



ANNUAL REPORT 2015



Connecting Communities
Sharing Growth



Connecting Communities Sharing Growth

The MTR network connects communities across Hong Kong, making it an important part of the transportation system. Over the coming years more communities will benefit, as our extension projects are completed. Our growth as a company contributes to the sustainable growth of Hong Kong and its people. We are also increasingly active in other markets in the Mainland of China and overseas. This annual report shares with you our progress during 2015.

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MTR Corporation In Numbers – 2015

Hong Kong Transport Operations

Passenger
Journeys on-time

99.9%

Share of Franchised
Public Transport Market

48.5%

Domestic Service Fare
Revenue Per Passenger

HK\$7.49

Total Route
Length

220.9 km

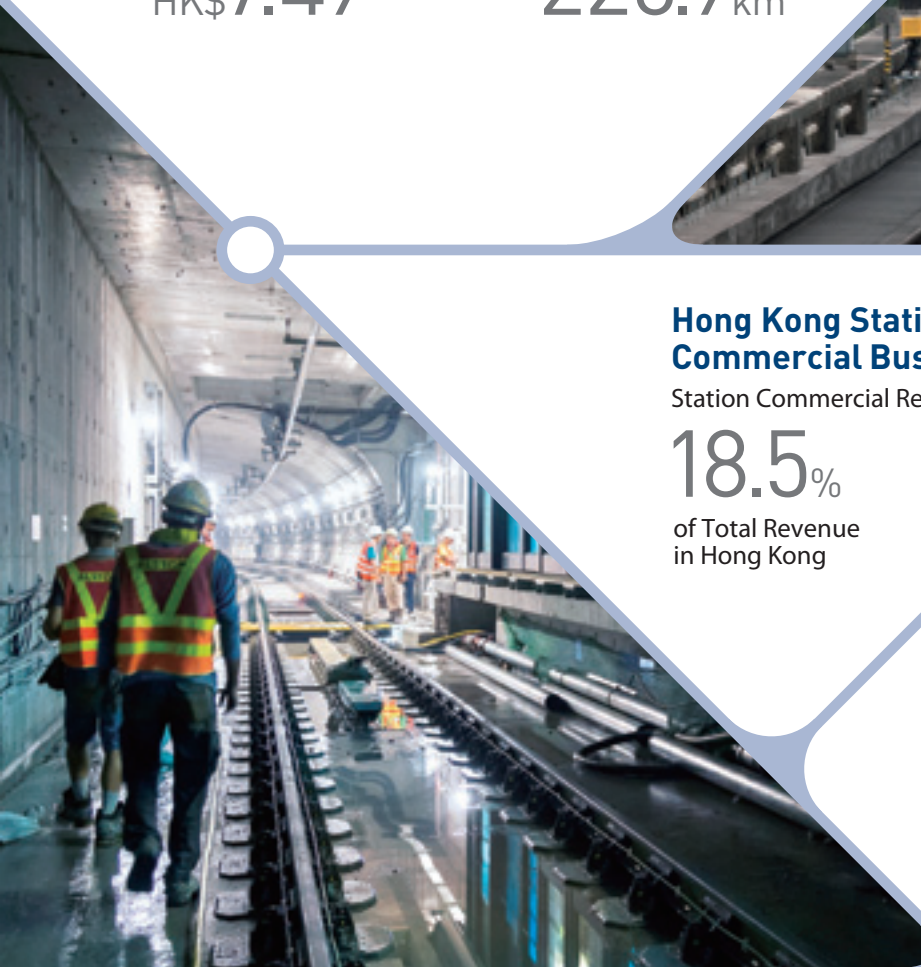


Hong Kong Station Commercial Businesses

Station Commercial Revenue

18.5%

of Total Revenue
in Hong Kong



Hong Kong Network Expansion

4

New Railway
Projects are in
progress

53 km

will be added
to our Hong
Kong network

Consolidated Financials

Total Revenue
 HK\$ **41.7** billion

Net Debt-to-Equity Ratio
11.3%

Underlying Profit
 HK\$ **10.9** billion

Net Assets
 HK\$ **170.2** billion



Mainland of China and International Businesses

Over **1.59** billion Passengers carried by our rail services

in **6 Cities** Outside of Hong Kong

Human Resources
25,284
 Staff Worldwide

Hong Kong Property Businesses

Investment Property Portfolio in Hong Kong includes







212,301
 sq.m. of lettable floor area of Retail Properties

41,006
 sq.m. of lettable floor area of Offices

Hong Kong Property Development Profit
 HK\$ **2.9** billion

Hong Kong Operating Network with Future Extensions






Legend

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








Existing Network

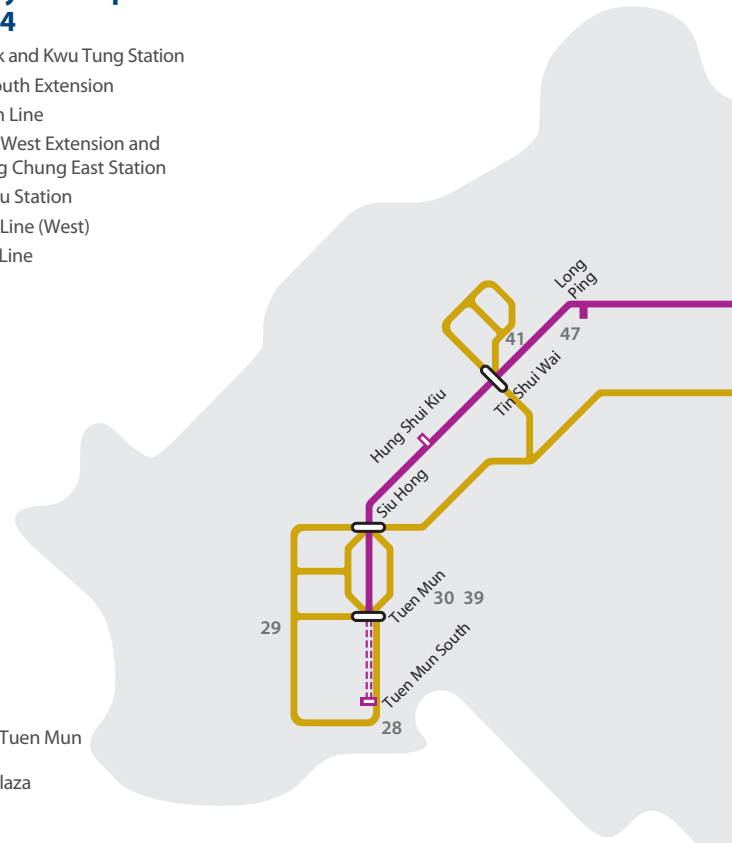
-  Airport Express
-  Disneyland Resort Line
-  East Rail Line
-  Island Line
-  Kwun Tong Line
-  Light Rail
-  Ma On Shan Line
-  Tseung Kwan O Line
-  Tsuen Wan Line
-  Tung Chung Line
-  West Rail Line

Projects in Progress

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

Potential Future Extensions under Railway Development Strategy 2014

-  Northern Link and Kwu Tung Station
-  Tuen Mun South Extension
-  East Kowloon Line
-  Tung Chung West Extension and Possible Tung Chung East Station
-  Hung Shui Kiu Station
-  South Island Line (West)
-  North Island Line



Properties Owned / Developed / Managed by the Corporation

- 01 Telford Gardens / Telford Plaza I and II
- 02 World-wide House
- 03 Admiralty Centre
- 04 Argyle Centre
- 05 Luk Yeung Sun Chuen / Luk Yeung Galleria
- 06 New Kwai Fong Gardens
- 07 Sun Kwai Hing Gardens
- 08 Fairmont House
- 09 Kornhill / Kornhill Gardens
- 10 Fortress Metro Towers
- 11 Hongway Garden / Infinitus Plaza
- 12 Perfect Mount Gardens
- 13 New Jade Garden
- 14 Southorn Garden
- 15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall
- 16 Park Towers
- 17 Felicity Garden
- 18 Tierra Verde / Maritime Square
- 19 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Coastal Skyline / Caribbean Coast
- 20 Central Park / Island Harbourview / Park Avenue / Harbour Green / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two
- 21 The Waterfront / Sorrento / The Harbourside / The Arch / Elements / The Cullinan / The Harbourview Place / W Hong Kong / International Commerce Centre / The Ritz-Carlton, Hong Kong
- 22 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place
- 23 Central Heights / The Grandiose / The Wings / PopCorn 1 / PopCorn 2 / Crowne Plaza Hong Kong Kowloon East / Holiday Inn Express Hong Kong Kowloon East / Vega Suites
- 24 Residence Oasis / The Lane
- 25 No.8 Clear Water Bay Road / Choi Hung Park & Ride
- 26 Metro Town

- 27 Royal Ascot / Plaza Ascot
- 28 Ocean Walk
- 29 Sun Tuen Mun Centre / Sun Tuen Mun Shopping Centre
- 30 Hanford Garden / Hanford Plaza
- 31 Citylink Plaza
- 32 MTR Hung Hom Building / Hung Hom Station Carpark
- 33 Trackside Villas
- 34 The Capitol / Le Prestige / Hemera
- 35 The Palazzo
- 36 Lake Silver
- 37 Festival City
- 38 The Riverpark
- 39 Century Gateway
- 42 The Austin / Grand Austin
- 45 City Point

