CEO's Review of Operations and Outlook

Dear Shareholders and other Stakeholders,

MTR's achievements in the first half of 2014 were overshadowed by the announcements of delays in our new rail projects in Hong Kong as well as a small number of longer delays in our Hong Kong rail service. We have apologised to our customers and stakeholders for these delays and events, and strive to continuously improve from lessons learnt. Despite this, the successes in the first half of 2014 link up with a very significant milestone: the 35th anniversary of MTR, a history stretching back to October 1979. It is our honour to have served the people of Hong Kong over these years, creating a proud inheritance, one that we are continuing to add to in 2014. Notwithstanding the challenges we have faced, I am pleased to report that in the first six months of 2014, our core operations returned good results. Our railway operations continued to perform well overall, with operational performance and safety standards remaining excellent by global standards. At the same time, we continued to invest in Hong Kong to increase our train frequency and improve our stations.

Our operations and maintenance activities in Hong Kong helped us maintain an efficient and reliable train service for the territory, with safety, as always, being the top priority. Our Listening • Responding programme, launched in 2012, continued to build momentum as new initiatives were rolled out or put into planning. Although train service continues to increase and improve, with the maintenance of 99.9% "on-time" performance in the first half of 2014, we are well aware of the inconvenience caused to our passengers by long service delays, and we continue to take steps to improve the resilience of our network and enhance recovery measures after incidents.

Against this backdrop we announced delays in the delivery of a number of our new rail projects in Hong Kong, in particular the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link"). This led to increased scrutiny of the communications relating to, and management of these projects. A number of internal and external reviews have been or are being undertaken in relation to the delay in delivery of the Express Rail Link. The first of these was a report from an Independent Committee of the MTR Board ("IBC"), delivered on 16 July 2014. We will work diligently to implement recommendations from this report and look forward to receiving recommendations from the second IBC report as well as the Government's independent expert panel report. The first of the five new Hong Kong railway lines to come into operation, the West Island Line, is targeted to open at the end of the year, although construction difficulties may result in one of the three new stations, Sai Ying Pun Station, opening for service later in the first quarter of 2015. Currently the progress of the South Island Line (East) and Kwun Tong Line Extension are behind schedule and the original target opening in 2015 cannot be achieved. For the two service concession projects, where we are entrusted with project management by the Government, the Express Rail Link has a current programme for opening in end of 2017 whilst the Shatin to Central Link is facing an 11-month delay due mainly to the archaeological works at the To Kwa Wan Station area. Despite the difficulties and complications involved in these major railway projects, we are doing our utmost to reduce and mitigate delays although in projects of this nature, future unforeseen events may further hinder progress. Going forward, we will be updating the community on a regular basis about the progress of these five new lines.

Outside of Hong Kong, on a prudent basis, we are continuing to seek selected opportunities in the Mainland of China, Europe and Australia, leveraging the expertise we have gained in Hong Kong and our proven success in our existing overseas operations. We are honoured to be a key member of the consortium which was selected as the preferred operator for the North West Rail Link Public-Private-Partnership ("PPP") project in Sydney, Australia whilst in the UK, we were awarded the Crossrail Train Operating Concession franchise in July 2014.

Total revenue for the first six months of 2014 rose 1.3% to HK$19,471 million. Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payments increased by 6.8% to HK$7,831 million. Excluding our Mainland of China and international subsidiaries, revenue rose by 7.6% and operating profit by 7.7%, while operating margin remained at 56.4%. Profit from Hong Kong property development was HK$245 million compared to HK$531 million in the first half of 2013. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders increased by 3.2% to HK$4,389 million, representing earnings per share of HK$0.76. Gain in revaluation of investment properties was HK$3,523 million, as compared with HK$1,907 million in the first half of 2013. As a result, net profit attributable to equity shareholders increased by 28.5% to HK$7,912 million, equivalent to earnings per share of HK$1.36 after such revaluation. Your Board has declared an interim dividend of HK$0.25 per share, unchanged from last year.

Total revenue in the first half of 2014 from our Hong Kong transport operations reached HK$7,729 million, an increase of 6.5% over the first half of 2013. Operating costs of our Hong Kong transport operations increased by 4.7% to HK$4,002 million, resulting in operating profit for this business increasing by 8.5% to HK$3,727 million, with an operating margin of 48.2%.

Patronage

Total patronage from all of our rail and bus passenger services in Hong Kong rose by 3.0% to 909.4 million. If the Intercity service is excluded, total patronage increased by 3.0% to 907.3 million.

Total patronage for our Domestic Service, which comprises 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, reached 736.5 million, a 3.3% increase over the first half of 2013.

The Cross-boundary Service to Lo Wu and Lok Ma Chau recorded a marginal 0.1% rise in patronage to 54.5 million in the six-month period. Passenger traffic on the Airport Express increased by 11.4% as compared with the first half of 2013, to 7.1 million.

Passenger volume on Light Rail and Bus during the first six months of 2014 was 109.2 million, a 2.1% increase, while patronage on the Intercity service was 2.1 million, up 3.2%.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong increased by 2.4% to 5.28 million during the first six months of 2014 (5.27 million if the Intercity service is excluded). The Domestic Service accounted for the majority of this patronage, achieving a 2.6% increase to 4.33 million passengers per weekday.

Market Share

The Company increased its overall share of the franchised public transport market in Hong Kong from 46.5% in the first six months of 2013 to 47.0% in the comparable period of 2014. Within this total, our share of cross-harbour traffic was 66.6%. The Company's market share of Cross-boundary business for the first six months declined from 53.4% to 52.0%, while market share to and from the airport rose to 22.1% from 21.8%.

Fare Revenue

Total Hong Kong fare revenue in the first half of 2014 was HK$7,653 million, a 6.5% increase over the same period in 2013. Within this total, the Domestic Service accounted for HK$5,375 million or 70%. Average fare per passenger on our Domestic Service increased by 3.6% to HK$7.30, reflecting the effect of adjustments in fares in accordance with the Fare Adjustment Mechanism ("FAM") as well as the fare concessions offered.

Fare revenue from the Cross-boundary Service for the first six months of 2014 was HK$1,459 million, an increase of 3.8% over the first half of 2013. Fare revenue from the Airport Express was up 9.7% at HK$440 million. Light Rail and Bus fare revenue during the first half of 2014 was HK$308 million, a 6.6% increase over the same period in 2013, while fare revenue from the Intercity service was HK$71 million, increasing by 2.9%.

