signalling equipment commenced in the first quarter of 2016 and are making good progress.

The installation of new chillers at Wan Chai Station will begin in the fourth quarter of this year. This will be followed by a large-scale chiller replacement programme of 160 chillers in 38 stations and four depots that is expected to start in the fourth quarter of 2017.

Also included in Rail Gen 2.0 is the replacement of 30 Phase 2 Light Rail vehicles, together with the purchase of another ten new vehicles, for which the procurement contract was awarded in July this year.

To enhance train services and to serve the future Shatin to Central Link East West Corridor, the existing 28 7-car trains on the West Rail Line are being converted to 8-car trains under the Shatin to Central Link project. As at 30 June 2016, five 8-car trains had entered passenger service. All 8-car trains are targeted to be in service in 2018, increasing overall carrying capacity on the West Rail Line by about 14%.

Rail Gen 2.0 also involves major enhancements to three stations, which will serve as interchange stations after the new railway lines open. At Hung Hom Station, the refurbished southern part of the concourse was opened in March 2016, as part of the modification works under the Shatin to Central Link project. Stage two of the works in the northern part of the station is targeted for completion in 2017. Major modifications to Admiralty Station under the Shatin to Central Link and South Island Line (East) projects and to Diamond Hill Station under the Shatin to Central Link project are taking place.

The programme to retrofit Automatic Platform Gates on the Ma On Shan Line, as part of the Shatin to Central Link project, is on target for completion in 2017. For the East Rail Line, preliminary works including platform strengthening works are in progress. Automatic Platform Gates on the East Rail Line will be installed after the new signalling system and new trains are in operation.

Other Network Improvements

On the Western extension of the Island Line, we opened the last remaining entrance for Sai Ying Pun Station, at Ki Ling Lane, on 27 March 2016, followed by the opening of the passenger lift at that entrance on 25 June 2016.

In addition to the programmes under Rail Gen 2.0, we are setting aside another HK$140 million to invest in various improvement projects. These include adding wide gates and ventilation fans in stations, and for our Light Rail network, widening four Light Rail stop platforms, replacing benches on all platforms and replacing the passenger information display system.

We are also investing about HK$200 million to purchase 68 new double-decker buses to replace existing models. The first new bus commenced service in January 2016 and as at 30 June 2016, 15 new buses have entered service. In addition, to increase capacity, the procurement of ten additional new buses is under review.

As part of the ongoing station improvement programme, refurbishment works have commenced at Lo Wu and Kowloon Bay stations to bring more spacious environments and a more convenient and comfortable travel experience to passengers.

To improve accessibility to stations, more external lifts came into service during the first half of 2016, including those in Lai King, Diamond Hill and Sai Ying Pun stations. The remodelled Entrance A1 at Tsim Sha Tsui Station, which features a "Crystal Cube" with an external lift, opened in May 2016.

We have also continued to enhance our communications with passengers. New liquid-crystal information display systems for station concourses and platforms are being installed on the Island, Kwun Tong and Tsuen Wan lines. By the end of June 2016, 27 stations had installed the new passenger information display systems.

Responding to Our Customers

To identify ways to enhance customers' end-to-end journey experience, several journey-mapping workshops were conducted for different target segments. As a result, a number of customer experience enhancement initiatives were identified and launched in the first half of 2016. These included "Time to Next Train" information on the gate-top passenger information display system and enhanced platform signage at selected stations, as well as the deployment of mobile staff with portable devices to solve ticketing problems for customers at the gate-line during peak hours.

Passenger behaviour also plays a part in enhancing the journey experience. To remind passengers of the need for courteous behaviour when travelling on MTR, a courtesy campaign "Ride with manners" was launched in March 2016, focusing initially on behaviour when boarding trains.

To thank our customers for their support and bring more joy to passengers, in April 2016 we launched a new "Happy Birthday • Happy Journey" programme. Under this programme, one day of each month is chosen by lucky draw and all Hong Kong Identity Card holders whose birthday falls on that day become eligible to redeem a Birthday Pack, containing a specially designed "Happy Birthday One-day Pass", a HK$50 MTR Malls gift voucher and other merchant coupons.

To provide a channel for customers to express their appreciation for caring service, in January 2016 we organised a Service Appreciation Campaign to recognise our frontline staff. Customers were invited to vote for their "most liked" MTR service team and share personal stories about their journeys involving praiseworthy MTR service. More than 12,000 votes and 2,000 stories were received during the campaign period.

Hong Kong Station Commercial Businesses

Revenue from our Hong Kong station commercial businesses increased by 4.5% in the first six months of 2016 to HK$2,695 million when compared with the first six months of 2015. The growth mainly reflected higher rental income from station shops. Operating costs of our Hong Kong station commercial businesses rose by 2.4% to HK$253 million, resulting in a 4.7% increase in operating profit to HK$2,442 million, representing an operating margin of 90.6%.

Station retail revenue for the period increased 5.6% to HK$1,841 million as rents increased due to trade mix refinements, positive rental reversions in station shops and increases in rents in accordance with lease contract, for the Duty Free Shops at Lo Wu and Hung Hom stations.

As at 30 June 2016, there were 1,351 station shops, occupying 56,110 square metres of retail space. This represents a decrease of 11 shops and 128 square metres as compared with 31 December 2015, resulting from the demolition of shops at Hung Hom and Admiralty stations to facilitate the construction works for the new rail lines. During the first six months, 18 new brands were introduced to the network, while renovations were underway at Lo Wu, Hung Hom, Admiralty and Tai Po Market stations.

Advertising revenue in the first half of 2016 increased marginally by 0.2% to HK$498 million, due to the more challenging economic environment. The number of advertising units in stations and trains reached 45,048 during the period, with the e-shop network being expanded from ten to 20 stations.

Revenue from telecommunications in the first six months of 2016 grew by 8.7% to HK$274 million. The increase was due to incremental revenue from mobile data capacity enhancement. We are also working with a telecom operator to upgrade Wi-Fi equipment at 84 stations to provide enhanced service.

Hong Kong Property Businesses

The Hong Kong residential property market continued to face challenges in the first half of 2016, with increasing flat supply, a volatile stock market, the possibility of increases in interest rates and the impact of slower economic growth in the Mainland of China and Hong Kong. Property values have moved downwards since the peak in September 2015, with the Mass Centa-City Leading Index dropping from 148.6 in September 2015 to 130.0 in June 2016, a 12.5% decrease. Sales volumes in the primary market declined to a 25-year low in February 2016, although there was some recovery in the second quarter of 2016. The primary residential market was more resilient than the secondary market, with sales of new units boosted by incentives and flexible payment terms from developers. In the commercial sector, Grade-A office rents continued to be underpinned by strong demand from enterprises outside of Hong Kong, such as those from the Mainland of China. However the retail segment suffered both from the fall-off in Mainland tourists, which led to reduced spending on luxury goods, and also weaker local consumption due to the strong Hong Kong currency. For the first half of 2016, the value of total retail sales in Hong Kong dropped 10.5% compared with the same period in 2015.