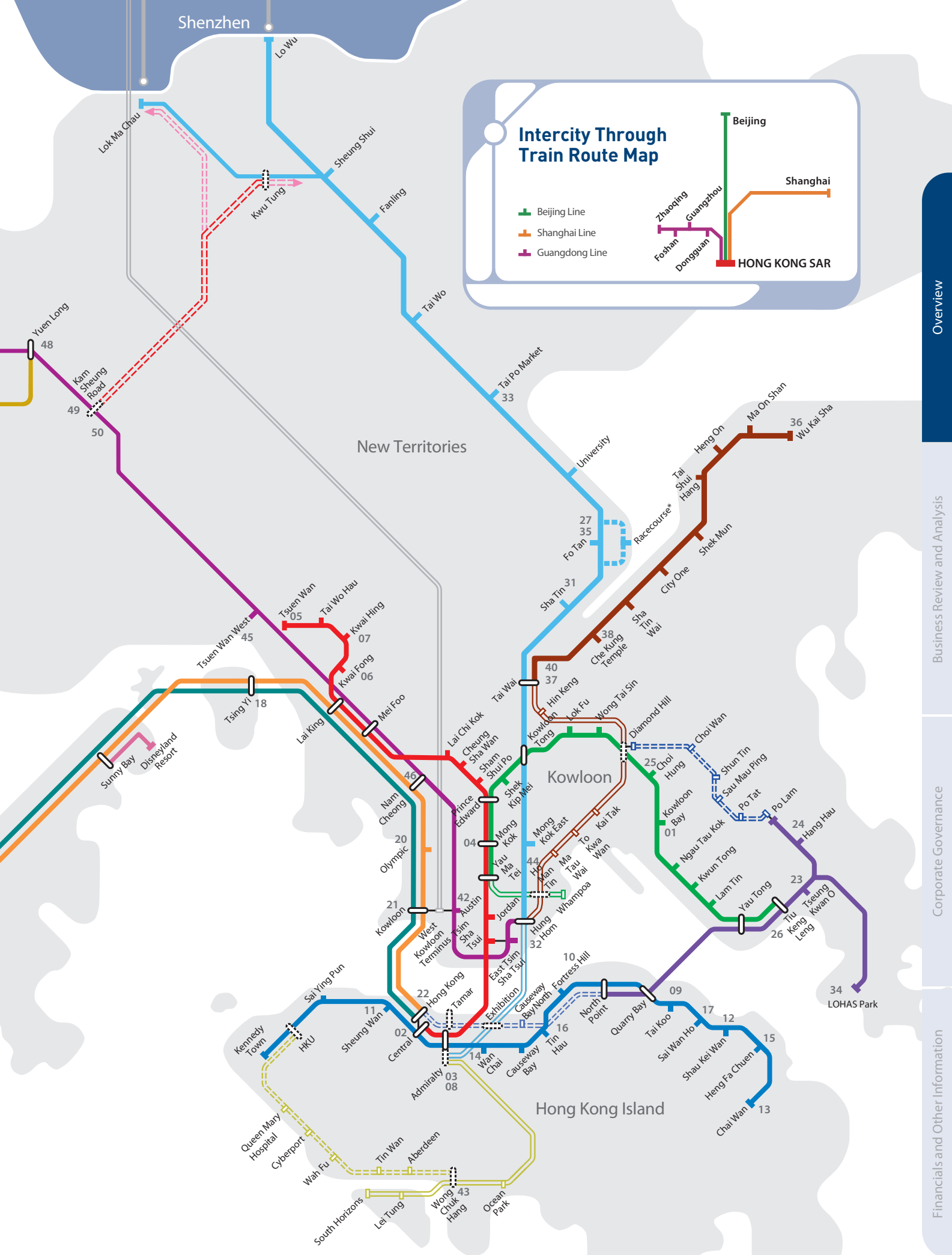
Property Developments Under Construction / Planning

- 34 LOHAS Park Packages
- 40 Tai Wai Station
- 41 Tin Wing Stop
- 43 Wong Chuk Hang Station
- 44 Ho Man Tin Station

West Rail Line Property Developments (As Agent for the Relevant Subsidiaries of KCRC)

- 39 Century Gateway / Century Gateway II
- 45 Tsuen Wan West Station (TW5) Bayside / Tsuen Wan West Station (TW5) Cityside / Tsuen Wan West Station (TW6) / City Point
- 46 Nam Cheong Station
- 47 The Spectra / Long Ping Station (South)
- 48 Yuen Long Station
- 49 Kam Sheung Road Station
- 50 Pat Heung Maintenance Centre





Intercity Through Train Route Map

- Beijing Line
- Shanghai Line
- Guangdong Line

Beijing
Shanghai
Zhaoping
Guangzhou
Foshan
Dongguan
HONG KONG SAR

MTR Corporation at a Glance

MTR is recognised as one of the world's leading railway operators, with a successful track record of building sustainable communities based on an integrated approach to rail transport and property development. We opened our first railway line in 1979, since when our activities have increased in size, scale, geographical coverage and diversity. Our growth strategy is making good progress, with significant expansion of our network in Hong Kong and our portfolio of rail-related operations in the Mainland of China and overseas.



Hong Kong Transport Operations

Business Description

We operate a predominantly rail-based transportation system in Hong Kong, comprising Domestic and Cross-boundary services, a dedicated high-speed Airport Express railway and a light rail system. The entire system stretches 220.9 km and has 87 stations and 68 Light Rail stops. Our network is one of the most intensively used in the world, and its reliability, safety and efficiency are held in high regard. We also provide intercity services to and from the Mainland of China as well as a small bus operation in Hong Kong offering convenient feeder services.

2015 Highlights

- Fare revenue increased by 4.3% and total patronage increased 1.8% to 1,938.2 million
- Train service delivery and passenger journeys on-time maintained at 99.9%
- HK\$9.3 billion contracts awarded for purchase of new trains and installation of new signalling systems
- Sai Ying Pun Station the last station of the Western extension of the Island Line opened in March 2015

- Construction progressed for the South Island Line (East), Kwun Tong Line Extension, Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Shatin to Central Link

Hong Kong Station Commercial Businesses

Business Description

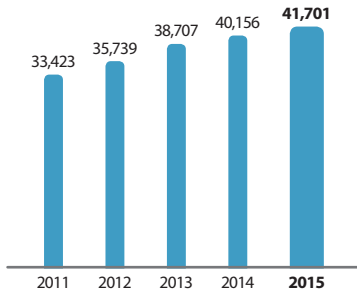
We leverage on our Hong Kong railway assets and expertise in other businesses, including rental of station retail space, advertising in trains and stations and telecommunications.

2015 Highlights

- Station rental revenue rose on trade mix refinements, rental renewal of station shops and rental increases from the Duty Free Shops
- New 40-inch digital escalator advertising panels introduced
- Installation progressed for mobile phone and Wi-Fi services in South Island Line (East) and Kwun Tong Line Extension stations, targeting services on first day of station operation

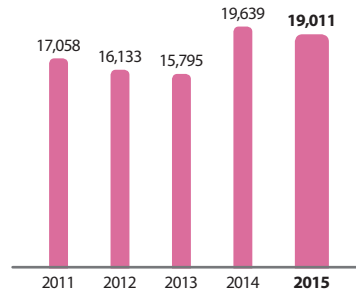
Total Revenue

(HK\$ million)



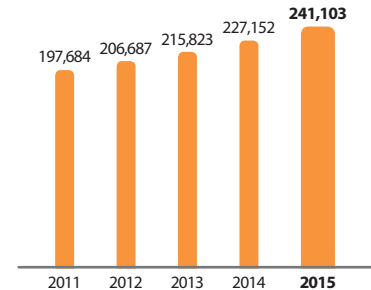
Operating Profit Before Depreciation, Amortisation and Variable Annual Payment

(HK\$ million)



Total Assets

(HK\$ million)



Hong Kong Property and Other Businesses

Business Description

In Hong Kong, we develop for sale mainly residential properties in conjunction with property developers. We hold investment properties, principally shopping malls and offices, managing these and other properties. Our investment portfolio primarily includes shopping malls and 18 office floors of the Two International Finance Centre office tower. We also engage in cable car operations, the Octopus card payments system, consulting and project management.

2015 Highlights

- Strong presale of Hemera (LOHAS Park Package 3) and booking of property development profit
- Successfully awarded Tin Wing Stop property development, LOHAS Park Packages 6, 7, 8 and 9; as well as Yuen Long Station property development (where the Company acts as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation)

Mainland of China and International Businesses

Business Description

We have invested in and operated rail networks and related property developments in the Mainland of China, and operated rail concessions in the UK, Sweden and Australia. We will focus on successfully delivering our newly awarded businesses and continue prudently to pursue new railway and rail-related business opportunities that will generate incremental benefits to our shareholders.

2015 Highlights

In our Mainland of China railway and property businesses:

- Concession Agreement of Beijing Metro Line 16 signed in November 2015
- Hangzhou Metro Line 1 extension opened in November 2015
- The Phase 3 Middle Section of Beijing Metro Line 14 opened in December 2015
- Presales of our first property project in Shenzhen, Tiara, saw about 96% of units sold

In our International railway businesses:

- London Overground Rail Operations Limited took over management of the West Anglia Inner routes and MTR Corporation (Crossrail) Limited started operating the new Crossrail concession in UK in May 2015
- MTR Express inter-city service between Stockholm and Gothenburg in Sweden was launched in March 2015, with full time table implemented in August 2015
- In September 2015, MTR Stockholm AB was granted a six-year extension of the Stockholm metro operating concession from 2017 to 2023
- In December 2015, we were awarded the operating concession to operate and maintain the Stockholm Commuter Rail Systems (Stockholms Pendeltåg) for ten years

Chairman's Letter

“

It is our goal to build on what is already recognised as world-class operations to make MTR the pride of Hong Kong and a multinational company admired globally as a leader in sustainable rail transport.

”

Professor Frederick Ma Si-hang
Chairman



Dear Shareholders and other Stakeholders,

This is my first letter to you as Chairman of MTR since taking up my appointment on 1 January this year. I feel very honoured to have been appointed to this role and look forward to playing my part in taking the Company forward in the coming years.

It is our goal to build on what is already recognised as world-class operations to make MTR the pride of Hong Kong and a multinational company admired globally as a leader in sustainable rail transport. To this end, I have outlined a vision for MTR covering three areas: our rail network, our customers and our people.

Firstly, we aim to deliver our new railway projects in Hong Kong according to their revised timetables and budgets. These new rail lines together with major enhancements to our existing network are collectively creating “Rail Gen 2.0”, a new era for rail travel in Hong Kong which will benefit our community with enhanced connectivity and help drive economic and social development.

With the opening of Sai Ying Pun Station in March last year, the Western extension of the Island Line is now in full operation. Although we are working through some challenges on the four remaining railway projects, we are making progress. We plan to open the Kwun Tong Line Extension and South Island Line (East) by the end of this year, and to complete the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“Express Rail Link”) in the third quarter of 2018. This will be followed by the two corridors of the Shatin to Central Link in 2019 and 2021.