Following the review of FAM last year, the overall fare adjustment rate of MTR fares which was implemented in June 2014 was 3.6%; this is 0.5 percentage point lower than what it would have been before the review that took place in 2013. In conjunction with this adjustment, we are offering new fare promotions in addition to the ongoing fare concessions and promotions which MTR offers every year.

Promotions and Concessions

Promotions and concessions continued to be important ways in which we add value for passengers. This year, in recognition of our 35th Anniversary and to thank passengers for their support over the years, we announced in May a package of fare promotions (including those associated with FAM) which has an estimated annual value of about HK$500 million, adding to the existing HK$2 billion worth of ongoing fare concessions and promotions that we offer every year.

Included in the fare promotions package was an extension to 30 April 2015 of the "10% Same-Day Second-Trip Discount" which would have expired on 15 October 2014 under the current FAM arrangement, the launch of a 40 rides within 30 days for HK$400 MTR City Saver ticket scheme which will save money for those making regular medium- to long-distance journeys between designated urban stations, and the trial of an Early Bird Discount promotion at 29 core MTR stations in the urban area – a move that aims to spread the morning rush hour demand for our network will be launched in September 2014 till end May 2015. In the first 60 days since its launch, over 160,000 MTR City Saver tickets have been sold, reflecting the attractiveness of this promotion. Other initiatives undertaken during the period included the installation of a new Fare Saver at Discovery Park Shopping Mall in April, bringing to 33 fare savers in different districts offering fare discounts of HK$1 or HK$2. Special promotions for MTR Tourist Tickets encouraged more tourists to use the MTR network to explore Hong Kong.

Our MTR Club, with over 1.4 million members as at June 2014, continued to reward passengers for their patronage and offer them exclusive experiences. In the period we held a visit to the Operations Training Centre for some Club members, and launched two programmes encouraging greater use of our Cross-boundary and Airport Express services. From December 2013 to March 2014, we also launched a new wave of our popular Bonus Point programme to reward loyal members.

In the period, we launched fare promotions for our Lok Ma Chau service in both Hong Kong and Shenzhen, which included discounted rides for students from selected universities and for residents living in areas where MTR has high growth potential. In addition, we introduced a special Park and Ride Promotion at MTR Hung Hom Station Car Park for passengers using our Cross-boundary services to Lo Wu or Lok Ma Chau. In celebration of the 35th anniversary of the Guangzhou-Kowloon Through Train, a series of promotional activities were launched in March, including prize draws for purchasers of tickets, discounts on souvenir items, and a photo exhibition about the history of the service held at Hung Hom Station.

Service and Performance

During the first six months of 2014, our overall train service performance remained stable, with 99.9% on-time performance, exceeding the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. From January to July, we operated over one million train trips in our heavy rail network, with only eight delays that lasted 31 minutes or more. However, we recognise that any long disruption causes much inconvenience to passengers and have focused on lessons learnt from each incident to develop improvement measures. We received "The Best Public Transportation Service Award" at the Sing Tao Services Awards 2013 for the eighth consecutive year presented by *Sing Tao Daily*, and the "Category Award of Infrastructure & Economic – Public Transportation" for the tenth consecutive year at the Hong Kong Service Awards 2014 presented by *East Week*.

A number of initiatives were undertaken in the first six months of 2014 under our Listening • Responding programme. A total of 313 weekly train trips were added to our Island, Kwun Tong, Tsuen Wan and East Rail lines in April this year to enhance travel convenience and comfort. Since the launch of programme in 2012 we have added more than 1,600 train trips per week across the network to increase capacity. An additional 600 weekly train trips will also be added to six of our MTR lines starting end August. For Light Rail, 148 additional weekly services were introduced in April on three busy routes to enhance frequency.

We continued to improve station access and facilities, including carrying out work to add more external lifts and replace several existing ones. The retrofitting of all Ticket Issuing Machines to issue Single Journey Smart Tickets was completed in March. In response to the very high usage of some of our busiest stations at peak periods, we boosted the help available at the stations by recruiting additional assistants, and implemented a new platform queuing arrangement at Kowloon Tong Station to improve the flow of passengers in and out of trains. Earlier, in March, we made free Wi-Fi access available inside the Through Train Departure Hall at Hung Hom Station for passengers prior to boarding. This is on top of the free Wi-Fi hotspots provided at all 84 stations.

Operations Performance in First Half 2014

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%	**99.8%**
– 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%	**99.8%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.8%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	600,000	**4,748,174**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	600,000	**5,337,561**
Ticket reliability: magnetic and 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	8,000	**23,084**
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%	**99.7%**
– 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%	**99.6%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.7%**
– West Rail Line	97.0%	99.0%	**99.8%**
– Light Rail	N/A	99.0%	**99.9%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.9%**
– 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%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.9%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.5%	**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%	**99.7%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

Elsewhere, across the network, we have been constructing eight more External Passenger Lifts, as well as public toilets at Mong Kok and Prince Edward stations, whilst demolishing the Tsim Sha Tsui Station Entrance D1 to facilitate the construction of the Carnarvon Road Subway. Piling work for the Tsim Sha Tsui Station new Entrance A1 has been partially completed. When finished in 2015, the entrance will be transformed into a giant "Crystal Cube" of glass that will become a distinctive landmark on Nathan Road.

In March, the MTR Mobile app was upgraded and given enhanced audio information and control functions for visually-impaired passengers; the app went on to win two Gold Awards in the mobile application stream of the Web Accessibility Recognition Scheme 2014, organised by the Office of the Government Chief Information Officer and the Equal Opportunities Commission.

We continue to invest in our existing railway assets to improve performance and capacity; every year we spend in the region of HK$5 billion in maintenance, renewals and service improvement. Two major investment programmes of which tender process started this year are the replacement of signalling systems in the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines and Airport Express, as well as the asset life assurance of some of our existing trains. Other capital investments, such as the upgrading of our passenger information systems, also continued as planned.

Work continued in the period on maintaining and enhancing our internationally recognised reputation for safety. New safety barriers were added to seats in Light Rail trains for better passenger protection. Safety education campaigns and activities to help raise passenger awareness of safety and reduce accidents continued to be held, including the publication of a railway safety booklet for passengers jointly published with the Electrical and Mechanical Services Department.