Property Development in Hong Kong

Profit from Hong Kong property development in the first half of 2016 was HK$219 million, mainly derived from sundry sources such as the sharing in kind of the kindergarten at Hemera.

Acting as agent for the relevant subsidiary of KCRC, in March 2016 the presale of The Spectra (the Long Ping Station (North) site) was launched, with about 42% of 912 units sold up to 30 June 2016.

Property Development Packages Completed during the period and Awarded

Location	Developers	Type	Gross floor area *(sq. m.)*	Tender award date	Expected completion date
LOHAS Park Station					
Package Four	Sun Hung Kai Properties Limited	Residential	122,302	Awarded in April 2014	2020
Package Five	Wheelock and Company Limited	Residential	102,336	Awarded in November 2014	2020
Package Six	Nan Fung Group Holdings Limited	Residential	136,970	Awarded in January 2015	2021
Package Seven	Wheelock and Company Limited	Residential Retail Kindergarten	70,260 44,500 1,160	Awarded in June 2015	2022
Package Eight	Cheung Kong Property Holdings Limited	Residential	97,000	Awarded in October 2015	2021
Package Nine	Wheelock and Company Limited	Residential Kindergarten	104,110 810	Awarded in December 2015	2022
Package Ten	Nan Fung Group Holdings Limited	Residential	75,400	Awarded in March 2016	2022
Tai Wai Station					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	Awarded in October 2014	2022
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	Awarded in February 2015	2021
Nam Cheong Station#					
Nam Cheong	Sun Hung Kai Properties Limited	Residential Retail Kindergarten	214,700 26,660 1,000	Awarded in October 2011	By phases from 2017 – 2019
Long Ping Station#					
Long Ping (North)	K. Wah International Holdings Limited and Sino Land Company Limited	Residential	48,675	Awarded in October 2012	2017
Long Ping (South)	Chinachem Group	Residential	41,990	Awarded in June 2013	2019
Tsuen Wan West Station#					
TW5 Cityside	Chinachem Group	Residential Retail	66,114 11,210	Awarded in January 2012	2018
TW5 Bayside	Cheung Kong Property Holdings Limited	Residential Retail Kindergarten	167,100 40,000 550	Awarded in August 2012	2018
TW6	New World Development Co. Ltd. and Vanke Property (Overseas) Limited	Residential	62,711	Awarded in January 2013	2018
Yuen Long Station#					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	Awarded in August 2015	2022

as a development agent for the relevant subsidiaries of KCRC

* *excluding a bicycle park with cycle track*

^ *including a 24-hour pedestrian walkway and a covered landscape plaza*

Property Development Packages to be Awarded Notes 1 and 2

Location	Type	Gross floor area *(sq. m.)*	Period of package tenders	Expected completion date
LOHAS Park Station	Residential	About 320,000	2016 – 2020	2020 – 2025
Wong Chuk Hang Station	Residential Retail	357,500 47,000		
Ho Man Tin Station	Residential	128,400		

Notes:

1 *Property development packages for which we are acting as development agent for the relevant subsidiaries of KCRC are not included.*

2 *These property development packages are subject to review in accordance with planning approval, land grant conditions and completion of statutory processes.*

Our property tendering activity saw LOHAS Park Package 10 awarded to a subsidiary of Nan Fung Group Holdings Limited in March 2016.

We continue to work with our developer partners in taking forward property development packages which had previously been tendered out. These nine property development packages comprise seven packages at LOHAS Park, one at the Tin Wing Light Rail Stop and one in Tai Wai Station. Over 16,000 residential units will be provided covering a total gross floor area ("GFA") of approximately 990,000 square metres when these developments are completed.

Construction activities for these property development packages are progressing as planned. The superstructure works of LOHAS Park Package 4 commenced in the first half of 2016, while the superstructure works of LOHAS Park Package 5 will commence in the second half of 2016. Foundation works for LOHAS Park Package 6 and 7, as well as the Tai Wai Station Development, have also commenced. Railway migration works to facilitate property development at the Tin Wing Light Rail Stop Development are progressing well. West Rail Line property development projects, where we act as agent for the relevant subsidiaries of KCRC, are progressing as planned.

We continue to assess the feasibility of other property developments along our railway lines. One possible site is above our depot in Siu Ho Wan on Lantau Island. With necessary zoning and other approvals, around 14,000 residential units could be built. Much work is still required including zoning, site planning, depot re-provisioning, obtaining necessary approvals as well as finalising the business model to implement the project. Another possible site is above the existing Yau Tong Ventilation Building. A preliminary feasibility study has been carried out and the site is expected to allow for the construction of around 500 residential units. Government has commenced the process to rezone the Yau Tong site for development purposes, while we have started the Environmental Impact Assessment for the Siu Ho Wan site. At this preliminary stage there can be no assurance that the Siu Ho Wan and Yau Tong proposals will become commercially viable projects for MTR.

Property Rental and Management Businesses in Hong Kong

Revenue from our Hong Kong property rental and property management businesses in the first half of 2016 grew by 4.6% over the first half of 2015 to HK$2,359 million. Operating costs rose by 1.1% to HK$361 million, resulting in operating profits rising 5.3% to HK$1,998 million, with operating margin at 84.7%.

Total property rental income in Hong Kong for the period was HK$2,218 million, a 4.2% increase. Rental reversion in our shopping mall portfolio averaged 3.2% during the period. As at 30 June 2016, our shopping malls in Hong Kong and the Company's 18 floors at Two International Finance Centre office building remained close to 100% let.

In view of the changing demographics in the eastern side of Hong Kong Island, the first floor of the East Wing of Paradise Mall is being revamped with major repartitioning works, to create more attractive retail offerings for customers. The works commenced in March 2016 and are on schedule for target completion by the end of 2016.

As at 30 June 2016, the Company's attributable share of investment properties in Hong Kong was 212,301 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.

Hong Kong property management revenue in the first six months of 2016 rose by 11.9% to HK$141 million, mainly due to incremental contributions from Hemera, Grand Austin, The Austin and City Point. As at 30 June 2016, the number of residential units under the Company's management was 96,066, unchanged from the end of 2015. Managed commercial space was over 764,000 square metres.