On the Express Rail Link, last year we reached agreement with Government regarding the further funding of the project, the “XRL Agreement”, which was conditional on the approval of MTR’s independent shareholders and the HKSAR Legislative Council for Government’s additional funding obligations under the XRL Agreement (“LegCo Approval”), within the agreed timeframe. The approval of our independent shareholders was obtained on 1 February 2016 and I am delighted to see that, after the announcement of our 2015 annual results, the LegCo Approval was obtained on 11 March 2016, as a result of which the XRL Agreement has become fully effective. This Annual Report has been updated, where applicable, to reflect the fact that the XRL Agreement has come into full effect. Under the XRL Agreement, (1) Government will fund the project cost up to a level of HK\$84.42 billion, while MTR will be responsible for any costs above this amount (except for certain agreed excluded costs); (2) we will also pay a special cash dividend of HK\$4.40 per share in two equal tranches of HK\$2.20 each to

all shareholders; and (3) Government has reserved the right to refer the question of the Company’s liability (if any) under the project Entrustment Agreements to arbitration, after the start of commercial operations on the new line. I deeply appreciate the support from our independent shareholders who approved the XRL Agreement, and the HKSAR Legislative Council for the LegCo Approval.

In addition to these four railway projects, we continue to work with Government to support the succeeding generation of railway lines that are being planned for Hong Kong’s longer-term future.

The second area of focus is on our valued customers. With 5.56 million passengers travelling on our rail and bus services on an average weekday in 2015, MTR is one of the busiest railways in the world. Our aim is to provide not just a safe, reliable and efficient transport service, but also a pleasant journey for our customers. As demand has grown, we have added more services to make sure journeys remain comfortable. Since the launch of our programme to raise service levels in March 2012, more than 2,600 extra train trips have been added each week.

While continuing to put safety first, it is also our goal to ensure that they have a positive passenger experience on our network. Our customers rightly expect our services to be reliable and I am pleased to report that in 2015, 99.9% of passenger journeys on the heavy rail network were on time. There were only seven delays in our heavy rail network and one delay in our light rail network, which lasted for 31 minutes or more, that were attributable to factors within MTR’s control. This is one of the best performances by any such operation anywhere in the world. Safety was a similar story, with a further fall in an already low rate of reportable events.

Through our Customer Experience Management Model, we have devised plans to deepen our understanding of our customers’ needs. We have enhanced our communications with our customers, for example during incidents, to provide them with clear, timely and accurate information. Our “Happy Birthday • Happy Journey” campaign will be launched in April 2016 to thank our customers for supporting MTR.

To maintain our high standards, we need to remain profitable so that we can continue to invest back into the network, which we did to the tune of over HK\$7 billion in 2015, increasing from over HK\$6 billion in 2014. This not only maintains our assets in good working condition, but also funds improvements to our trains and stations that make journeys safer, more accessible and more comfortable. Last year these programmes saw the installation of new external lifts, wide gates, toilets

Chairman's Letter

and passenger information systems. We also announced the investment of HK\$9.3 billion in new signalling systems and trains as part of our "Rail Gen 2.0" vision. New investment aside, our customers enjoyed on-going fare promotions and concessions of approximately HK\$2.4 billion in 2015. In addition, a further concession package of HK\$500 million was implemented for 2015/2016.

Looking at our financial results, it is clear that they reflect our strong operational performance. Recurrent profit after tax for the year, being underlying profits before property development profits and investment property revaluation, increased by 6.7% to HK\$8,565 million. With a decrease in post-tax property development profit to HK\$2,329 million, underlying profit before investment property revaluation lowered by 5.9% to HK\$10,894 million. Including investment property revaluation, net profit attributable to shareholders was HK\$12,994 million, representing earnings per share after revaluation of HK\$2.22. Return on average equity attributable to equity shareholders arising from underlying businesses was 6.5% in 2015, compared to 7.3% in 2014. In addition to the one-off special cash dividend of HK\$4.40 per share and which is expected to be paid in two equal tranches (of HK\$2.20 per share in 2016 and 2017), your Board has proposed a final ordinary dividend of HK\$0.81 per share, resulting in a full-year ordinary dividend of HK\$1.06 per share, with a scrip dividend option offered for the ordinary dividend.

None of our achievements would have been possible without the men and women who work at MTR. They are our greatest assets. Our experienced and professional staff are dedicated to providing good service to our customers every single day. At all levels, we take great care to hire the right people, give them the support they need to do their work well and motivate them by recognising their contributions. One measure of our success is the consistently low staff turnover rate. Our training and development achievements are also well-recognised, and in 2015 we won the Hong Kong Management Association's prestigious "25th Anniversary Award: Most Dedicated Organisation to People Development".

So the third part of my vision is to invest in the training and development of future generations of railway professionals. An important initiative on this front is the "MTR Academy", a new educational institution to develop talent for the railway and transport industries initially in Hong Kong, with an aim to expand to the Mainland of China and overseas. This will help sustain our business growth and ensure we continue to provide one of the best railway services in the world. The Chief Executive of the HKSAR has expressed his support for the establishment of the MTR Academy in his latest Policy Address.

Of course our responsibilities as a corporation cover not only our passengers, shareholders and staff, but extend to the communities of which we are a part and to the environment. The community benefits every year from the many initiatives under the MTR Community Care Action programme, but we are always trying to do better. A new initiative recently launched is the offer of 12 shops along West Rail Line for use by social enterprises. We contribute to charity, through events such as the MTR HONG KONG Race Walking and regular volunteer work by our staff. We also support the arts through our extensive "art in mtr" programme. Currently, there are 60 art pieces created by local and international artists in our railway stations, which enhance the journey experience of our customers.

In our community work, the young generation and the environment they will inherit take priority. MTR has a long-standing commitment to working with young people to enable them to reach their full potential, and in September last year, we unveiled "Youth Connect", a new platform for our youth development programmes. Caring for the environment, meanwhile, is built into every aspect of our operations. To give only one example, we have a voluntary target to cut the electricity consumed per passenger-kilometre in our heavy rail network.

Last but not least, I wish to extend my heart-felt thanks to Dr Raymond Ch'ien for his tremendous contributions as Chairman in the past 12 years. Under his leadership, the Company has become recognised around the world for excellence in rail operations. I look forward to building on his legacy. I also wish

to thank Mr T. Brian Stevenson and Ms Christine Fang Meng-sang who departed from the Board as Independent Non-executive Directors of the Company during 2015.

In addition to my new role as Chairman, I am pleased to have been joined on the Board by several new members. Mr Lincoln Leong became the Chief Executive Officer (“CEO”) of the Company on 16 March 2015, following seven months as Acting CEO. Mr Hon Chi-keung joined the Board upon taking over the post of Permanent Secretary for Development (Works) on 7 April 2015 from Mr Wai Chi-sing. Mr Lau Ping-cheung, Kaizer, and Dr Allan Wong Chi-yun joined the Board as Independent Non-executive Directors of the Company on 11 August 2015.

I wish to thank my fellow directors for their valuable advice and support since I became Chairman. I also take this opportunity to acknowledge the remarkable contributions of all staff members during the year. Their dedication and professionalism amidst challenges and rising public expectations are truly impressive. Although further challenges lie ahead, I am confident that with so many capable people, MTR will continue to serve Hong Kong well and be recognised as a successful brand that Hong Kong is proud to call its own.



Professor Frederick Ma Si-hang, *Chairman*
Hong Kong, 11 March 2016

CEO's Review of Operations and Outlook

“

MTR's Hong Kong businesses performed well in 2015, while our overseas operations made further progress.

”

Lincoln Leong Kwok-kuen
CEO



Dear Shareholders and other Stakeholders,

MTR's Hong Kong businesses performed well in 2015, while our overseas operations made further progress. Among the highlights of the year were the full opening of the Western extension of the Island Line in Hong Kong, successful presales of our first property development in the Mainland of China, the award of a new railway concession in Sweden, and the start of new railway operations in the UK and Sweden. Progress was also made on our railway extension projects in Hong Kong. Key milestones were reached on all four remaining projects, including signing the conditional agreement ("XRL Agreement") with Government regarding the further funding of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link").

Revenue from our transport operations was buoyed by record passenger numbers and adjustments to fares made under the Fare Adjustment Mechanism ("FAM"). Station commercial revenue rose, largely because of positive rental reversions of station shops and higher turnover rents, mainly from the Lok Ma Chau Duty Free Shops. Property development profits were derived predominately from the booking of profits of Hemera (LOHAS Park Package 3) in the first half of 2015 and the sale of inventory units in the second half. We also awarded six property development packages in 2015, including one where we act as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation ("KCRC"). In March 2016, we awarded another property development package, being our tenth development package at LOHAS Park. These seven packages together will enable the construction of about 11,410 residential units. Our property rental businesses in Hong Kong benefited from positive rent reversions averaging 12% in the year. Revenue from our Mainland of China and international rail subsidiaries decreased slightly as a result of adverse exchange rate movements offset by incremental contributions from our new operations. In Shenzhen, presales of Tiara, our first Mainland property development, met with a strong market response, with about 96% of the units sold at year end.

Our service performance in Hong Kong remained at world-class levels during the year, with train service delivery and passenger journeys on-time in our heavy rail network both at 99.9%. Our service performance in 2015 was one of our best since the Rail Merger with KCRC back in 2007. During the year, there were only seven 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, as always, is our absolute priority, and safety performance continued at a very high level, resulting in a 6.1% reduction in reportable events on the Hong Kong heavy rail network in 2015.

The Company's growth strategy encompasses both Hong Kong and markets outside of Hong Kong. In our home market, progress continued on our four remaining network extension projects whilst major asset replacement programmes on the existing network are underway. These collectively form "Rail Gen 2.0", a new identity for the next generation of rail travel that will be rolled out in Hong Kong over the coming years. For our new rail projects, by the year end completion had reached 76% for the Express Rail Link, 93% for the South Island Line (East), 91% for the Kwun Tong Line Extension, and 48% for the Shatin to Central Link. We continue to work with Government to support the next phase of railway expansion under the Railway Development Strategy 2014 ("RDS 2014").