Revenue from our Hong Kong station commercial businesses increased by 8.3% in the first half of 2014, to HK$2,377 million. The rise was largely a result of increases in rental rates and higher turnover rents. The operating costs of our Hong Kong station commercial businesses increased by 9.7% to HK$226 million, resulting in operating profit for this business increasing 8.2% to HK$2,151 million, with an operating margin of 90.5%.

Station retail revenue increased 8.2% to HK$1,568 million. As at 30 June 2014, the number of station shops was 1,335, covering a total area of 56,209 square metres of retail space. As at the end of June, seven stations were undergoing renovation work with a view to adding new shops, whilst new shops have already been added at Tuen Mun, Diamond Hill and Tsing Yi stations. Ten new brands were attracted to our stations during the first half of 2014. To further enhance the brand positioning of MTR Shops, a thematic branding campaign re-run "Style TO-GO" was organised featuring popular Korean pop stars, which effectively promoted the unique "transit shopping" features of MTR Shops. Posters displayed across the MTR network also featured new brands opening up in MTR Shops.

Advertising revenue during the first six months of 2014 increased by 7.0% to HK$486 million, even though the number of advertising units fell slightly by 510 to 44,548 due to enhancement work being carried out on advertising panels on some MTR lines. New and well-targeted advertising packages, including feature advertising in certain dedicated areas of stations, helped boost results. We are in the process of upgrading our poster panels along the trackside of the Island Line and in the concourses of stations in the business areas of Hong Kong Island to improve their lighting and display quality.

We are also revamping our digital panels in ten key stations to enhance the display network and upgrade their visual quality.

Telecommunications revenue in the first half of 2014 rose by 10.6% to HK$240 million, largely due to incremental revenue from mobile data capacity increases by telecom operators.

MTR continued working with telecom operators on the joint 2G/3G Capacity Enhancement Project; by the end of June 2014, 38 stations had been upgraded. LTE2600 services, which can provide a faster 4G connection, were launched by one of the telecom operators serving Hong Kong Station and Kowloon Station and the tunnels in between.

The Hong Kong property market remained stable in the first half of 2014. Government measures from the previous two years contributed to low volumes of residential property sales, especially in the first quarter. In the second quarter, however, increased activity in the residential sector was evident as a number of new residential projects came onto the market and received positive response. Rental rates for both office and retail premises have remained stable.

Property Development in Hong Kong

Profit from Hong Kong property development in the first half of 2014 was HK$245 million, with contributions from both agency fees from West Rail property development and the sale of inventory units.

In the first half of 2014, we launched the pre-sale of Grand Austin (691 units) at Austin Station Site D with over 99% of units now sold, and City Point (1,717 units) at Tsuen Wan West Station, where we act as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation ("KCRC"), with over 90% of units sold by July 2014.

In our property tendering activities, LOHAS Park Package 4 was tendered at the end of March and awarded in April to Globaluck Limited, a subsidiary of Sun Hung Kai Properties Limited.

Property Rental and Management Businesses in Hong Kong

Revenue from our Hong Kong property rental and property management businesses in the first half of 2014 rose by 10.0% to HK$2,026 million. Operating costs increased by 8.9% to HK$331 million, resulting in operating profit increasing 10.2% to HK$1,695 million, with an operating margin of 83.7%.

Total property rental income in Hong Kong was HK$1,910 million, 10.1% higher than in the first six months of 2013. Our shopping mall portfolio continued to perform well and rental reversions during the period achieved an average 14% increase. At the end of June 2014, our shopping malls in Hong Kong and the Company's 18 floors at Two International Finance Centre ("Two ifc") remained close to 100% let. The renewed lease with the major tenant at Two ifc commenced in July 2014.

As at 30 June 2014, the Company's attributable share of investment properties in Hong Kong was 213,128 square metres of lettable floor area of retail properties, 40,969 square metres of lettable floor area of offices, and 14,282 square metres of property for other use.

For better branding and experiential consistency for the entire PopCorn shopping centre, renovation works for the common area of PopCorn2 have now been completed. Another major project for the year is to revamp Luk Yeung Galleria in Tsuen Wan to create a more vibrant trade mix, which is targeted for completion later this year. Advance works for the Maritime Square Extension project at Tsing Yi have also commenced on site in the second quarter of 2014.

MTR Malls' successes were widely recognized with the winning of various awards during the period, including the "Customer Caring Service Award" and "Luxurious Experience

Shopping Centre Award" by the Hong Kong Service Awards 2014 presented by *East Week*, as well as "Top 10 My Favourite Shopping Mall in Hong Kong" by *Hong Kong Economic Times*.

Hong Kong property management revenue in the first six months of 2014 rose by 8.4% to HK$116 million. As at 30 June 2014, the number of residential units under our management in Hong Kong stood at 90,523. The area of managed commercial space was 763,018 square metres.

During the first six months of 2014, our MTR managed properties also gained a number of recognitions. At the annual awards jointly organised by the Occupational Safety and Health Council, the Labour Department and the Hong Kong Association of Property Management Companies, Two ifc achieved the Gold Award in the category of "Safety Culture Award". The Cullinan and The Arch gained Silver Awards in the "Best Property Management Award in Occupational Safety and Health" category, and Merit Awards in the "Best Safety Enhancement Programme for Working at Height" category.

Other Businesses

The Ngong Ping cable car ("Ngong Ping 360"), which was named one of the 10 amazing cable car rides around the world by the UK Daily Telegraph, and its associated theme village achieved a 17.6% increase in revenue in the first six months of 2014 to HK$180 million compared to the same period last year. Visitor numbers for the period reached approximately 886,000 and reliability exceeded the target of 99.65%. Promotional activities in the period included a new 360 Holidays Sunset Tour, launched in April, while new hotel partners were added to the existing 360 Holidays 2Days/1Night overnight package. During the period, major construction work at the Monkey's Tale Theatre was substantially completed, and the Motion 360 Souvenir shop and Holidays 360 Service Centre opened in December 2013 and April 2014 respectively.

We leverage our experience as one of the world's leading railway operators to offer consultancy services to clients in Hong Kong and overseas. Revenue from our consultancy business in the first half of 2014 was HK$83 million, an increase of 38.3% over the same period in 2013.