Hong Kong Property Investment Projects

The coming five years will see a significant expansion of our investment properties portfolio in Hong Kong as we add about 120,620 square metres (GFA) to our retail portfolio, increasing attributable GFA by approximately 40%.

The new Tai Wai shopping centre, of 60,620 square metres (GFA), is targeted to open in the second half of 2021. The Company has already contributed HK$7.5 billion to this development, and will retain ownership of the mall when completed and bear the fit-out costs.

The LOHAS Park shopping centre will have 44,500 square metres (GFA) and is targeted to open towards the end of 2020. The Company will contribute a total of HK$4.98 billion to the development, of which HK$2.44 billion has already been invested with the remaining HK$2.54 billion to be paid upon the completion of mall construction, expected to be in 2019. We will also retain ownership and bear the fit out cost of the shopping centre. Foundation works have commenced on both the Tai Wai and LOHAS Park projects.

The extension of Maritime Square will increase its retail area by 12,100 square metres (GFA) at a cost of approximately HK$2.4 billion. As at 30 June 2016, superstructure works had reached the third storey of the four-storey building. The extension is targeted to open in the second half of 2017.

In East Kowloon, floors seven and eight of our offices above Telford Plaza are being converted to retail use, adding a further 3,400 square metres (GFA) to the shopping centre at an estimated project cost of HK$550 million. The conversion works commenced in December 2015 and the project is scheduled to open also in the second half of 2017.

Hong Kong Network Expansion

The completion of the four new rail lines currently under construction is central to our Rail Gen 2.0 initiative, and will add 53 km to our existing network route length of 220.9 km, with 16 more stations serving the people of Hong Kong.

New Rail Lines Owned by MTR

Kwun Tong Line Extension

The 2.6-km Kwun Tong Line Extension will extend the Kwun Tong Line from Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa. As at 30 June 2016, the project was 99.4% complete, with overall civil works 99.9% complete and electrical and mechanical ("E&M") works 98.0% complete. Opening is targeted for October this year.

All structural works and major E&M equipment installation at Ho Man Tin Station have been completed. Statutory inspections for railway services and operational safety by relevant Government departments are progressing as planned. One of the major milestones achieved was the completion of the Fire Services Department inspection at Ho Man Tin Station in May 2016 and Whampoa Station in June 2016 respectively. For Whampoa Station, the station structure has been completed and E&M works were substantially complete. Train testing is also progressing well. Communication programmes to brief the local community on the station facilities and the future train service have commenced.

The current estimated cost of the project remains at HK$7.2 billion (before capitalised interest).

South Island Line (East)

The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District of Hong Kong Island. As at 30 June 2016, the project was 96.8% complete and, although we continue to work towards the target opening at the end of the year, the remaining tight construction timetable puts this at risk.

At Admiralty Station, with the cavern structural works and platforms required for line opening completed, the fit-out and E&M works are progressing in full swing with a tight schedule. The station box structure was 98.7% complete, while fit-out and E&M works were 82.6% complete as at 30 June 2016. Ocean Park and Wong Chuk Hang stations as well as the Wong Chuk Hang Depot, Lee Wing Street Ventilation Building and Nam Fung Ventilation Building have entered the pre-operational phase, with a series of testing and preparatory works underway to prepare for operation. Statutory inspections at South Horizons Station were completed in June 2016. Structural works for Lei Tung Station are complete, with fitting-out and E&M works nearing completion. Construction of the Nam Fung and Ap Lei Chau tunnels has been completed. In the Southern Loop section between Wong Chuk Hang and South Horizons stations, the train test run was completed in January 2016. In the Northern Loop section between Ocean Park and Admiralty stations, the train test run was completed in May 2016 and was followed by the train test run for the whole line.

The current estimated cost of the project remains at HK$16.9 billion (before capitalised interest) and although there is a risk that this may be exceeded, the excess (if any) is not expected to be material.

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 West Kowloon Terminus, which at around 380,000 square metres (GFA) is one of the largest underground high-speed rail stations in the world. As at 30 June 2016, the project was 81.5% complete.

Construction of the West Kowloon Terminus achieved steady progress and was 73.1% complete as at 30 June 2016. All segments for the V-trusses of the Station Entrance Building have been erected. Fabrication of the external wall system commenced in March 2016. De-propping of the Station Entrance Building permanent steel structure was completed in May 2016. Tunnels works have progressed as planned and were 97.4% complete as at 30 June 2016. Over 73.9% of tracks had been laid and track installation in the southbound and northbound tunnels between Shek Kong and Hoi Tin Road was completed in May 2016.

The Company's project management responsibilities are set out in two Entrustment Agreements with Government. The first Entrustment Agreement ("XRL Preliminary Entrustment Agreement") covers, among other things, preliminary and detailed design and site investigation, while the second Entrustment Agreement ("XRL Entrustment Agreement") covers, among other things, 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 LegCo on 11 March 2016 of Government's additional funding obligations.

Under the XRL Agreement, Government will bear and finance the project cost up to HK$84.42 billion (an increase of up to HK$19.42 billion (the "Current Cost Increase") from the original project cost estimate of HK$65 billion). If the project exceeds HK$84.42 billion, MTR will bear and finance any project costs exceeding HK$84.42 billion (if any) except in limited circumstances specified in the XRL Agreement. MTR will also pay a special dividend in cash of HK$4.40 per share in aggregate. The first tranche of this special dividend of HK$12.94 billion in total (being HK$2.20 per share) was paid on 13 July 2016. The second tranche of special dividend (also of HK$2.20 per share) will be paid in the second half of 2017. Other terms of the XRL Preliminary Entrustment Agreement and the XRL Entrustment Agreement (together, the "Entrustment Agreements") remain, except for amendments reflecting the XRL Agreement's proposed arrangements. These amendments also include an increase in the Project Management Fee payable to the Company under the XRL Entrustment Agreement to HK$6.34 billion (from HK$4.59 billion) and revision of the programme for completion of the Express Rail Link project to the third quarter of 2018. In addition, Government reserves the right to refer to arbitration the question of the Company's liability (if any) under the Entrustment Agreements for the Current Cost Increase, after the commencement of commercial operations on the new line ("Arbitration").

In the event that (i) Government refers to Arbitration the question of the Company's liability (if any) under the Entrustment Agreements for the Current Cost Increase; and (ii) the arbitrator does not determine that the liability cap contained in the XRL Entrustment Agreement ("Liability Cap") is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Increase would exceed the Liability Cap, then the Company shall bear such amount as is awarded to the Government up to the Liability Cap; seek the approval of its independent shareholders for the Company to bear the excess liability above the Liability Cap; and if the approval of the independent shareholders is obtained, pay the excess liability to Government.