In Beijing, our associate company Beijing MTR Corporation Limited ("BJMTR") opened the Phase 3 Middle Section of Beijing Metro Line 14 ("BJL14") and signed the concession agreement for Beijing Metro Line 16 ("BJL16"). In Hangzhou, our associate company Hangzhou MTR Corporation Limited ("HZMTR") took on the operation and maintenance of an extended section of Hangzhou Metro Line 1 ("HZL1"), which commenced services in November 2015. In the UK, Crossrail Train Service ("Crossrail") commenced operations under the brand name "TfL Rail" in May 2015, and London Overground Rail Operations Limited ("LOROL") took over 42.9 km of additional routes in the same month. In Sweden the new MTR Express linking Stockholm and Gothenburg began service in March 2015, while MTR Stockholm AB's ("MTRS") operating concession for Stockholm metro was extended for six years to 2023. We were also successful in our bid for the ten-year concession to operate and maintain the Stockholm Commuter Rail Systems (Stockholms Pendeltåg). In Australia, our consortium is making progress on the Operations, Trains and Systems Contract for the Sydney Metro Northwest ("SMNW"), which is our first international Public-Private-Partnership ("PPP") project.

Looking at our financial results, total revenue in 2015 increased by 3.8% to HK\$41,701 million while operating profit before Hong Kong property development profits, depreciation, amortisation and variable annual payment increased by 4.5% to HK\$16,120 million. Excluding the Mainland of China and international subsidiaries, revenue increased by 5.8% and operating profit by 6.3%, with operating margin increasing slightly by 0.2 percentage point to 53.3%. Recurrent profits attributable to equity shareholders, being net profits before property development profit and investment properties revaluation, increased by 6.7% to HK\$8,565 million. Post tax profit from property developments was HK\$2,329 million, deriving mainly from the booking of profits of Hemera and the sale of inventory units. With the lower property

CEO's Review of Operations and Outlook

development profit, excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders decreased by 5.9% to HK\$10,894 million, representing earnings per share of HK\$1.87. Gain in revaluation of investment properties was HK\$2,100 million, as compared with HK\$4,035 million in 2014. As a result, net profit attributable to equity shareholders was HK\$12,994 million, equivalent to earnings per share of HK\$2.22 after revaluation. Your Board has proposed a final ordinary dividend of HK\$0.81 per share, resulting in a full-year ordinary dividend of HK\$1.06 per share, higher than the HK\$1.05 per share for 2014. In addition, with the approval of the Company's independent shareholders for the XRL Agreement obtained on 1 February 2016 and the approval of the Legislative Council of the HKSAR ("LegCo") obtained on 11 March 2016 for Government's additional funding obligations under the XRL Agreement, the first tranche of the special dividend of HK\$2.20 per share will be paid to shareholders in the second half of 2016 and the second tranche, also of HK\$2.20 per share, will then be paid in the second half of 2017.

Hong Kong Transport Operations

Total revenue from Hong Kong transport operations in 2015 was HK\$16,916 million, an increase of 4.3% over 2014, with operating costs increasing by 5.0% to HK\$9,702 million. Together, this resulted in a 3.2% increase in operating profit to HK\$7,214 million, with an operating margin of 42.6%.

Safety

Safety remains our absolute priority and our efforts to ensure continuous improvement resulted in a 6.1% reduction in reportable events on the Hong Kong heavy rail network in 2015 compared with 2014.

Escalator safety is one of our prime safety concerns. The 2015 MTR Escalator Safety Campaign informed passengers of the dangers arising from potentially unsafe behaviour when using escalators, such as the use of mobile phones, incorrect handling of baby prams and standing too close to escalator edges. The campaign was accompanied by new safety posters, videos and the deployment of specially-trained Escalator Safety Ambassadors. Our safety initiatives helped reduce the reportable events involving escalators on the Hong Kong heavy rail network by about 6.5% when compared with 2014.

Patronage

Total patronage from all our rail and bus passenger services in Hong Kong rose by 1.8% to a record 1,938.2 million in 2015.

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 1,577.5 million, a 1.9% increase over 2014. The rate of growth in 2015 was impacted by a higher patronage base in 2014 which was due to the effect of the public order events in Hong Kong in the fourth quarter of that year.

The Cross-boundary Service to Lo Wu and Lok Ma Chau showed a 1.1% rise in patronage to 114.2 million for the year. The rate of increase was impacted by a decrease in visitor arrivals from the Mainland of China using land transportation.

Passenger traffic on the Airport Express increased by 5.7% over 2014 to 15.7 million, supported by a moderate increase in air passenger traffic and more events being held at AsiaWorld-Expo.

Passenger volume on MTR's Light Rail and Bus services for 2015 was 226.7 million, a gain of 0.9%, while patronage on the Intercity service declined by 6.2% to 4.1 million due to fewer leisure travellers from the Mainland of China.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong increased by 1.8% to 5.56 million during 2015, (5.55 million excluding the Intercity service). The Domestic Service accounted for the majority of this patronage, increasing by 1.9% to 4.58 million.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong was 48.5% in 2015 as compared to 48.1% in 2014. Within this total, our share of cross-harbour traffic was 68.8%. Owing to continued competition from other modes of transport, our share of the Cross-boundary business declined from 51.6% to 51.3%, and our market share to and from the airport decreased to 21.5% from 22.3%.

Fare Revenue

Total Hong Kong fare revenue in 2015 was HK\$16,754 million, a 4.3% increase over 2014. Of this total, the Domestic Service accounted for HK\$11,819 million or 71%. Average fare per passenger on our Domestic Service increased by 2.5% to HK\$7.49, the result of fare adjustments partially offset by concessions.

Fare revenue from the Cross-boundary Service in 2015 was HK\$3,172 million, an increase of 4.0% over 2014. Fare revenue from the Airport Express was 3.8% higher for the year at HK\$950 million. Light Rail and Bus fare revenue in 2015 was HK\$671 million, a 5.0% rise over 2014, while fare revenue from the Intercity service was HK\$142 million, a decrease of 2.1%.

The Company's fares are adjusted based on the FAM, which provides a transparent and objective basis for adjusting fares. A sustainable and stable fare mechanism is critical to funding the significant investments required for the long-term

sustainability of the rail network. In accordance with the FAM, an overall fare adjustment rate of 4.3% was implemented in June 2015. In conjunction with this adjustment, we announced fare promotions estimated at over HK\$500 million for the year 2015/2016, which are in addition to the approximately HK\$2.4 billion worth of ongoing fare concessions and promotions in 2015.

The “MTR Festive Discount” is a highlight of the 2015/2016 fare promotions package. Following our special discounts on two days of the Chinese New Year holiday in 2015, we offered the same promotion during Christmas 2015 and Chinese New Year 2016, and will be offering the same discounts on two more days during the 2016 Easter holidays. When travelling on MTR domestic services on these six designated days, adult Octopus holders will pay concessionary fares equal to Child Octopus fares, while other concessionary Octopus holders will pay a flat fare of HK\$1 per journey.

In addition, the “MTR City Saver” promotion has been extended to 30 June 2016 and the “Early Bird Discount Promotion” to 31 May 2016. Other fare promotions included the “10% Same-Day Second-Trip Discount” from June to November 2015, using HK\$220 million set aside under the “Profit-related Fare Concession Scheme” and “Service Performance Arrangement”. We also offered free rides for the elderly on Senior Citizen’s Day and for the disabled on the International Day of Disabled Persons.

Service and Performance

Service performance during 2015 remained excellent. Train service delivery and passenger journeys on-time in our heavy rail network were maintained at 99.9%, a world-class performance that exceeds the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. Of more than 1.9 million train trips on our heavy rail network and more than 1 million train trips on our light rail network during the year, only seven delays on heavy rail network and one delay on light rail network lasting 31 minutes or more were attributable to factors within MTR’s control. Our service performance in 2015 was one of our best since the Rail Merger with KCRC back in 2007 despite passenger numbers from 2008 to 2015 increasing by a significant 30.5%.

Responding to Our Customers

We continue to generate initiatives designed to make our services more comfortable, improve station access and facilities, as well as enhance communication.

A Customer Experience Development Section has been set up to deepen our understanding of customers’ needs and devise enhancements using a sustainable Customer Experience

Management Model. Journey mapping exercises and customer group meetings are being employed to generate insights for the development of new customer service initiatives, with the aim of consistently delivering a satisfying end-to-end journey. Communication during incidents has been enhanced through delivering clear, timely and accurate information to affected customers. A detailed survey is also carried out after each major delay to collect feedback that can be used to help improve our services. To thank our customers for their support, a “Happy Birthday • Happy Journey” campaign will be launched in April 2016. Customers with Hong Kong Identity Cards whose birthdays fall on a lucky day drawn for each month will be eligible to redeem a birthday pack, including a specially designed free one-day pass for unlimited journeys on our Domestic Service and gift vouchers and coupons.

In response to opinions expressed by some customers, in September 2015 the Company reviewed its rules on the size of objects that can be carried on the railway network. Following a smooth trial that ran from November 2015 to 29 February 2016 allowing passengers with musical instruments exceeding our normal size restrictions (but still within a certain limit) to be carried on our system upon issuance of a “Carriage of Oversized Musical Instrument Permit”, the registration scheme has become an ongoing arrangement starting on 1 March 2016.

Providing More Rail Services

During 2015, 599 additional weekly services were added on the Ma On Shan, Tseung Kwan O, Island, Kwun Tong, East Rail and West Rail lines as well as on some Light Rail routes. In addition, more coupled set Light Rail vehicles have been deployed on nine routes.

Since launching of our programme to raise service levels in March 2012, more than 2,600 extra train trips have been added per week to different MTR heavy rail lines, and more than 650 weekly train trips added to Light Rail routes.

Rail Gen 2.0 - Investing in Network Improvements

In early 2016, we announced the launch of Rail Gen 2.0, which encompasses both the significant on-going enhancements to our existing rail network and the four remaining railway 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 network. It will truly be a “next generation” rail network.