The Company's share of Octopus' net profit for the first half of 2014 was HK$104 million, a 2.0% increase over 2013. By 30 June 2014, over 6,000 service providers in Hong Kong were using the Octopus. Total Octopus cards and other stored-value Octopus products in circulation during the period were 26.1 million. Average daily transaction volume and value were 13.1 million and HK$147.0 million respectively.

Income from project management services to Government, predominantly for entrustment works on the Express Rail Link and the Shatin to Central Link, was HK$714 million in the first six months of 2014, an increase of 6.6% over the same period in 2013. Income from such entrustment works is accounted for on a cost recovery basis.

Revenue in the first six months of 2014 from our railway subsidiaries outside of Hong Kong, namely Metro Trains Melbourne Pty. Ltd. ("MTM"), MTR Stockholm AB ("MTRS") and MTR Corporation (Shenzhen) Limited, was HK$6,275 million. This represents a decrease of 9.8% over the same period in 2013. Operating costs were HK$5,854 million, resulting in a 6.0% drop in operating profit to HK$421 million and an operating profit margin of 6.7%. This reduction was due to two factors: currency movements and a one-off profit recognised by MTRS of HK$46 million in the first half of 2013 which was not repeated in 2014. Excluding this one-off profit and on a constant exchange rate basis, operating profit would have increased by 13.3%.

Property Development Packages Completed during the period and Awarded

Location	Developers	Type	Gross floor area (sq. m.)	Period of package tenders	Expected completion date
LOHAS Park Station					
Package Three	Cheung Kong (Holdings) Ltd.	Residential Kindergarten	128,544 1,000	Awarded in November 2007	2014
Package Four	Sun Hung Kai Properties Ltd.	Residential	122,302	Awarded in April 2014	2020
Austin Station					
The Austin and Grand Austin	New World Development Co. Ltd. and Wheelock Properties Limited	Residential	119,116	Awarded in March 2010	2014
Tuen Mun Station#					
Century Gateway and Century Gateway II	Sun Hung Kai Properties Ltd.	Residential Retail	119,512 25,000	Awarded in August 2006	By phases from 2012 - 2014
Tsuen Wan West Station#					
City Point	Cheung Kong (Holdings) Ltd.	Residential	113,064	Awarded in September 2008	2014
TW5 Cityside	Chinachem Group	Residential Retail	66,114 11,210	Awarded in January 2012	2018
TW5 Bayside	Cheung Kong (Holdings) Ltd.	Residential Retail Kindergarten	167,100 40,000 550	Awarded in August 2012	By phases from 2017 - 2018
TW6	New World Development Co. Ltd. and Vanke Property (Overseas) Limited	Residential	62,711	Awarded in January 2013	2018
Nam Cheong Station#					
Nam Cheong	Sun Hung Kai Properties Ltd.	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	2018
Long Ping (South)	Chinachem Group	Residential	41,990	Awarded in June 2013	2019

as a development agent for the relevant subsidiaries of KCRC

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 Retail	902,918 - 912,918 39,500 - 49,500		
Tai Wai Station	Residential Retail	190,480 62,000		
Tin Wing Stop (Light Rail)	Residential Retail	91,051 205	2014 - 2020	2020 - 2024
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 associates outside of Hong Kong, Beijing MTR Corporation Limited ("BJMTR"), London Overground Rail Operations Limited ("LOROL"), Tunnelbanan Teknik Stockholm AB, and Hangzhou MTR Corporation Limited ("HZMTR"), continued to provide high quality rail services to their respective communities. Although HZMTR continued to suffer start-up losses, our overall share of profits from these four associates for the first six months of 2014 was HK$24 million, as compared to a loss of HK$51 million in the same period last year.

Total passengers carried by our rail subsidiaries and associates outside of Hong Kong was approximately 713 million in the first half of 2014, against approximately 652 million in the first half of 2013.

Railway Businesses in the Mainland of China

In the Mainland of China, Beijing Metro Line 4 and the Daxing Line continued to exceed operational targets. Combined ridership in the first half of 2014 was 220.9 million passenger trips, with average weekday patronage of more than 1.2 million. The two lines have 35 stations and a combined length of 50 km. Phase 1 of the Beijing Metro Line 14 ("BJL14") was opened in May 2013, with the new interchange station, Qilizhuang Station, opened for service in February 2014. Average weekday patronage has risen to over 47,000. The Phase 2 East Section is targeted for opening later in 2014. Full line operation is expected after 2017. BJL14 is currently operated by BJMTR on an Operation and Maintenance basis with the PPP starting once the full line is opened.

The operational performance of the Shenzhen Metro Longhua Line exceeded targets during the period. Ridership for the six months was 78 million, with average weekday patronage reaching 430,000. To increase capacity, as at 30 June 2014, 10 of the 28 trains have been converted from 4-car to 6-car with all remaining trains to be converted by the first quarter of 2015. In January, a Strategic Cooperation Framework Agreement was signed with the Longhua New District Administration Commission for the North Extension of this line. MTR will leverage its experience to offer advice and technical support for the construction of the North Extension, together with a light rail system in the Longhua District of Shenzhen.

Hangzhou Metro Line 1, which has been in operation since November 2012, achieved a good operational performance. Initiatives to drive growth in ridership have helped raise the total patronage for the six months to over 67 million and the average weekday patronage to over 350,000.

International Railway Businesses

In the UK, LOROL ridership in the period was about 55.7 million, with a weekday average of 407,000. At the 11th annual London Transport Awards, a LOROL employee received the Frontline Employee of the Year award. LOROL's franchise to operate and maintain the London Overground rail services was extended in February 2013 from November 2014 to November 2016.

In Stockholm, MTRS's ridership for the six months was about 166.7 million, with average weekday patronage of about 1.19 million.

In Melbourne, MTM's ridership for the six months was approximately 116.5 million, with average weekday patronage reaching 822,000. In March, MTM received the prestigious Operator & Service Provider Excellence Award at the National Infrastructure Awards, organised by Infrastructure Partnerships Australia.

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

MTR Property Development (Shenzhen) Company Limited continued to make progress on the development of Shenzhen Metro Longhua Line Depot Site Lot 1, which has a total developable gross floor area of approximately 206,167 square metres. Construction is in full swing and preparation for sales and marketing is underway. First phase pre-sale is expected to be launched in early 2015.