Shatin to Central Link

The ten-station 17-km Shatin to Central Link connects existing railway lines to form an East West Corridor and a North South Corridor with six interchange stations. The lines will provide vital new links across Hong Kong. Overall, the project was about 59.0% complete as at 30 June 2016, with the East West Corridor and North South Corridor being 74.1% and 34.8% complete respectively. Pursuant to the Shatin to Central Link Entrustment Agreement ("SCL Entrustment Agreement"), the 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.

A number of major project milestones were achieved during the period. For the East West Corridor, break-through of all tunnels between Hin Keng and Diamond Hill stations was achieved in April 2016. Stage one modification works at the Hung Hom Station southern concourse were completed and reopened to the public in March 2016. This was followed by the commencement of stage two concourse modification works in the northern part of the station in April 2016. The first 8-car train was transferred to Tai Wai Depot on the Ma On Shan Line in May 2016 for the necessary testing and commissioning. Our project team and the local community celebrated another milestone on 6 June 2016 with the topping-out of the third Shatin to Central Link station and also the first Shatin to Central Link interchange station, Diamond Hill Station. The overall completion of the tunnel excavation for the East West Corridor will be marked by completion of the uptrack excavation from To Kwa Wan Station to Ho Man Tin Station, expected in August 2016.

For the North South Corridor, the first tunnel boring machine was put into operation in March 2016. The uptrack tunnel drive from Causeway Bay to Exhibition Station is progressing as planned and was about 81.0% complete as at 30 June 2016. For the immersed tube cross-harbour tunnel contract, piling works at the Hung Hom marine cofferdam were completed in June 2016. This was followed by dewatering, commencing in July 2016. Production of the immersed tube tunnel units is progressing as planned and was about 62.0% complete as at 30 June 2016.

Despite reasonable construction progress, and as reported previously, the programme for delivery of the Shatin to Central Link has been impacted by a number of key external events. Firstly, on the East West Corridor, the time taken in confirming actions to be undertaken relating to archaeological finds at the To Kwa Wan Station site has led to an 11-month delay in this corridor, with the estimated completion now in 2019. Secondly, on the North South Corridor, the anticipated late hand-over of certain critical work sites for construction of the new Exhibition Station due to infrastructure works by other parties, including as a result of the discovery of an unforeseen large metal object on the seabed in the vicinity, together with the additional works incorporated into the underground structure of Exhibition Station to allow flexibility for future construction works above the station, have already caused a six-month delay in that corridor. These issues mean that the estimated completion of the project as a whole is now in 2021. Any further delay in site hand-over will result in an equivalent additional delay to the completion of the North South Corridor. Our project team has been working diligently to explore and implement measures to improve progress and recover or mitigate the delays as far as possible.

Taking into account the continuing difficulties and challenges, including those described above, the Company considers it is likely that the cost estimate for the Shatin to Central Link will need to be revised upwards significantly to include the additional HK$4,100 million that was previously reported as a result of the archaeological finds in the To Kwa Wan area, the late handover of construction sites at Exhibition Station, the previously unbudgeted foundation works for top-side development at Exhibition Station and other factors such as lower availability of labour in Hong Kong's construction sector. The Company has advised Government that it will therefore conduct a detailed review of the project cost estimate for the project as a whole. 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 34.8% complete, this review will only be completed in the second half of 2017 after which the Company will formally report the findings to Government.

New Railway Projects Under Discussion

Beyond the four new lines under construction, Government has identified seven new rail projects under RDS 2014 to be implemented in phases. In the first quarter of 2016, Government invited the Company to submit project proposals for three of these projects, namely the Northern Link (including Kwu Tung Station), Tuen Mun South Extension and the East Kowloon Line. Technical studies for these future lines are now underway to support the project proposals.

Mainland of China and International Businesses

In the first half of 2016, revenue from our Mainland of China and International railway and property related subsidiaries was HK$6,526 million, a 5.6% increase when compared to the first half of 2015.

Revenue from our railway related subsidiaries outside of Hong Kong, namely MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), Metro Trains Melbourne Pty. Ltd. ("MTM"), MTR Tunnelbanan AB (renamed from MTR Stockholm AB on 8 June 2016), MTR Tech AB (as a subsidiary starting from 15 February 2016), MTR Express (Sweden) AB, MTR Pendeltågen AB ("MTRP"), MTR Corporation (Crossrail) Limited ("MTRXR"), Metro Trains Sydney Pty. Limited and the Joint Venture for the design and construction of the Sydney Metro Northwest ("SMNW"), was HK$6,454 million. This represents an increase of 5.7% over the first six months of 2015. Operating costs increased 6.3% to HK$6,090 million, resulting in a 3.4% decrease in operating profit to HK$364 million, with the operating profit margin at 5.6%. The increase in revenue reflects the incremental contributions from MTRXR, which we started operating in May 2015, and the acquisition of the remaining 50% of TBT which was subsequently renamed as MTR Tech AB, offset by lower contributions from MTM.

Our associates outside of Hong Kong contributed profits of HK$152 million in the first half of 2016, compared with HK$49 million in the first half of 2015, reflecting improved performance from our Hangzhou and Beijing associates. The number of passengers carried by our railway subsidiaries and associates outside of Hong Kong was estimated at 884 million in the period, compared to approximately 755 million in the corresponding period of 2015.

Railway Businesses in the Mainland of China

Beijing

Our 49% associate Beijing MTR Corporation Limited ("BJMTR") operates three lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line and Beijing Metro Line 14 ("BJL14").

During the first six months of 2016, BJL4 and the Daxing Line exceeded their service targets. Combined ridership in the first half of 2016 was about 212 million passenger trips, with average weekday patronage of more than 1.25 million. This represented increases of 4% and 5% respectively compared with same period last year. The two lines have 35 stations and a combined length of 50 km.

The latest operating plan for BJL14 is now to complete the line in five phases. Three phases of BJL14 have already been put into passenger service, comprising a 12.4-km Phase 1 West Section with seven stations, a 14.8-km Phase 2 East Section with ten stations, which is connected to a 16.6-km Phase 3 Middle Section with nine stations. These three phases recorded a combined 86 million passenger trips and average weekday patronage of about 537,000 during the first half of 2016. With the opening of Phase 3, as from 31 December 2015, the 30-year concession has commenced. During the first six months of 2016, BJL14 exceeded its service targets. MTR's equity contribution to BJMTR to support BJL14 is estimated at RMB 2.45 billion.