As part of Rail Gen 2.0, MTR’s extensive asset maintenance and replacement programme saw more than HK\$7 billion spent on maintaining, renewing and upgrading our Hong Kong network in 2015.

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A highlight of the asset replacement programme was the signing, in July 2015, of a HK\$6 billion contract to purchase 93 8-car trains to replace the same number of existing 8-car trains currently operating on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. These new trains will bring greater comfort and a better travelling environment for our passengers.

In addition, we awarded a HK\$3.3 billion contract in March 2015 to install new signalling systems on the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines as well as the Airport Express. The new signalling system is expected to increase overall capacity by about 10% on these lines through enhancing service frequencies. The initial design has been completed and advance works to facilitate installation of new signalling equipment commenced in December 2015.

To increase train services further, the existing 28 7-car trains on the West Rail Line will be gradually converted to 8-car trains under the Shatin to Central Link project. The first 8-car train entered passenger service in January 2016, with all 8-car trains targeted to be in service in 2018. The Company is also exploring the feasibility of procuring ten new Light Rail Vehicles and ten buses for a total of more than HK\$300 million, pending a Government review on overall transport needs in the Northwest New Territories.

Another aspect of our network improvement is our ongoing works to enhance station environments. At Mong Kok Station, the two existing paid concourses were connected to form one enlarged and integrated paid area in August 2015. When other works including the addition of three escalators are completed in 2017, it will facilitate a smoother passenger flow between the concourse and platform levels. At Diamond Hill Station, one lift and two escalators connecting the concourse and platform levels were put into service to provide more convenience for passengers. At Fo Tan Station, the previous two individual paid concourses have been connected, creating a spacious overall environment and improving connectivity.

In addition, new external lifts came into service during 2015 at Prince Edward, Lai Chi Kok and Sai Wan Ho stations, while passengers at Austin Station benefited from new entrances connecting to The Austin and Grand Austin residential developments.

The first Automatic Platform Gate was retrofitted on the Ma On Shan Line in July 2015 as part of the Shatin to Central Link project. The installation programme is now expected to complete in 2017, one year earlier than planned. Installation of wide gates at 25 stations was completed during 2015. Furthermore new public toilets at Mong Kok and Prince

Edward stations opened in January 2015, and toilets were refurbished at Ma On Shan Line stations.

For our Light Rail service, improvements at Platform 2 of Tai Tong Road Stop were completed during 2015, while the replacement programme of new Light Rail ticket machines is in progress.

Looking forward, as part of Rail Gen 2.0, we will continue to upgrade our station facilities to enhance the overall customer experience. One upcoming project is to replace 160 chillers that provide air conditioning in stations with more energy efficient models. A new CCTV system is also planned to enhance coverage to ensure we continue to provide a safe and secure travel environment for our customers.

Enhancing Passenger Communication

We continue to enhance our communications with passengers through improving the delivery and content of messages, particularly during incidents.

New liquid-crystal display ("LCD") information display systems for station concourses and platforms, providing more timely and useful information to passengers, were installed along the Tung Chung Line and Airport Express during 2015. They are now being progressively installed on the Island, Kwun Tong and Tsuen Wan lines.

More than 3.5 million people used our MTR Mobile, MTR Tourist and Next Train apps in 2015. The Train Trip Planner and Light Rail Planner on MTR Mobile have been upgraded to include over 35,000 landmarks for route searches.

Increasing Support Staff in Stations

An additional 300 station assistants were introduced during 2015 to help manage the flow of passengers through stations, especially during peak periods. We have also deployed more staff to assist during specific incidents and to reinforce safety campaigns.

Hong Kong Station Commercial Businesses

Revenue from our Hong Kong station commercial businesses grew by 8.4% in 2015 to HK\$5,380 million. The increase mainly reflected higher rental income from station shops. Operating costs of our Hong Kong station commercial businesses increased by 6.8% to HK\$550 million, resulting in an 8.6% rise in operating profit to HK\$4,830 million, representing an operating margin of 89.8%.

Station retail revenue for the year increased 10.7% to HK\$3,540 million as rents increased and new shops were added in ten stations. Rental increases were driven by trade mix refinements, positive rental reversions, and increases in rents

in accordance with lease contracts for Duty Free Shops at Lo Wu and Hung Hom stations as well as higher turnover rents from the Lok Ma Chau Station Duty Free Shops.

As at 31 December 2015, there were 1,362 station shops, occupying 56,238 square metres of retail space, an increase of 542 square metres as compared with 31 December 2014. During the year, 25 new brands were introduced. To reinforce "Style to Go" branding for MTR Shops, a thematic campaign featuring local pop stars ran from March to November 2015, while an MTR Shops Voting Campaign was launched for the public to vote for their favourite MTR Shops.

Advertising revenue in 2015 decreased slightly by 0.8% to HK\$1,109 million, as the advertising market softened. The number of advertising units in stations and trains reached 45,185. During the year, new 40-inch digital escalator panels were installed, replacing all of the existing 32-inch models. In response to the popularity of the Concourse 103-inch TV zone at Lo Wu Station, this concept has been extended to Kowloon Tong and Tuen Mun stations. Starting from May 2015 an e-shop zone package was introduced to capture the rising trend of "online-to-offline" advertising.

Revenue from telecommunications in 2015 was 14.4% higher at HK\$548 million. The increase was due to a one-off project administration fee, incremental revenue from new stations on the Western extension of the Island Line and mobile data capacity enhancement projects by operators. Installation for the provision of mobile phone and Wi-Fi services continues along the new South Island Line (East) and Kwun Tong Line Extension.

Property Businesses in Hong Kong

The Hong Kong property market remained stable in the first half of 2015 but started to soften towards the end of the year, as slower economic growth in the Mainland of China began to impact Hong Kong. In the residential sector, low interest rates and sales incentives offered by developers continued to lend support to the primary market, whilst the secondary market weakened following further tightening of mortgage financing in February 2015. Grade-A office rents were underpinned by limited new supply in Central as well as continued demand from Mainland enterprises. The retail segment was increasingly affected by a fall-off in tourism from the Mainland of China and a sharp reduction in spending on luxury goods and high-value consumables as well as increasing outbound travel as a result of the strong local currency.

Property Development in Hong Kong

Profit from Hong Kong property developments in 2015 was HK\$2,891 million mainly from the booking of profits of Hemera

(LOHAS Park Package 3), together with the sale of inventory units from The Riverpark at Che Kung Temple Station and car parking spaces at various developments.

Presale of Hemera saw all 1,648 units sold by April 2015, with the development attracting strong interest.

The buoyant primary residential market in 2015 supported our property tendering activities. In January 2015, LOHAS Park Package 6 was awarded to a subsidiary of Nan Fung Group Holdings Limited and the Tin Wing Stop property development in Tin Shui Wai was awarded to a subsidiary of Sun Hung Kai Properties Limited in February. LOHAS Park Package 7 was awarded to a subsidiary of Wheelock and Company Limited in June and for this property development, apart from profit sharing in the residential component, MTR will also contribute HK\$4.98 billion and will retain ownership of the shopping mall. This contribution will be in two tranches with the first payment of HK\$2.44 billion already paid in July 2015 and the balance to be paid upon the completion of the mall construction, expected to be in 2019. In October, LOHAS Park Package 8 was awarded to a subsidiary of Cheung Kong Property Holdings Limited and in December, LOHAS Park Package 9 was also awarded to a subsidiary of Wheelock and Company Limited. In March 2016, LOHAS Park Package 10 was awarded to a subsidiary of Nan Fung Group Holdings Limited. The total gross floor area ("GFA") which can be developed from these packages is about 621,460 square metres. Acting as agent for the relevant subsidiaries of KCRC, we also awarded the Yuen Long Station property development to a subsidiary of Sun Hung Kai Properties Limited in August 2015. In total all these seven development packages will supply about 11,410 residential units when completed.

We continue to assess the feasibility of other property developments along our railway lines to increase housing supply in Hong Kong. One possible site is above our depot in Siu Ho Wan on Lantau Island where, with the necessary zoning and other approvals, not less than 10,000 residential units can be built. Much work is still required including zoning, site planning, depot re-positioning, obtaining necessary approvals, land premium assessment as well as the business model to implement the works. At this preliminary stage there can be no assurance that this proposal would become a viable commercial project for MTR.

Property Rental and Management Businesses in Hong Kong

Revenue from our Hong Kong property rental and property management businesses in 2015 increased by 8.2% to HK\$4,533 million. Operating costs rose by 15.8% to HK\$865

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million mainly due to higher Government rent and rates as well as a one-off provision. Hence operating profits increased by 6.5% to HK\$3,668 million, with operating margin at 80.9%.

Total property rental income in Hong Kong for the year was HK\$4,267 million, 8.2% higher than in 2014. Our shopping mall portfolio achieved rental reversion averaging 12% in the year. As at 31 December 2015, our shopping malls in Hong Kong and the Company's 18 floors at Two International Finance Centre remained close to 100% let.

As at 31 December 2015, the Company's attributable share of investment properties in Hong Kong was 212,301 square metres of lettable floor area of retail properties, 41,006 square metres of lettable floor area of offices, and 14,282 square metres of property for other use.

Hong Kong property management revenue in 2015 increased by 8.6% to HK\$266 million. As at 31 December 2015, the number of residential units under the Company's management in Hong Kong had risen to 96,066, following the addition of 1,648 units from Hemera and 691 units from Grand Austin. Managed commercial space was 764,018 square metres.

Mainland of China and International Businesses

In 2015, revenue from our Mainland of China and International railway and property related subsidiaries was HK\$12,572 million, a 0.4% decrease when compared to 2014.