In Tianjin, our 49% Joint Venture with Tianjin Metro (Group) Company Limited continues to make progress on the development of the Beiyunhe Station site. This site, sitting atop the Beiyunhe Station on Tianjin Metro Line 6 will be developed into a 278,650 square metres mixed used development with residential, commercial and retail uses.

Revenue from our property rental and property management businesses in the Mainland of China increased by 5.6% to HK$75 million for the first six months of 2014. Our shopping mall in Beijing, Ginza Mall, recorded an occupancy rate of 98% at the end of June 2014. The Company's managed gross floor area in the Mainland of China stands at 256,000 square metres.

The first six months of the year saw MTR fully engaged in the challenging task of expanding the Hong Kong railway network through five different projects, as well as continuing our progressive growth strategies in the Mainland of China and overseas. However the announcements of delays in the new Hong Kong rail projects blighted the considerable achievements made.

Growth in Hong Kong

New Rail Lines owned by MTR

The West Island Line is a 3-km underground extension of the existing MTR Island Line from Sheung Wan Station to Kennedy Town with three new stations. It was 93% complete by the end of June 2014. Connection and testing of the overhead line system has been completed, and testing of the signalling system is well advanced. The final installation of passenger facilities is ongoing at the three stations of the new line. Our target is to open the line in December 2014, should works continue to proceed at the current rate. However, delicate ground conditions in the area around Sai Ying Pun Station have affected the pace at which passenger entrances are being constructed. Since the programme is very tight, as a prudent measure we are putting in place a back-up plan, under which trains will not stop at Sai Ying Pun Station on initial line opening. Under this back-up plan Sai Ying Pun Station will be opened in the first quarter of 2015. If Sai Ying Pun Station is not ready for opening in December 2014 and the back-up plan proves not to be feasible, then full opening of the West Island Line will take place in the first quarter of 2015. An announcement will be made later this year relating to the line opening. We are doing our utmost to ensure the West Island Line can start serving the Western District community as early as possible, providing safe, smooth and reliable operations. With the complexity of the works on the West Island Line as well as delayed progress, we have updated our project cost estimate (excluding capitalised interest) from an original estimate of HK$17.2 billion to approximately HK$18.5 billion.

The South Island Line (East) project, a 7-km railway running from Admiralty to South Horizons with three intermediate stations, had reached 73% completion by June 2014. Due to the complexity of the works at Admiralty Station, the original target opening of South Island Line (East) in 2015 will be delayed. In conducting the underpinning structural works below the platforms of the existing operational lines at Admiralty Station, the safety of passengers using the existing railway and of occupants of the surrounding buildings has continued to be of the utmost priority. This has limited our ability to make up lost time when more challenging than expected conditions have been encountered. For the Nam Fung Tunnel, excavation works are targeted to be completed in the third quarter of 2014. Tunnel lining work and the construction of the transition structure that connects to the viaduct section is expected to be completed in the first quarter of 2015. However, difficult and unstable ground conditions including two major fault zones along the tunnel alignment have dictated slow progress. With the delay of the South Island Line (East), currently, there is an increase in estimated project cost (before capitalised interest) of HK$1.7 billion, resulting in estimated total project cost (before capitalised interest) at HK$15.2 billion.

The Kwun Tong Line Extension, a 2.6-km underground extension of the existing Kwun Tong Line from Yau Ma Tei Station to Whampoa Station with an intermediate station at Ho Man Tin, was 63% complete at the end of June 2014. The most challenging part of the project works is at the Whampoa Station site where extensive excavation works are being carried out within a densely populated community with busy traffic and complex underground utilities. The implementation of protection works for underground utilities and limited working space have prolonged the process during the early stage of construction. As a result of the difficulties at Whampoa Station, currently construction progress is behind the original schedule and the targeted opening of the Kwun Tong Line Extension in 2015 cannot be achieved. Despite the delay, the project cost is currently estimated to be still within the original project cost estimate (before capitalised interest) of HK$5.9 billion.

For both the Kwun Tong Line Extension and South Island Line (East), we will further update progress and provide the time frame for opening arrangements at the end of the year.

New Rail Lines Entrusted to MTR by the Government

The 26-km Express Rail Link, one of two entrustment projects funded by Government and project managed by MTR, 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. A number of factors combined to set back the scheduled opening of this project from 2015 to end of 2017. Specifically, three locations pose challenges: the West Kowloon Terminus, the Yuen Long tunnel section between Tsat Sing Kong and Tai Kong Po, and the cross-boundary tunnel section. Despite exceptional efforts from the project teams, the cumulative effect of delayed site access, shortage of labour, difficult ground conditions, deformed piles and bad weather have made the originally planned opening date for the line unfeasible. The overall progress was 60% at the end of June 2014. A highlight in the period was the breakthrough of the 7.6-km drill-and-blast tunnel that runs through Tai Mo Shan between Tse Uk Tsuen and Shek Yam in late March. Work continues at the difficult West Kowloon Terminus site, where excavation is 83% complete. Elsewhere, other tunnelling is in progress as well as the trackwork and overhead line installation. With the complexity of the project and various challenges encountered, we have updated and provided to the Government our project cost estimate in July 2014 for the Express Rail Link project (of HK$71.52 billion, inclusive of future insurance and project management costs). The Government is reviewing the revised programme and the updated project cost estimate and we are cooperating to provide additional information to assist the Government in its review.

In April 2014, our Board of Directors established the IBC to conduct a thorough review of the background of and reasons for the delay in the Express Rail Link project and to advise on the manner in which the Company can deliver the project in a more transparent and timely manner going forward. In July, our Board of Directors received the first report from the IBC. The Board has adopted in full the recommendations in the first report. The committee will prepare a second report on the delivery of the project going forward, which is currently expected to be issued in October 2014. Independently, the Government has established an independent expert panel to review the project delay.

The other entrustment project, the Shatin to Central Link, is being built in two phases, with the first originally due for completion in 2018 and the second in 2020. The project was 17% complete at the end of June 2014. In the process of excavation for this line, archaeological artefacts were unearthed at the site of the future To Kwa Wan Station. As the archaeological survey is still ongoing, the programme of the Shatin to Central Link will inevitably be affected with current progress being already 11 months behind schedule. As more time is needed for Government to discuss with the public on how to handle the relics, we will closely monitor the situation and maintain close communication with relevant Government departments. We will put forward a clearer plan on the forthcoming works arrangement for the Shatin to Central Link after the Government comes up with a clear direction on the handling of the relics upon the completion of the archaeological survey within our construction area.