The Concession Agreement for the BJL16 Public-Private-Partnership ("PPP") project was signed by BJMTR on 28 November 2015. Under the agreement, BJMTR will provide E&M systems as well as rolling stock. BJMTR will also undertake the operation and maintenance of the line for 30 years. Civil construction works, for which the Beijing Municipal Government is responsible, have begun and first phase operation is expected to commence by the end of this year, with full line operation after 2017. The line will run 50 km from Beianhe to Wanping, encompassing 29 stations. MTR's equity contribution to BJMTR to support BJL16 is estimated at up to RMB 2.45 billion.

Beijing is building a new airport in the Daxing area which is planned to commence service in 2019. A new airport express line will connect the Beijing Daxing airport with the city and BJMTR is considering participating in the tender for investment and operation of this new line. The tender process is expected to commence in the second half of 2016.

Shenzhen

The Shenzhen Metro Line 4 ("SZL4") operated by our wholly-owned subsidiary MTR(SZ) performed steadily, with a 7% increase in patronage to about 95.9 million in the period. The line has 15 stations and covers 20.5 km.

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 business in Beijing and Hangzhou, MTR(SZ) does not benefit from a shadow fare subsidy mechanism. We understand that there continue to be discussions within the Shenzhen Municipal Government regarding fare adjustments. If such fare adjustments are not implemented, the long-term financial viability of SZL4 may be impacted.

Hangzhou

Our 49% associate in Hangzhou, Hangzhou MTR Corporation Limited ("HZMTR"), operates Hangzhou Metro Line 1 ("HZL1"). Operational performance was steady, with patronage growing by 15% in the first half of 2016 to 96.7 million. HZL1 was extended by 5.7 km in November 2015 to cover 54 km and 34 stations. The extension is operated under an operating and maintenance business model.

HZMTR has continued to record a net loss due to patronage being lower than originally expected. However, this net loss was lower than in the prior year period due mainly to higher fare revenue as a result of improved patronage, partially offset by incremental interest expenses. Patronage on HZL1 continues to grow and average weekday patronage for the period is 549,000.

MTR submitted a tender for Hangzhou Metro Line 5, another PPP project on 16 May 2016. The tender is for a 49% interest in the project, with Hangzhou Metro Group Company Limited retaining the remaining 51%. The winner of the tender is currently expected to be announced in the second half of 2016.

International Railway Businesses

United Kingdom

In London, having taken over management of the West Anglia Inner suburban routes, London Overground Rail Operations Limited ("LOROL") now manages 81 stations with a route length of 167 km. The current London Overground concession expires in November 2016 and our bid for the new concession was unsuccessful. LOROL is now assisting Transport for London ("TfL") to ensure a smooth handover to the new operator. The LOROL team which has operated the concession so successfully over the last nine years has earned our sincere gratitude.

MTRXR commenced operations in May 2015 under the name "TfL Rail". TfL Rail consists of services devolved from the previous Greater Anglia franchise covering 14 stations. It will be renamed the "Elizabeth Line" when the section through central London becomes operational, targeted to be in 2018. When the full Elizabeth Line is operational in 2019, it will serve 40 stations with a route length of 118 km. During the first six months of 2016, MTRXR has continued to deliver improved operational performance.

Also in the UK, we are partnering with FirstGroup in a bid for the South Western Rail franchise, with the Company as a minority 30% shareholder. The Invitation to Tender was received in June 2016 and tender will be submitted in September 2016.

Sweden

MTR Tunnelbanan AB delivered good operational performance in the first half of 2016, with the punctuality of all lines above the contractual targets as well as a record high customer satisfaction. Ridership for the period was estimated at 174 million, with average weekday patronage estimated at 1.2 million.

The MTR Express service between Stockholm and Gothenburg recorded excellent operational performance and high levels of customer satisfaction. Passenger numbers remain below initial forecast although continuing to improve as a result of intensified marketing, promotion and sales campaigns. In a recent independent national customer survey, MTR Express was ranked as the number one rail operator in Sweden.

On 15 February 2016, MTR acquired the 50% shareholding in TBT from the joint-venture partner Mantena AS, following which TBT was renamed MTR Tech AB. The acquisition brings rolling stock maintenance for the metro network in Stockholm fully under MTR management.

In December 2015, our wholly-owned subsidiary MTR Nordic was awarded the concession to operate the Stockholm commuter train service (Stockholms Pendeltåg), including the rolling stock maintenance, for ten years, with an option to extend for four more years. Stockholms Pendeltåg serves the greater Stockholm area, with 53 stations and a total route length of 241 km. The legal challenge against the tender process from one of the failed bidders has now been resolved. MTRP, our wholly-owned subsidiary, will operate the service starting from December 2016.

Australia

In Melbourne, our 60% owned subsidiary MTM saw steady performance in the Melbourne metro network, which has 218 stations and covers 390 km. This concession will expire in November 2017 and, with good operational performance, MTM has qualified to negotiate directly with the Government of Victoria for an extension. Preparation work for this negotiation is on-going.

In Sydney, the consortium of which MTR is a member is responsible for the design, construction, financing as well as the future operation and maintenance of the SMNW PPP project. Construction works for the PPP project have begun and progress is in accordance with programme. Upon completion, the 36-km railway between Rouse Hill and Chatswood will be the country's first fully automated rapid transit network. Service commencement is expected in the first half of 2019.

Sydney Metro City and Southwest ("SMCSW"), a 29-km line extension from Chatswood Station of SMNW through a new Sydney Harbour crossing to Bankstown, is planned to start construction in 2017 and operation in 2024. MTR, being a member of the consortium for the SMNW PPP project, is exploring potential participation in the SMCSW project.

Property Development, Rental and Management Businesses in the Mainland of China

Following very successful presales of Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1, we have been preparing for the handover of completed units, which will be carried out in two batches: the first, comprising units sold in the low rise buildings on top of the depot, by the end of this year; and the remaining units, which comprise the vast majority, by middle of next year. This is our first property development in the Mainland of China and the project has a total developable GFA of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA). Booking of profits from Tiara will take place when the units are handed over to buyers.

In Tianjin, our 49% owned associate, Tianjin TJ-Metro MTR Construction Company Limited, is making progress in the development of the Beiyunhe Station project on Tianjin Metro Line 6, with piling works underway. The project faces a number of obstacles, however, including softening market demand in Tianjin, especially for offices (the mixed use project has approximately 60,000 square metres GFA of offices) as well as a significant increase in the estimated construction cost due to a more complex basement construction. We and our 51% partner, Tianjin Metro (Group) Company Limited, are in discussions with the relevant government bodies to resolve these challenges. The possible solutions may necessitate changes to design schemes and the general layout plan.