Revenue from our railway related subsidiaries outside of Hong Kong, namely MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), Metro Trains Melbourne Pty. Ltd. ("MTM"), MTRS, MTR Express (Sweden) AB ("MTRX"), MTR Corporation (Crossrail) Limited ("MTR Crossrail"), Metro Trains Sydney Pty. Limited ("MTS") and the Joint Venture for the design and construction of the SMNW ("JV-SMNW"), was HK\$12,418 million. This represents a slight decrease of 0.4% over 2014 and mainly reflects the net result of adverse exchange rate movements offset by incremental contributions from new start-up operations. Operating costs increased to HK\$11,719 million, resulting in a 16.2% decrease in operating profit to HK\$699 million with an operating profit margin of 5.6%. On a constant exchange rate basis, revenue from our railway related subsidiaries (excluding the new start-up operations of MTRX, MTR Crossrail, MTS and JV-SMNW) would have increased by 7.4%, operating cost by 8.2%, and operating profit decreased by 2.9%, mainly due to a lower volume of project activities in MTM.

Our rail associates outside of Hong Kong contributed profits of HK\$126 million in 2015. This compared with a loss of HK\$105 million in 2014 and reflects the improved performance of our Hangzhou and Beijing associate companies.

Approximately 1,598 million passengers were carried by our railway subsidiaries and associates outside of Hong Kong in 2015, compared to approximately 1,458 million in 2014.

Railway Businesses in the Mainland of China

In Beijing, our 49% associate BJMTR operates three lines (Beijing Metro Line 4 ("BJL4"), Daxing Line and BJL14) and entered into a concession agreement for a fourth line (BJL16) towards the end of 2015. BJL4 and the Daxing Line exceeded their service targets. Combined ridership in 2015 was 429 million passenger trips, with average weekday patronage of more than 1.24 million. Compared with 2014 these numbers represented declines of 6.9% and 4.6% respectively, which were due to the increase in fares across the Beijing metro network in December 2014. The two lines have 35 stations and a combined length of 50 km.

The Phase 1 West Section and Phase 2 East Section of BJL14 recorded a combined 62.65 million passenger trips and average weekday patronage of 196,039 during 2015. The Phase 1 West Section has seven stations, running for 12.4 km. The Phase 2 East Section runs for 14.8 km and covers 12 stations, two of which are bypassed. The Phase 3 Middle Section of BJL14 opened in December 2015. It has 11 stations (two of which are bypassed) with over 16.6 km of route length. During 2015, the various sections of BJL14 were managed by BJMTR on an operating and maintenance business model. With the opening of Phase 3, as from 31 December 2015 the 30-year concession has commenced.

In Shenzhen, the Shenzhen Metro Longhua Line ("SZL4") operated by our wholly-owned subsidiary MTR(SZ), continued to enhance operational performance and saw a 12% increase in patronage to 189.4 million in 2015. Capacity on the line has been increased by the conversion of all 4-car trains into 6-car trains with all works completed ahead of schedule in February 2015.

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 protection mechanism. We understand that there have been discussions within the Shenzhen Municipal Government regarding fare adjustments, possibly in 2016. If such fare adjustments are not implemented, the long-term financial viability of SZL4 may be impacted.

Our 49% owned associate in Hangzhou, HZMTR, operates HZL1 which was extended by 5.7 km in November 2015 and now covers 54 km, with 34 stations. Patronage on HZL1 continues to grow and 2015 saw the number of passenger

trips rise by 23% to 176.9 million. A 5.7-km extension of HZL1 opened in November 2015; this extension is operated under an operating and maintenance business model. HZMTR has continued to record a net loss due to lower patronage than originally expected although this net loss was lower than in the previous year due mainly to higher fare revenue and fare subsidy and a number of one-off adjustments, partially offset by incremental interest expenses.

International Railway Businesses

During 2015, the Company notched up a series of successes in the UK and Sweden. In the UK, LOROL has continued to deliver best-in-class operational performance. It was named "Rail Operator of the Year", a prestigious title won at the "2015 London Transport Awards". In May 2015, LOROL took over the management of the West Anglia Inner suburban routes, increasing the scale of its operations by 30.8% to 111 stations (with 81 managed by LOROL) and bringing the total route length to 167 km. The route extension increased ridership by 27% to 146 million. LOROL has assisted Transport for London ("TfL") to complete the GBP320 million project to increase train capacity by lengthening 57 trains from 4-car to 5-car on key London Overground routes.

MTR Crossrail started operating the new Crossrail concession in May 2015 under the brand name "TfL Rail". TfL Rail consists of services devolved from the previous Greater Anglia franchise covering 14 stations. When full Crossrail services commence in 2019, it will serve 40 stations with a route length of 118 km. Since commencement of service, MTR Crossrail has achieved significant improvements in operational performance, customer satisfaction and employee engagement.

In Sweden, MTRS recorded excellent operational performance in 2015, setting record-breaking levels for punctuality across all metro lines in Stockholm. Average weekday patronage reached 1.19 million. MTRS's consistent improvement in operational performance and customer service was recognised by being awarded the prestigious "2014 Swedish Quality Award". More importantly, it was granted an extension of the Stockholm Metro operating concession for a further six years to 2023. Helped by this solid track record, in December 2015 we were awarded the operating concession to operate and maintain the Stockholm Commuter Rail Systems (Stockholms Pendeltåg) 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 concession is expected to start in December 2016, although there is currently a legal challenge from one of the failed bidders in the tender process which we are closely monitoring. In addition, MTRX commenced service between

Stockholm and Gothenburg in March 2015, winning very positive customer satisfaction for its best-in-class service quality and operational performance. However passenger numbers have been below initial projections, and we are addressing this issue through initiatives including enhanced marketing, promotions and sales campaigns.

In Australia, our 60% owned subsidiary MTM saw patronage in the Melbourne metro network increase from approximately 222 million in 2014 to 230 million in 2015, whilst further improvements in operational performance resulted in higher customer satisfaction. The Melbourne metro network has 218 stations and covers 390 km. 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 SMNW. SMNW is our first international PPP project, and is also Australia's largest public transport project. 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. Construction work has begun and initial milestones were achieved, including the delivery of the life-size train model, which has met with a positive response. The consortium also won the "Government Partnership Excellence Award" at the "National Infrastructure Awards" in Sydney in March 2015.

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

During 2015, we launched presales of Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1. This is our first property development in the Mainland of China and the response from buyers was excellent, with about 96% of 1,698 units sold by the end of 2015. The project has a total developable GFA of approximately 206,167 square metres including a 10,000 square metre (GFA) retail centre. Booking of revenue for Tiara will take place when the units are handed over to buyers in subsequent years. For accounting reasons, sales and marketing expenses for Tiara are expensed as incurred and hence in 2015, the operating loss relating to this project was HK\$140 million.

In Tianjin, our 49% owned associate, Tianjin TJ-Metro MTR Construction Company Limited, is encountering a number of obstacles in the development of the Beiyunhe Station project on Tianjin Metro Line 6. These obstacles include softening market demand in Tianjin, especially for offices (the mix-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 and enlarged basement construction. We are working with our 51% partner,

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Tianjin Metro (Group) Company Limited to find ways to reduce the negative impact of these challenges. The possible solutions being explored with Tianjin Metro (Group) Company Limited 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 slightly by 0.6% to HK\$154 million in 2015. Our shopping mall in Beijing, Ginza Mall, was 93.4% occupied as at 31 December 2015.

The Company manages third party properties in the Mainland of China which, at the end of 2015, covered a gross floor area of 230,000 square metres. The properties comprised AO City Fortune Centre in Beijing, with 24,000 square metres of commercial and 58,000 square metres of residential space, and the North Star Paseo Mall and office towers in Beijing with 148,000 square metres of commercial space.

Other Businesses

The Ngong Ping Cable Car and associated theme village ("Ngong Ping 360") recorded a 7.5% decrease in revenue in 2015 to HK\$347 million. Visitor numbers for the year decreased by 11.5% to 1.62 million, due mainly to 28 fewer operating days because of rope maintenance works, as well as the challenges faced by the Hong Kong tourism industry during the year. Service reliability remained excellent. Ngong Ping 360 garnered numerous awards and recognition during the year, including being named "10 of the World's Most Amazing Cable Car Experiences" by CNN.com USA in February 2015.

The Company's share of Octopus' net profit for 2015 increased by 4.0% to HK\$235 million. By year end, 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 30.5 million, while average daily transaction volumes and value reached 13.7 million and HK\$165.3 million respectively.

We continue to 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 2015 was HK\$189 million, 5.0% higher than in 2014.

Income from project management services to Government is predominately for entrustment works on the Express Rail Link and Shatin to Central Link. Such income increased by 11.2% in 2015 to HK\$1,736 million. Income from the entrustment works is booked on a cost recovery basis.

Future Growth

Growth in Hong Kong

Our key areas of growth in Hong Kong are the development of new rail lines in our home market as well as the expansion of our investment property portfolio. The completion of the remaining four new rail lines in Hong Kong is a centrepiece of our Rail Gen 2.0 initiative, which will add 53 km to our existing 220.9 km of route network.

New Rail Projects Owned by MTR Western Extension of the Island Line

The last station of the 3-km Western extension of the Island Line, Sai Ying Pun Station, opened in March 2015, with its last remaining entrance at Ki Ling Lane to be opened later on in March 2016. This community railway has been greatly welcomed by residents and visitors to the area. Average daily usage of the three stations totalled approximately 184,000 passengers in the second half of 2015.

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 31 December 2015, the project was 93% complete, with opening of the line targeted for the end of 2016.

The extension of Admiralty Station has been and remains the most challenging part of the project. In relation to this extension, excavation and structural works for the station cavern and platforms required for line opening have been completed, and fit-out and electrical & mechanical ("E&M") works are now in progress. By the end of 2015, the difficult underpinning excavation works were substantially complete and the construction of the concrete structure of the station box was approximately 80% complete. Completion of the remaining structural works in close proximity to the operational railway and securing sufficient resources for the E&M fit out are key challenges that must be overcome for the project to meet the targeted opening date.

Structural lining of the 3.2-km Nam Fung Tunnel connecting Admiralty and Ocean Park stations was completed in August 2015. Trackwork and E&M works in the tunnel are also substantially complete. Fitting-out and E&M works have been completed at Wong Chuk Hang Depot, as well as Ocean Park and Wong Chuk Hang stations. Testing of the new 3-car trains between Wong Chuk Hang and South Horizons stations has been in progress since April 2015 and testing for the whole line commenced in mid February 2016.

The current estimated cost of the project remains at HK\$16.9 billion (before capitalised interest).