Government's Review and Update of the Railway Development Strategy 2000 ("RDS-2U") outlines future rail developments for consideration. Government is finalising the RDS-2U, and we look forward to working closely with the Government on future railway developments.

Mainland of China and International Growth

In the Mainland of China, a bid was submitted by BJMTR for Beijing Metro Line 16 in February 2014. This is also a PPP project with Line 16 running 50 km from Beianhe to Wanping, encompassing 29 stations. We are finalising our discussions with the Beijing Municipal Government on this line. Currently, we are also in the process of discussing and negotiating the Principal and Joint Venture Agreements associated with constructing and operating Shenzhen Metro Line 6.

In Sweden, MTR Express, providing a 455-km intercity rail service connecting Stockholm with Gothenburg, is expected to commence operations in the first half of next year. Train production is progressing as scheduled and depot facilities have been arranged.

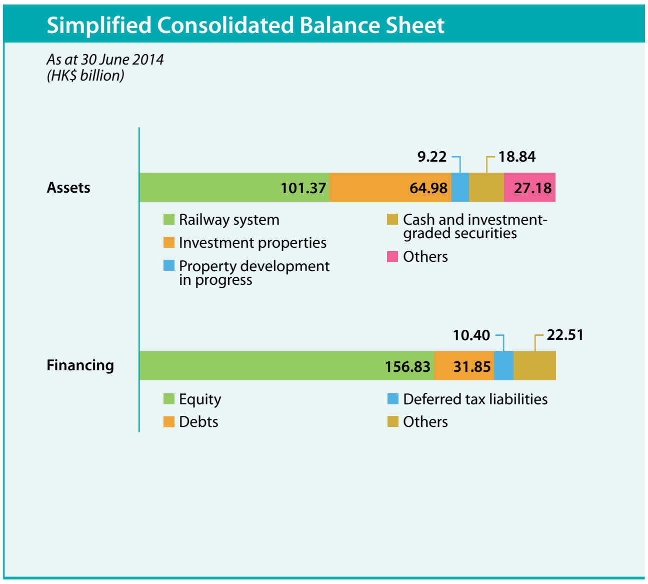
In Australia, a consortium of which the Company is a member was selected as the preferred operator for the PPP element of the North West Rail Link project in Sydney by the New South Wales Government in June 2014. The consortium will be responsible for the design and build of eight new stations and a depot, procurement of fully automated rapid transit trains and a signalling system, and the conversion and upgrade of the railway along five existing stations together with operation and maintenance of the system for 15 years after service opening. We are working with Transport for New South Wales to conclude all documentations for a contract signing before the end of September 2014. MTR will be investing an estimated AUD65 million into this project. In Melbourne, we are leading a consortium which has entered into discussions with the Victorian Government in relation to a PPP project to transform one of the busiest sections of the Melbourne train network. Preliminary work for the proposed Dandenong Transformation project is progressing as are negotiations with the Victorian Government.

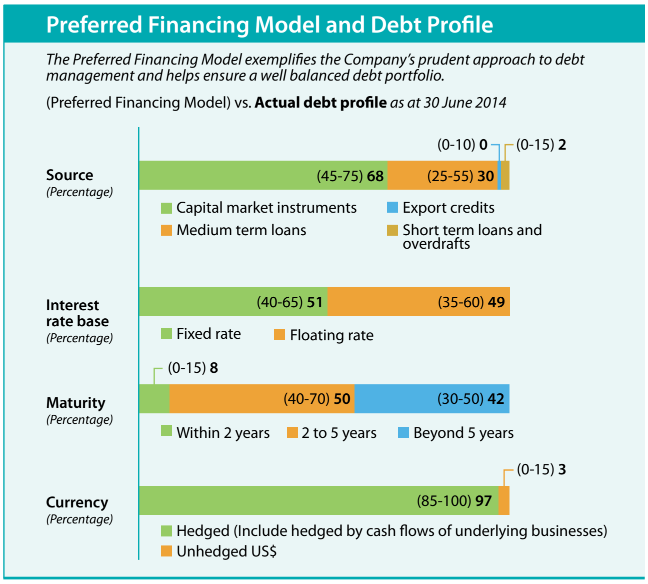
In the UK, we were awarded the Crossrail Train Operating Concession franchise in July 2014. The Concession is an eight-year agreement, with an option for a further two years, to operate train services on Crossrail, which will run for 118 km from Reading and Heathrow in the west of London, through new 21-km twin-bore tunnels below central London to Shenfield and Abbey Wood in the east. Services will commence in phases from 2015 to 2019. We are still awaiting the result of our bid for the ScotRail Franchise submitted in April 2014. We were not awarded the franchises for two other UK bids submitted at the end of last year, the Essex Thameside franchise and the Thameslink, Southern and Great Northern concessions.

Financial Review

The Group achieved good financial results in its recurrent businesses in the first half of 2014. Total turnover increased to HK$19,471 million, up 1.3% against the same period last year, and total operating costs decreased by 2.0% to HK$11,640 million. By individual business segment, revenue from Hong Kong transport operations reached HK$7,729 million in the first half of 2014, an increase of 6.5%, due to higher patronage in all of our transport services and adjustments in fare, which was partly offset by fare concessions. Expenses increased by 4.7% to HK$4,002 million. Revenue from Hong Kong station commercial businesses increased by 8.3% to HK$2,377 million mainly due to higher station shop rental rates and turnover rents. Expenses increased by 9.7% to HK$226 million impacted by higher government rent and rates and agency fees relating to advertising revenue growth. With the Group's shopping mall portfolio continuing to perform well, achieving an average 14% increase on rental reversion during the period, revenue from Hong Kong property rental and property management businesses increased by 10.0% to HK$2,026 million, and expenses increased by 8.9% to HK$331 million. Affected by currency movements, as well as a one-off compensation received by MTRS in 2013 revenue from, and expenses of, Mainland of China and International subsidiaries decreased 9.6% and 9.8% to HK$6,350 million and HK$5,922 million, respectively. Income and expenses relating to other businesses amounted to HK$989 million and HK$896 million, up 10.5% and 8.0%, respectively. Including project study and business development expenses of HK$263 million, the resulting operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment ("EBITDA") increased by 6.8% to HK$7,831 million. Overall, the EBITDA margin improved from 38.2% in 2013 to 40.2%. The EBITDA margin excluding Mainland of China and international subsidiaries remained at 56.4%.