Revenue from our property rental and property management businesses in the Mainland of China decreased by 6.5% to HK$72 million in the first half of 2016, as compared with the corresponding period of last year, mainly due to adverse exchange rate movements. Our shopping mall in Beijing, Ginza Mall, was 99.6% occupied as at 30 June 2016. The Company also manages third party properties in the Mainland of China which, as at 30 June 2016, covered a GFA of 230,000 square metres, unchanged from the end of 2015.

Other Businesses

The Ngong Ping Cable Car and associated theme village ("Ngong Ping 360") saw revenue increase by 13.9% in the first six months of 2016 to HK$188 million. Visitor numbers for the period increased by 7.6% to 0.83 million, mainly due to six more operating days compared with the same period last year. The six months saw various promotions, including one with a Hello Kitty theme, one featuring an Ip Man Experience Hall and those aimed at children and the elderly. We are currently formulating a detailed track rope replacement plan, as part of the long-term asset replacement programme.

The Company's share of Octopus' net profit in the first half of 2016 rose by 23.9% to HK$145 million. As at 30 June 2016, more than 7,000 service providers in Hong Kong were accepting Octopus for payment. Total cards and other stored-value Octopus products in circulation reached 31.5 million, with average daily transaction volumes and value reaching 13.8 million and HK$173.5 million respectively.

Financial Review

Despite the challenging environment in the first half of 2016, our business was steady and resilient amid the economic slowdown. In the first half of 2016, the Group delivered stable profit growth from our recurrent businesses and recorded modest profits from our property development business.

The Group's total revenue and total operating expenses increased by 5.4% and 5.3% to HK$21,307 million and HK$12,497 million, respectively. Revenue from Hong Kong transport operations was HK$8,617 million, an increase of 5.8% mainly due to adjustments in fares under the FAM which were partly offset by fare concessions. Expenses relating to Hong Kong transport operations grew by 4.3% to HK$4,533 million due to more operational staff, coupled with increases in staff salaries. Revenue from station commercial businesses increased by 4.5% to HK$2,695 million, mainly due to positive rental reversions of station shops and increases in base rents in accordance with lease contracts of Duty Free Shops. The related expenses were 2.4% higher at HK$253 million. Hong Kong property rental and management businesses recorded revenue of HK$2,359 million, up 4.6% due to positive rental reversions. The related expenses slightly increased by 1.1% to HK$361 million.

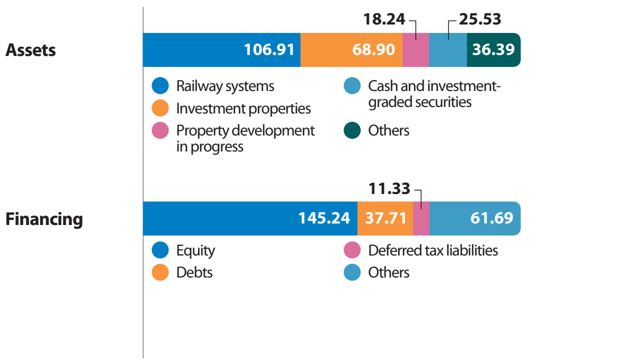
Revenue from the subsidiaries outside of Hong Kong increased by 5.6% to HK$6,526 million, with the related operating expenses increasing by 5.8% to HK$6,174 million and operating profits increasing by 2.0% to HK$352 million. On a constant exchange rate basis, the revenue and expenses from our railway related subsidiaries outside of Hong Kong would have increased by 7.6% and 8.0% respectively, and operating profits would have slightly increased by 0.1% mainly due to higher franchise income from Stockholm metro, increase in patronage of SZL4 and incremental profit contributions from our new operation, MTRXR, in the United Kingdom, offset by a reduction in profits at MTM and losses in MTR Express.

Revenue from other businesses in Hong Kong was HK$1,110 million, an increase of 5.9% mainly due to a higher level of project management work performed for Government, which is recognised on a cost recovery basis, as well as higher revenue from Ngong Ping 360. The related expenses increased by 6.6% to HK$1,046 million in line with the revenue growth.

Simplified Consolidated Statement of Financial Position

As at 30 June 2016

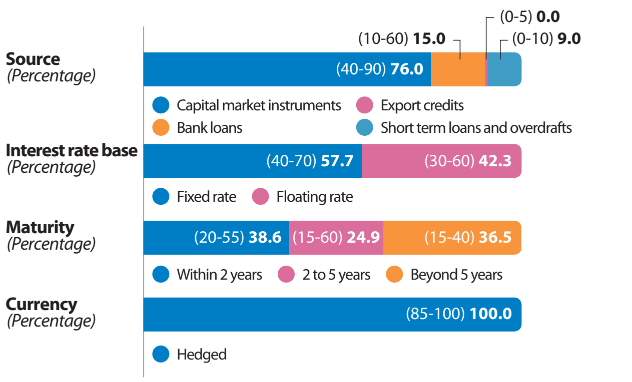
(HK$ billion)



Preferred Financing Model and Debt Profile

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

(Preferred Financing Model) *vs.* **Actual debt profile** *As at 30 June 2016*



Including project study and business development expenses of HK$130 million, operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment arising from recurrent businesses was HK$8,837 million in the first half of 2016, an increase of 5.3% over the same period of 2015. The operating loss from Mainland of China property development was HK$27 million, being mainly sales and marketing expenses for Tiara in Shenzhen, and was lower than the same period of 2015 by HK$20 million. Total operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment increased by 5.6% to HK$8,810 million, with operating margin maintained at 41.3%.

Hong Kong property development profit in the first half of 2016 was HK$219 million, mainly derived from sundry sources such as the sharing in kind for the kindergarten at Hemera (LOHAS Park Package 3). This was HK$2,592 million lower than the same period in 2015 when substantial property development profit was recognised from Hemera. Depreciation and amortisation charges increased by 6.8% to HK$2,008 million mainly due to the additional depreciation charges on new asset additions in our existing Hong Kong railway network. Variable annual payment to KCRC increased by 10.3% to HK$867 million as the incremental revenue was charged at the highest progressive rate of 35%. Operating profit before interest and tax therefore decreased by 27.5% to HK$6,154 million.