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 31 December 2015, the project was 91% complete with overall civil works being 97% complete and E&M works 71% complete. Opening is targeted for the third or fourth quarter of 2016.

Major progress milestones achieved during the year included energisation of overhead lines to Ho Man Tin Station and the completion of track laying works. The Ho Man Tin Station structure was topped out in June 2015 and E&M works are progressing well, with major plant and equipment in position. Assembly of platform screen doors, lifts and escalators is in progress. The pedestrian footbridge and subway structures connecting the station with the neighbouring community are substantially complete.

At Whampoa Station the platform tunnel connecting the East and West concourses was fully excavated in July 2015 and the tunnel lining has been completed. Internal finishings and fitting-out works are in full swing.

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

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 31 December 2015, the project was 76% complete.

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, construction and commissioning into service of the Express Rail Link. Under the XRL Entrustment Agreement, Government is responsible for funding the construction of the Express Rail Link.

A major milestone for the project was the completion of tunnel excavation which took place on 12 December 2015 with the last tunnel section, the northern northbound section of the Tai Kong Po to Tse Uk Tsuen tunnel breaking through. Track laying, tunnel lining, overhead line installation and other E&M works are progressing and were 52% complete at year end. The West Kowloon Terminus excavation was 98% complete and the concrete structure 70% complete at year end. The major construction challenges going forward are the completion of the complicated roof structure for the station as well as maintaining the pace of concreting works and internal wall construction.

Another milestone for the Express Rail Link project in the year was the XRL Agreement entered into by Government and MTR relating to the further funding arrangements for the project ("XRL Arrangements"). With the approval of the XRL Agreement and the XRL Arrangements by the Company's shareholders who are independent of Government ("Independent Shareholders") on 1 February 2016 and also the approval by LegCo on 11 March 2016 of Government's additional funding obligations under the XRL Agreement, the XRL Agreement has become unconditional.

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, in two equal tranches of HK\$2.20 per share, which are expected to be paid in the second half of 2016 and the second half of 2017, respectively. This amounts to a total special dividend of approximately HK\$25.76 billion based on the number of shares outstanding as at 31 October 2015. Other terms of the Entrustment Agreements relating to the project previously entered into by Government and MTR 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").

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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.

The XRL Agreement and the XRL Arrangements were approved by the Company's Independent Shareholders on 1 February 2016 and on 11 March 2016, LegCo gave approval for Government's additional funding obligations under the XRL Agreement and hence the XRL Agreement has become fully effective.

Shatin to Central Link

The ten stations 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 much needed new links across the New Territories, serving an estimated residential and working population of 640,000 in 2021. Overall progress on the project was about 48% complete as at end of 2015, with the East West Corridor and North South Corridor being 63% and 23% complete, respectively. Government is responsible for funding the construction of the Shatin to Central Link except for certain costs of modification, upgrade or expansions of certain assets for which the Company is responsible under the existing service concession agreement with KCRC.

Reasonable progress was made on construction works during the year. For the East West Corridor, the downtrack tunnel from Hin Keng Station to Kai Tak Station was bored through in 2015. Both Hin Keng Station and Kai Tak Station were topped out in April and July 2015 respectively and E&M, other fitting out works, as well as track laying have commenced. Ma Tau Wai Station and To Kwa Wan Station (which had been affected by the archaeological finds) were 61% and 49% complete, respectively and the interchange stations at Diamond Hill and Hung Hom were over 65% complete. Meanwhile, the modification works on station platforms of the Ma On Shan Line to tie in with the future 8-car train configuration of the East West Corridor were 95% complete. Installation of automatic platform gates has commenced in three Ma On Shan Line stations.

For the North South Corridor, the immersed tube cross-harbour tunnel contract was about 26% complete at year end and construction of the launching shafts for the two tunnel boring machines on Hong Kong Island are underway with tunnel boring works planned to commence in the second quarter of 2016. Construction of Exhibition Station, including the diaphragm wall and foundation works, is underway. Reprovisioning of the new Wan Chai Swimming Pool was completed in October 2015. This facilitated the timely release of the site previously occupied by the original swimming pool to the contractor, thus enabling construction of Exhibition Station to start on time.

New trains for both corridors are being delivered to Hong Kong in batches starting from September 2015 for testing and commissioning. To facilitate the 8-car train operation of the East West Corridor, the existing 7-car trains of the West Rail Line are being converted to 8-car trains progressively. The first 8-car train was put into service in January 2016 and a total of 28 West Rail Line trains are expected to be converted by mid-2018.

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, the anticipated late hand-over at the Central-Wan Chai Bypass of a construction site for the new Exhibition Station on the North South Corridor, due to infrastructure works by other parties, has already caused a six-month delay in that corridor. The estimated completion is now 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.

Given the above delays, we are reviewing again the project cost estimate and the target completion dates for this project. Taking into account the continued difficulties and challenges, including those described above, we expect that the cost estimate will be revised upwards. In addition, mainly as a result of the increase in the estimated project costs relating to Admiralty Station, where the Shatin to Central Link will interchange with, amongst other lines, the South Island Line (East), we have notified Government of an increase in the expected cost of the Shatin to Central Link advance works. The programme and cost review in respect of the project as a whole is expected to be completed later in 2016, after which the Company will formally report the findings to Government.

New Railway Projects Under Discussion

To meet Hong Kong's growing public transport needs, Government's strategy is to continue using railway as the backbone in the development of our public transport network. Beyond the four rail lines that we are building now, Government has identified seven new rail projects under its RDS 2014 to be implemented in phases up to 2031, of which three are priority lines, namely the Tuen Mun South Extension, the Northern Link including Kwu Tung Station, and the East Kowloon Line. We continue to work with Government in taking forward these rail expansion plans.

Hong Kong Property Investment Projects

Another avenue of growth in Hong Kong is the expansion of our investment properties portfolio. Over the next five years or so, we will be adding about 120,620 square metres (GFA) to our shopping centre portfolio, thereby increasing the attributable GFA of our existing retail portfolio by approximately 40%.

The new Tai Wai shopping centre will have 60,620 square metres (GFA) and is targeted to open in the third quarter of 2021. The Company has contributed HK\$7.5 billion to this development, and will retain ownership of the mall and bear the fit-out costs. The LOHAS Park shopping centre will have 44,500 square metres (GFA) and is targeted to open in the fourth quarter of 2020. The Company will contribute a total of HK\$4.98 billion to the development, retain ownership and fit out the shopping centre.

The extension of Maritime Square will increase retail area by 12,100 square metres (GFA) at a cost of approximately HK\$2.4 billion. All statutory submissions have been obtained and construction works commenced in June 2015. Construction is progressing according to programme and the extension is targeted to open in the fourth quarter of 2017.

To meet growing demand for retail services in East Kowloon, two floors of our offices above Telford Plaza are being converted to retail use, adding a further 3,400 square metres (GFA) to the shopping centre. The estimated project cost is HK\$550 million. Land premium was paid in September 2015, and the conversion works commenced in December 2015 with opening targeted for the second quarter of 2017.

Mainland of China and International Growth

In Beijing, BJMTR continues to make good progress with the remaining sections of BJL14. Once complete, the entire line will run for 47.3 km and have 37 stations, including ten interchange stations. Under the RMB50 billion PPP project, BJMTR's investment is RMB15 billion and is responsible for provision of E&M systems and rolling stock, as well as operation and maintenance of the line over a term of 30 years.

The Concession Agreement for BJL16, another PPP project, was signed by BJMTR on 28 November 2015. The line will run 50 km from Beianhe to Wanping, encompassing 29 stations. 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 in 2016, with full line operation after 2017.

MTR's equity contribution to BJMTR to support the BJL14 and BJL16 PPPs is estimated at RMB 2.45 billion for BJL14 and up to RMB 2.45 billion for BJL16.

In Sweden, the Stockholm County Council awarded MTR Nordic, a wholly owned subsidiary of the Company, the concession to operate and maintain Stockholms Pendeltåg. Moreover, in the first quarter of 2016, MTR acquired the remaining 50% shareholding in Tunnelbanan Teknik Stockholm ("TBT"), a 50:50 joint venture established initially between MTRS and Mantena AS in 2009. This acquisition will bring rolling stock maintenance for the metro network in Stockholm fully under our management.

Financial Review

In 2015, the Group recorded reasonable profits from our recurrent businesses and moderate profits from our property development business. The Group's total revenue and total operating expenses increased by 3.8% and 3.4% to HK\$41,701 million and HK\$25,581 million, respectively. Revenue from Hong Kong transport operations was HK\$16,916 million, an increase of 4.3% due to higher passenger numbers and adjustments to fares which were partly offset by fare concessions. Expenses relating to Hong Kong transport operations grew by 5.0% to HK\$9,702 million with the opening of the Western extension of the Island Line, as well as increased train trips and more front line operational staff. Revenue from station commercial businesses increased by 8.4% to HK\$5,380 million, mainly due to higher rental income from station shops. The related expenses were 6.8% higher at HK\$550 million, mainly due to higher Government rent and rates. Hong Kong property rental and management businesses recorded revenue of HK\$4,533 million, up 8.2% with related expenses increasing by 15.8% to HK\$865 million, mainly due to higher Government rent and rates as well as a one-off provision.

Our Mainland of China and international businesses were affected by adverse exchange rate movements. Revenue from the subsidiaries outside of Hong Kong decreased marginally by 0.4% to HK\$12,572 million, with the related operating expenses increasing by 1.4% to HK\$11,986 million and operating profits decreasing by 27.3%. On a constant

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exchange rate basis and excluding the new start-up operations of MTRX, MTR Crossrail, MTS and JV-SMNW, the revenue and expenses from our railway related subsidiaries outside of Hong Kong would have increased by 7.4% and 8.2%, respectively although operating profits would have decreased by 2.9% due to lower project income from MTM in Australia.

Revenue from other businesses in Hong Kong was HK\$2,300 million, an increase of 6.8% mainly due to a higher level of project management work performed for Government, which is recognised on a cost recovery basis. However, this was partly offset by lower revenue from Ngong Ping 360 due to a decline in visitor numbers resulting from 28 fewer operating days brought about by rope maintenance work, as well as the drop in inbound tourism to Hong Kong in 2015. The related expenses increased by 10.9% to HK\$2,174 million, mainly due to the higher level of project management work for Government.