Profit from Hong Kong property development was HK$245 million, HK$286 million lower than the same period last year, and was derived from the sale of our inventory units and the agency fee income from West Rail property developments. Depreciation and amortisation increased slightly by 2.9% to HK$1,688 million. The variable annual payment ("VAP") for relevant revenue generated from the use of KCRC assets increased 19.0% to HK$701 million as the effective VAP charge rate increased slightly from 13.3% to 14.6%. Operating profit before interest and finance charges therefore increased by 1.0% to HK$5,687 million.





Interest and finance charges decreased by HK$161 million to HK$274 million in the first half of 2014, which was mainly due to a lower average debt balance and higher interest expenses capitalised. Investment property revaluation gain amounted to HK$3,523 million, up from HK$1,907 million in 2013. Profit sharing from Octopus Holdings Limited increased by 2.0% to HK$104 million. Our share of results from other associates generated a profit of HK$25 million in 2014 as compared to a loss of HK$51 million in 2013, mainly due to HZMTR where patronage has continued to improve, with our share of losses reducing from HK$161 million in 2013 to HK$80 million in 2014.

After deducting income tax of HK$1,063 million and profits shared by non-controlling interests of HK$90 million, net profit attributable to shareholders increased by 28.5% to HK$7,912 million, equivalent to earnings per share of HK$1.36 up from HK$1.06 in the first half of 2013. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders increased by 3.2% to HK$4,389 million, of which recurrent businesses profit increased 10.0% to HK$4,186 million and property development profit decreased 54.6% to HK$203 million. Earnings per share based on the underlying businesses profit increased from HK$0.73 to HK$0.76. The Board has declared an interim dividend of HK$0.25 per share, with a scrip dividend option offered.

The Group's balance sheet remained strong, as net assets increased 2.7% to HK$156,829 million as at 30 June 2014. Total assets increased by HK$5,763 million during the period to HK$221,586 million as a result of investment property revaluation gain, further construction works for the West Island Line, the South Island Line (East) and the Kwun Tong Line Extension, and increases in cash, bank balances and deposits. These additions were partly offset by decreases in property development in progress and debtors, deposits and payments in advance due to cash received from the reimbursement of land premium at Austin Station sites and from the sale of residential units. Total liabilities increased by HK$1,636 million during the period to HK$64,757 million as a result of increases in dividend payable to shareholders. The increases were partly offset by a reduction in total loans outstanding, from HK$24,511 million as at 31 December 2013 to HK$21,080 million as at 30 June 2014. With an increase in cash balance and decrease in total loans outstanding, the net debt-to-equity ratio improved from 11.8% as at 31 December 2013 to 8.6% as at 30 June 2014.

Cash generated from operations, before taxes paid and working capital movement, increased by HK$474 million to HK$7,843 million, mainly due to the increase in EBITDA. Including working capital movement, receipt of government subsidy for the Shenzhen Metro Longhua Line operations and tax payment, net cash inflow from operating activities amounted to HK$9,084 million. Cash received from property development was HK$3,643 million, mainly from reimbursement of land premium for Austin Station sites and sale of residential units. Together with dividends received from associates and other miscellaneous cash receipts, total cash inflow amounted to HK$12,784 million. Total capital expenditure paid was HK$6,280 million, which included HK$2,967 million for the construction of new railway extensions, HK$1,559 million for asset additions or replacements in our existing operations, and HK$1,703 million for property renovation and development, including land premium paid in relation to the Maritime Square Extension project. After deducting variable annual payment of HK$1,247 million, capital injection of HK$294 million into an associate, Tianjin TJ-Metro MTR Construction Company Limited, net interest paid of HK$437 million and dividend paid to holders of non-controlling interests of HK$26 million, total cash outflow was HK$8,284 million. After loan repayments of HK$3,438 million, the Group's cash balance increased by HK$1,031 million to HK$18,328 million.

Financing Activities

Following a brief uptick towards the end of 2013, long-term US Treasury yields declined through the first half of 2014 on the back of an extreme weather-induced first quarter slowdown in the US economy, safe haven flows due to political upheaval in Ukraine and the Middle East, and repeated assurance from the Fed that its accommodative monetary policy was likely to continue even after the end of its bond buying programme. As a result, the 10-year US Treasury yield declined from a high of 3.03% p.a. at the end of 2013 to 2.53% p.a. on 30 June, while the 3-month USD-LIBOR rate declined from 0.25% to 0.23% p.a. Similarly during the same period, 10-year HK dollar swap rate declined from 2.87% to 2.55% p.a., while the 3-month HKD-Hibor rate remained at 0.38% p.a.

Taking advantage of the lower long-term rates and favourable arbitrage funding opportunities in the Australian dollar market, the Group issued, at the beginning of the year, 12-year and 15-year notes in Australian dollars which were swapped into HK dollars. Totalling about HK$550 million, these notes further lengthened and diversified the Group's debt maturity profile whilst helping to lock in attractive fixed rate long-term funding.

The Group also took advantage of improvement in the banking market in Hong Kong to arrange additional bilateral banking facilities totalling over HK$4,000 million at more competitive fees and credit margins than the previous year.

At the end of June 2014, the Company had total cash and bank deposits balance of HK$15,637 million, as well as total undrawn committed banking facilities of HK$7,946 million, which would provide very comfortable forward coverage of our funding needs well beyond 2014. At the Group level including its subsidiaries, total cash and bank deposits balance was HK$18,328 million and total undrawn committed banking facilities was HK$10,292 million.

The Group's debt portfolio was prudently managed and remains well diversified in accordance with the Preferred Financing Model. At the end of June 2014, 7.9% of the Group's total debt outstanding had maturity of less than 2 years, 49.7% between 2 and 5 years, and 42.4% beyond 5 years, reflecting a modest refinancing risk. Foreign exchange rate risk was well managed, with 96.6% of debt outstanding in HK dollars, hedged into HK dollars, or hedged by foreign currency cash flows from underlying businesses. The balance was in US dollars. Approximately 50.8% of debt outstanding was at fixed rate.