Interest and finance charges were HK$268 million in the first half of 2016, a decrease of 9.2% mainly due to higher interest income. Investment property revaluation gain amounted to HK$48 million. Our share of profit from Octopus Holdings Limited increased by 23.9% to HK$145 million. Our share of profit from other associates was HK$152 million, an increase of HK$103 million over the same period in 2015. The increase was due to improvements in the results of HZMTR and BJMTR, mainly resulting from patronage growth in 2016.

Net profit attributable to shareholders, after deducting income tax of HK$1,037 million and profits shared by non-controlling interests of HK$73 million, decreased by 37.5% to HK$5,121 million in the first half of 2016. Earnings per share therefore decreased from HK$1.40 to HK$0.87. Excluding investment property revaluation, the underlying profit attributable to equity shareholders was HK$5,073 million, with underlying earnings per share of HK$0.86. Profit from our recurrent businesses grew by 7.8% to HK$4,866 million, while post-tax property development profits decreased from HK$2,311 million to HK$207 million in the first half of 2016.

Our statement of financial position remained strong, as the Group's net assets decreased by 14.7% from HK$170,171 million as at 31 December 2015 to HK$145,239 million as at 30 June 2016, due to the special dividend of HK$25,884 million accrued following the approval of the XRL Agreement by shareholders and LegCo earlier this year.

Total assets increased by HK$14,870 million to HK$255,973 million as a result of capitalisation of further construction costs of the South Island Line (East) and Kwun Tong Line Extension, renewal and upgrade works for our existing Hong Kong railway network and higher cash balances. There was also equity contribution to BJMTR to support BJL14. Total liabilities have increased by HK$39,802 million since 31 December 2015 to HK$110,734 million as at 30 June 2016. This was mainly due to the special dividend accrued as well as the sales proceeds received in advance in respect of Tiara in Shenzhen. The Group's net debt-to-equity ratio decreased from 11.3% at 31 December 2015 to 8.6% at 30 June 2016. If the HK$4.40 per share Special Dividend payable totalling approximately HK$25,884 million had been paid on 30 June 2016, the Group's net debt-to-equity ratio as at 30 June 2016 would have increased from 8.6% to 26.4%.

Net cash generated from operating activities decreased by HK$320 million to HK$9,407 million in the first half of 2016. The decrease was mainly due to higher tax payments. Receipts from property developments of HK$5,062 million in the first half of 2016, which were HK$2,622 million higher than the same period in 2015, and mainly related to proceeds from Hemera in Hong Kong and Tiara in Shenzhen. Including other cash receipts of HK$734 million mainly relating to proceeds from shares issued under our share option scheme, net cash receipts from operating and investing activities increased from HK$12,553 million in the first half of 2015 to HK$15,203 million in the first half of 2016.

Total capital expenditure for railway operations paid during the first half of 2016 was HK$4,231 million. This included HK$2,128 million for the purchase of assets for our Hong Kong transport operations' existing railways and related operations, HK$2,054 million for the construction of the Hong Kong railway extension projects, HK$49 million for other Mainland of China and overseas transport operations. For property related businesses, total capital expenditure paid was HK$1,026 million. This included HK$191 million in respect of Hong Kong property development projects, HK$643 million for Tiara and HK$192 million for Hong Kong investment property projects and related fitting out work.

The Group paid variable annual payment to KCRC amounting to HK$1,649 million. Taking into account the cash investment into BJMTR of HK$1,191 million and other payments, net cash payments decreased from HK$15,149 million in the first half of 2015 to HK$8,493 million in the first half of 2016. After these items and net loan drawdown of HK$6,154 million, the Group's cash balance increased from HK$12,318 million at 31 December 2015 to HK$25,182 million at 30 June 2016.

Financing Activities

The US Federal Reserve did not follow through with further interest rate hikes in the first half of 2016, preferring to take a wait-and-see approach in light of the uneven growth in the US economy and the increasingly complex and uncertain global environment.

Although commodity and oil prices have rebounded from cyclical lows, continuing global over-capacity and lack of inflation, together with significant safe haven demand for US Treasuries, particularly after the 'Brexit' vote, sent Treasury yields to fresh historical lows with the 10-year and 30-year yields ending the period at 1.47% p.a. and 2.28% p.a. respectively.

Taking advantage of the drop in long-term interest rates, the Group issued a number of HK and US dollars long-term fixed rate notes through private placement. Totalling about HK$3 billion with maturities ranging from 15 to 35 years, these notes helped secure attractive, cost effective fixed rate long-term funding whilst further lengthening and diversifying the debt maturity profile.

A HK$15 billion syndicated loan facility launched in February was met with overwhelming interest and successfully closed in June with the size increased to HK$25 billion and participation by 21 major banks from across Asia, Australia, the Middle East, Europe and North America. The facility comprises a HK$12.5 billion 3-year term loan and a HK$12.5 billion 5-year revolving credit facility. All-in pricing of the 3-year term loan is the lowest in the HK dollar loan market since the 2008 Global Financial Crisis and that of the 5-year revolving facility is also the lowest amongst current outstanding 5-year facilities.

At the end of June 2016, the Company had total cash and bank deposit balances of HK$16,855 million. This, together with total undrawn committed banking facilities of HK$31,700 million, would provide comfortable forward funding coverage well into 2017.

The Company's debt portfolio is prudently managed in accordance with our Preferred Financing Model. At the end of June 2016, 38.6% of total debt outstanding had maturity of less than 2 years, 24.9% between 2 and 5 years, and 36.5% beyond 5 years, reflecting modest refinancing risk. With 100% of debt outstanding either denominated in or hedged into HK dollars, foreign exchange rate risk was minimal. Approximately 57.5% of debt outstanding was at fixed rate, reflecting a manageable interest rate risk.

During the first half of 2016, the Company's weighted average borrowing cost remained the same at 2.9% p.a. as in the same period last year. Group weighted average borrowing cost decreased to 3.1% p.a. from 3.6% p.a. mainly due to lower PBOC reference lending rates and repayment of project loans with higher interest rates in the Mainland of China.

The Company's credit ratings remained strong and on par with the Hong Kong SAR Government at AAA and Aa1 by Standard and Poor's and Moody's respectively, although rating outlook was changed to negative in April and March 2016 respectively after the outlook for Hong Kong was downgraded from stable.

MTR Academy

The Company continues to make progress on the establishment of the MTR Academy in Hong Kong which aims to develop local and other nations' human resources for the railway and transport industry. The President of the Academy was appointed with effect from 1 July 2016. The initial Hong Kong campus of the Academy will be located in the MTR Hung Hom Building. The space is under renovation and will be opened by the end of 2016. In addition to the Qualifications Framework accredited programmes on railway operations and maintenance for MTR employees and the Hong Kong community, the Academy is developing other programmes tailored for executives and managers of railway operating companies in the Mainland of China and overseas.

Human Resources

The Company, together with its subsidiaries, employed 17,411 people in Hong Kong and 8,672 people outside of Hong Kong as at 30 June 2016. Our associates employed an additional 11,167 people in and outside of Hong Kong. During the first six months of 2016, 766 new hires were taken on and 646 people were promoted internally, while staff turnover remained low at 3.5% in Hong Kong.

In support of current operational needs and future business growth, a robust manpower resourcing strategy has been formulated, with active recruitment activities such as Community Recruitment Days, to attract talents at various levels. Proactive manpower planning and a global resourcing strategy are also in place to cater for the needs of our global businesses.

We continue to groom our young talents through various graduate development programmes covering job rotations and attachments, study trips, management training and action learning projects. A range of leadership development and learning programmes have also been launched to support the growth of staff across all levels. During the first half of 2016, 3,547 courses were held in Hong Kong providing an average of 3.2 training days per employee.

Various programmes are in place to reinforce staff engagement and motivation. To strengthen the corporate culture, 35 Culture-in-Action Managers Workshops have been conducted for over 1,500 managers since August 2015, with the first "Culture-in-Action Change Agents Forum" held in March 2016.

A total of 4,297 communication sessions were conducted under the "Enhanced Staff Communication Programme" during the first half of the year. Internationally, our popular global internal communications platform MTRconnects had recorded over 758,500 hits by 30 June 2016.

The Work Improvement Team programme, together with the Staff Suggestion Scheme, continue to encourage collective innovation, process improvement and staff engagement in our Hong Kong, Mainland of China and international businesses.

With our dedication to employee engagement and Human Resources practices to inspire and develop staff, the Company was named among the "Best Companies to Work for in Asia 2016" by HR Asia Magazine, one of the leading publications for HR professionals. The Company was also honoured as the first runner-up of the "Most Attractive Employers in Hong Kong" organised by the Randstad Group, an international Human Resources consultant firm.

Community Engagement

In March 2016 we launched a new identity for our corporate responsibility initiatives called Community Connect. Complementing our Youth Connect initiatives, Community Connect encompasses a number of new and existing programmes, such as offering retail spaces within our West Rail Line for social enterprises that will be rolled out in 2016, as well as the continued collaboration with the Hong Kong Repertory Theatre on the Master of Railway Safety School Tour, which is now in its fifth year. We are also making space available in our malls for art-related activities. This enriches our existing "art in mtr" programme, which aims to enhance passengers' travelling experience.

One of our Community Connect initiatives, our "More Time Reaching Community" scheme, supported 123 community projects involving over 1,900 volunteers in the first half of 2016. In addition, over HK$2.9 million was donated to charitable and other organisations. In July 2016, a special donation, comprising contributions from MTR staff and the Company, was made via the Fire Services Department to the families of the two gallant fire fighters who died battling the Ngau Tau Kok blaze. In recognition of our commitment to caring for the community, our employees and the environment over the past years, the Company has been awarded the "10 Years Plus Caring Company Logo" by the Hong Kong Council of Social Service since 2015.

Outlook

The global outlook remains uncertain, reflecting slowing economic growth in many countries and geo-political uncertainties resulting from events such as the outcome of the UK referendum on membership of the European Union and forthcoming elections in a number of countries. These factors have impacted Hong Kong, which has seen a decline in retail sales, a softening in the residential property markets and slower GDP growth.

Despite this more challenging environment, our Hong Kong transport business is defensive by nature and although we expect passenger volume growth to be muted, it will be supported by the opening of the Kwun Tong Line Extension targeted for October this year. We are also targeting to open the South Island Line (East) at the end of the year, although the remaining tight construction timetable puts this at risk. Rental reversions at our station retail and property rental businesses will be subject to market conditions, while our advertising business will be sensitive to Hong Kong's overall economic conditions.

As mentioned previously, we do not expect to launch any new pre-sales on any of our current Hong Kong property development projects in the second half of the year. Hence any profits from Hong Kong property development will come from sundry sources such as the sale of existing inventory units and car parking spaces. In the Mainland of China, following the successful pre-sales of Tiara in Shenzhen, we will book profits on units sold when such units are handed over to buyers. Based on construction progress, we expect to hand over units sold in the low-rise buildings on the depot podium before the end of this year, while the high rise units, which account for the vast majority of the development, will be handed over next year.

In our property tendering activities in Hong Kong over the next six months or so, subject to market conditions, we expect to tender out three of our development packages, these being our eleventh package at LOHAS Park and our first package for each at Ho Man Tin Station and Wong Chuk Hang Depot. As agent for the relevant subsidiary of KCRC, subject to completion of statutory process, we also expect to tender out the first package of the Kam Sheung Road Station site.

Outside of Hong Kong, if local currencies continue to be weak, this may have an adverse impact on profits when such profits are translated back into Hong Kong dollars. The opening of Phase 1 of BJL16, expected at the end of this year, and the take-over of operations of Stockholms Pendeltåg, will add to our businesses.

A number of changes have been made to our senior management team to strengthen its effectiveness.

Dr Peter Ewen joined as Engineering Director on 22 February 2016 to oversee the Company's new Engineering Division. Ms Margaret Cheng was appointed as Human Resources Director with effect from 1 June 2016. Mr Herbert Hui joined as Finance Director – Designate on 1 June 2016 and was appointed as Finance Director on 2 July 2016.

To strengthen the focus on Hong Kong railway operations and to respond to the business and operational growth within and outside of Hong Kong, the new position of Managing Director – Operations and Mainland Business has been created. This new post was taken up on 1 May 2016 by Dr Jacob Kam, formerly Operations Director, who was succeeded in his previous role by Mr Adi Lau, formerly Deputy Director – Operating.

Following Mr Morris Cheung's appointment as President of the MTR Academy on 1 July 2016, his responsibilities as European Business Director were transferred to Ms Gill Meller, Legal Director & Secretary, whose title changed to Legal and European Business Director on the same date. The procurement and contract administration function, which was previously part of the Legal and Procurement Division, was transferred to the Engineering Division.

Finally I wish to express my gratitude to the Board for their encouragement and support. My thanks also go out to all my MTR colleagues both in and outside of Hong Kong for their excellent work and their dedication in providing our customers with world-class levels of service.

Lincoln Leong Kwok-kuen, *Chief Executive Officer*
Hong Kong, 9 August 2016