During the first half of 2014, at the Company level, weighted average borrowing cost decreased slightly to 3.0% p.a. from 3.1% p.a. during the same period last year mainly due to an increased proportion of floating rate borrowing. At the Group level, the weighted average borrowing cost was slightly higher at 3.7% p.a., from 3.5% p.a., mainly due to a higher proportion of overseas project loans outstanding with higher interest rates.

Human Resources

The Company, together with its controlled subsidiaries, employed 16,317 people in Hong Kong and 7,256 outside of Hong Kong as at 30 June 2014. During the first six months of 2014, a total of 841 people were hired, and 763 were promoted in Hong Kong. Through proactive manpower resourcing initiatives and new recruitment channels, we reached out to more job seekers and recruited young talents of high calibre including graduate trainees, graduate engineers and functional associates for succession of future managerial positions. Various recruitment campaigns to increase our intake of apprentices and technician associates were also launched to meet our manpower needs for frontline maintenance staff. Staff turnover remained low at 4.4%.

The Company has a well-established staff consultation mechanism, comprising Joint Consultative Committees and a Staff Consultative Council, providing effective communication channels between Management and staff for discussion of matters of mutual concern. There are over 800 staff representatives who are elected by staff. To encourage and reinforce two-way communication between line managers and staff, more than 4,000 sessions of the "Enhanced Staff Communication Programme" were organised in the first half of 2014, attracting over 50,000 participants.

In the first six months of 2014 we launched several new short motivational videos titled "MTR People Making a Difference" featuring stories about the work of frontline staff, and a new video titled "WE@MTR" featuring various initiatives that foster staff's well-being. A number of motivational schemes and awards were rolled out to recognise staff who live out the MTR values. In January, MTRS also launched a similar award scheme.

Many initiatives are ongoing to reinforce the sense of an MTR community. In January, the new multinational internal communications platform "MTRconnects" was launched in Hong Kong and all offices across the world. It is designed to keep all MTR employees abreast of the latest developments at the Company and facilitates employees to share their stories, interesting cultural information, videos and insights on how they conduct business locally.

Talent identification and development initiatives have continued to groom high potential staff at different levels along the integrated leadership pipeline. New batches of talent were identified under the People Development Initiative for Corporate and Divisional Development. Succession planning is also facilitated as bench strengths across the Company are enhanced. We continued to provide many opportunities for development of our staff at different levels, including the Executive Continuous Learning Programme for Executive Managers and Senior Managers, and the Integrated Staff Development Programme in the Operations Division to prepare staff for future promotions.

"Work Improvement Team" ("WIT") continued to encourage staff in collective innovation and continuous improvement. WIT learning culture was exported to the Mainland of China with the formation of the Hangzhou MTR WIT Steering Committee in January, reinforced by a 2.5-day WIT training workshop in Hangzhou in April.

During the first six months of 2014, 3,297 courses were delivered providing 3.4 training days per Hong Kong employee. The Integrated Staff Development Programme won the 2013 American Society for Training and Development Excellence in Practice Award, with MTR being the only winner from Hong Kong.

Community Engagement

Recognising that the construction and development of MTR projects affects many members of the community, we use multiple channels to engage in a two-way dialogue with members of the community so that they can better understand the complex nature of our work, give us their feedback and express any concerns. We strive to find an optimal balance in various stakeholders' interests so that we can create value for all members of the community. For instance, we have set up Community Liaison Groups to ensure that the voices of all stakeholders are heard when we are constructing new lines. Quarterly meetings with local residents, local District Council members, members of non-governmental organisation and institutions, and representatives from the Government are held to facilitate dialogue and exchange of information.

In property development, we aim to create value for our business and the community. The Maritime Square Extension development at Tsing Yi has embraced a planning gain design approach which includes the enhancement of the existing Public Transport Interchange as well as around 5,000 square meters of podium landscape garden. These enhancements not only address the aspirations of residents for a more compatibly built environment but also provide a better integrated and more pleasing townscape for the community. PopCorn at Tseung Kwan O Station has also been designed to meet the changing aspirations of the community for greater connectivity and open space. Measures introduced include the public space "Civic Square", an elevated park, barrier-free access and connected walkways to other neighbouring developments.

Through ongoing dialogues, our goal is to enhance the quality of life for all as we build and connect communities, and deepen our relationships to achieve common objectives.

Outlook

The global economy remains uncertain, and in the Mainland of China the rapid expansion of recent years is being replaced by a more measured pace of growth. In Hong Kong, Government's commitment to building infrastructure and to making railway the backbone of the public transportation system remain strong and is being supported by large-scale investment, bringing opportunities for MTR.

In this environment, our Hong Kong rail business should see stable patronage growth whilst we also look forward to the opening of the West Island Line, currently expected at the end of the year. Results of our station commercial and property rental businesses are affected by rental renewals and reversions, which will be dependent on market conditions.

In our property development business, we will book profits for The Austin (Austin Station Site C) when the Occupation Permit is issued, which is expected to be in the second half of 2014. With strong pre-sale at Grand Austin (Austin Station Site D), booking of profits will now depend only on the issuance of the Occupation Permit, which is currently expected at the end of this year or early next year. Timing of pre-sale at LOHAS Park Package 3 will be dependent on market conditions and the progress of construction. Pre-sale is currently expected to start later this year, and the Occupation Permit is expected in the fourth quarter of this year. Booking of profits for this development will therefore depend both on the success of pre-sale and the issuance of the Occupation Permit.

In our property tendering activities up until the end of this year, depending on market conditions, we may tender out development sites at Tai Wai Station, LOHAS Park Package 5 as well as Tin Wing Stop (Light Rail).

Finally, I am most honoured to have been entrusted by the Board with the role of Acting Chief Executive Officer of MTR from 16 August. I would like to take this opportunity to thank Mr Jay Walder for his contributions. I would also like to welcome Dr Philco Wong to be the Projects Director upon Mr TC Chew's retirement in October 2014. My thanks also go to the Board Members for their valuable help and immense support as well to all my colleagues at MTR who have played such a critical part in helping us push ahead, despite many challenges, towards achieving our vision. They are truly the heroes of MTR.

Lincoln Leong Kwok-kuen, *Acting Chief Executive Officer*
Hong Kong, 25 August 2014