Including project study and business development expenses of HK\$304 million, operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment arising from recurrent businesses was HK\$16,260 million, an increase of 5.1% over 2014. The operating loss from Mainland of China property development was HK\$140 million being mainly sales and marketing expenses for Tiara. Total operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment increased by 4.5% to HK\$16,120 million, with operating margin increasing by 0.3 percentage point to 38.7%.

Hong Kong property development profit in 2015 was HK\$2,891 million, derived predominately from the booking of profits of Hemera (LOHAS Park Package 3) in the first half of 2015 and sales of inventory units in the second half. This was HK\$1,325 million lower than 2014 when substantial property development profits were recognised from The Austin and Grand Austin. Depreciation and amortisation charges increased by 10.4% to HK\$3,849 million, mainly due to the additional depreciation charge associated with the operation of the Western extension of the Island Line. Variable annual payment to KCRC increased by 12.0% to HK\$1,649 million as a larger portion of revenue was charged at the highest progressive rate of 35%. Operating profit before interest and tax therefore decreased by 8.0% to HK\$13,513 million.

Net interest and finance charges were HK\$599 million in 2015, an increase of 9.9% due to lower interest income on reduced cash balances. Investment property revaluation gain amounted to HK\$2,100 million. Our share of profit from Octopus Holdings Limited increased from HK\$226 million to HK\$235 million. Our share of profit from other associates was

HK\$126 million, as compared to a loss of HK\$105 million in 2014, and was mainly due to improvements in the results of HZMTR and BJMTR.

Net profit attributable to shareholders, after deducting income tax of HK\$2,237 million and profits shared by non-controlling interests of HK\$144 million, decreased from HK\$15,606 million in 2014 to HK\$12,994 million in 2015. Earnings per share therefore decreased from HK\$2.69 to HK\$2.22. Excluding investment property revaluation, the underlying profit attributable to equity shareholders was HK\$10,894 million, with underlying earnings per share of HK\$1.87. Profit from our recurrent businesses grew by 6.7% to HK\$8,565 million, while post-tax property development profits decreased from HK\$3,547 million in 2014 to HK\$2,329 million in 2015. Return on average equity attributable to equity shareholders arising from underlying businesses was 6.5% in 2015, compared to 7.3% in 2014.

Our statement of financial position remained strong, as the Group's net assets increased by 4.1% from HK\$163,482 million as at 31 December 2014 to HK\$170,171 million as at 31 December 2015. Total assets increased by HK\$13,951 million to HK\$241,103 million as a result of investment property revaluation gains, capitalisation of further construction costs of the Western extension of the Island Line, South Island Line (East) and Kwun Tong Line Extension, and renewal and upgrade works for our existing Hong Kong railway network. There were also contributions paid for LOHAS Park Package 7 and Tai Wai Station property development projects. Total liabilities have increased by HK\$7,262 million since 31 December 2014 to HK\$70,932 million as at 31 December 2015 mainly as a result of sales proceeds received in advance in respect of Tiara in Shenzhen. The Group's net debt-to-equity ratio increased from 9.1% at 30 June 2015 to 11.3% at 31 December 2015.

Net cash generated from operating activities decreased by HK\$1,271 million to HK\$14,773 million in 2015. The decrease was mainly due to higher tax payments and lower working capital movements. Receipts from property developments of HK\$8,234 million in 2015 were HK\$942 million lower than 2014, and mainly related to proceeds from Hemera and Grand Austin in Hong Kong and Tiara in Shenzhen. Including proceeds from shares issued under our share option scheme of HK\$569 million and other cash receipts of HK\$371 million, net cash receipts from operating and investing activities decreased from HK\$25,595 million in 2014 to HK\$23,947 million in 2015.

Total capital expenditure for railway operations paid during the year was HK\$9,687 million. This included HK\$4,216 million for the purchase of assets for our Hong Kong transport operations' existing railways and related operations, HK\$4,760

million for the construction of the Hong Kong railway extension projects, HK\$553 million for Shenzhen Metro Longhua Line railway operations and HK\$158 million for other overseas transport operations. For property related businesses, total capital expenditure paid was HK\$11,983 million. This included HK\$10,253 million in respect of Hong Kong property development projects mainly relating to contributions paid for the Tai Wai Station and LOHAS Park Package 7 property development projects, HK\$1,121 million for Tiara and HK\$609 million for Hong Kong investment property projects and related fitting out work.

The Group paid fixed and variable annual payments to KCRC amounting to HK\$2,222 million and dividends to our equity shareholders amounting to HK\$5,748 million. Taking into account cash investment into BJMTR of HK\$61 million, net loans to other associates of HK\$91 million, net interest payment of HK\$577 million, dividends to holders of non-controlling interests of HK\$157 million and other payments, net cash payments increased from HK\$20,349 million in 2014 to HK\$30,676 million in 2015. After these items and net loan drawdown of HK\$154 million, the Group's cash balance decreased from HK\$18,893 million at 31 December 2014 to HK\$12,318 million at 31 December 2015.

In line with our progressive ordinary dividend policy, the Board has proposed a final ordinary dividend of HK\$0.81 per share, giving a full-year ordinary dividend of HK\$1.06 per share, higher than the HK\$1.05 per share for 2014, with a scrip dividend option offered. In addition, with the approval of the Independent Shareholders for the XRL Agreement obtained on 1 February 2016 and the approval of LegCo obtained on 11 March 2016 for Government's additional funding obligations under the XRL Agreement, the first tranche of the special dividend of HK\$2.20 per share will be paid to shareholders in the second half of 2016 and the second tranche, also of HK\$2.20 per share, will then be paid in the second half of 2017.

Human Resources

The Company, together with our subsidiaries, employed 17,127 people in Hong Kong and 8,157 outside of Hong Kong as at 31 December 2015. Our associates employed an additional 11,109 people in and outside Hong Kong. In Hong Kong, during the year, 1,806 new hires were taken on and 1,454 people were promoted internally, while staff turnover remained low at 3.7%.

To strengthen organisational effectiveness and support our business growth, an Engineering Division was established in early 2016. This new division will drive excellence and support long-term planning within the Company's engineering functions.

For recruitment, training and development, staff motivation and communication, we have very active programmes to attract, engage and retain staff. Initiatives implemented during 2015 to engage staff included various appreciation and support measures to recognise their commitment, professionalism and strong "One Team" spirit in overcoming different challenges. There were 8,700 communication sessions conducted under the "Enhanced Staff Communication Programme". Our global internal communications platform MTRconnects increased in popularity, as shown by over 563,000 hits as of December 2015, with more than 13,300 unique visitors.

The Work Improvement Team ("WIT") programme has continued to encourage collective innovation, continuous improvement and staff engagement. WIT has been MTR's "DNA" in Hong Kong for more than 27 years and in 2015, there were 5,672 members and 953 teams, with 950 projects submitted. To promote the WIT culture across our businesses worldwide, a 2015 Global WIT Conference was held in June 2015 with participants from our operations outside of Hong Kong.

Investment in staff development and training during 2015 saw 6,510 courses held in Hong Kong providing 6.6 training days per employee, in addition to courses elsewhere. To accelerate senior leadership development, we extended our people development initiative at the corporate level to our Mainland of China and international businesses. We also continued with our Executive Associate and graduate development programmes.

Our vision for the future is to become a recognised base for the training and development of future generations of railway professionals through the establishment of an "MTR Academy". Revealed in January this year in the Policy Address of the Chief Executive of the HKSAR, this new initiative aims to develop talent to operate and maintain safe, reliable and efficient railway systems in and outside of Hong Kong. While planning is in the early stages, the "MTR Academy" is envisaged to offer signature programmes in engineering, operations, management and customer service.

Community Engagement

Our "More Time Reaching Community" scheme celebrated its tenth anniversary in 2015, supporting 255 community projects involving over 6,000 volunteers. In addition, approximately HK\$8.2 million was donated to charitable causes such as the Community Chest and we provided free advertising space to 50 non-profit organisations to support their work. The Company has been awarded the "10 Years Plus Caring Company Logo" by the Hong Kong Council of Social Service ("HKCSS") in recognition of our commitment to caring for the community, our employees and the environment over the

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past decade. HKCSS also bestowed the highest honour, the "Outstanding Award for Social Inclusion", on our "MTR-Society Link" programme.

The MTR HONG KONG Race Walking 2015 event took place in September 2015, raising a record HK\$1.42 million for the Hospital Authority's Health InfoWorld. It was co-organised by MTR and the Hong Kong Amateur Athletic Association.

Furthermore, we launched our "Youth Connect" platform to strengthen our commitment to youth development. A range of new and existing initiatives, such as mentoring and life-skills training, will be housed on this platform. It will support the Company's contribution to collective efforts in empowering young people, giving them the skills, perspectives, motivation and opportunities they need to achieve their aspirations.

Outlook

Towards the end of 2015, economic growth in Hong Kong slowed, impacted by declining retail sales and a slowing residential property market, strong local currency and a slowdown in growth in Mainland China. The end of 2015 also saw the US Federal Reserve increase the federal funds rate by 25 basis points, and it indicated that it may keep increasing rates into 2016. A further decline in the oil price and fears of continued RMB devaluation led to significant market volatility in the early months of 2016. We expect many of these trends to continue into 2016 and hence take a cautious stance.

In Hong Kong many of our businesses have a degree of resilience against slower economic growth whilst rental reversions in our station shops and shopping centres will be dependent on market conditions. Our advertising business will be more impacted by slower economic conditions.

In our Hong Kong property development business, there will be no new MTR projects subject to presales and development profit bookings in 2016. Hence Hong Kong property development profits, if any, will only come from sundry sources such as the sale of inventory units. In our property tendering activities over the next 12 months or so, subject to market conditions, we expect to tender out three property development packages with one more at LOHAS Park and our first property packages at both Ho Man Tin and Wong Chuk Hang.

As part of Rail Gen 2.0, we are targeting to open two new rail extensions in Hong Kong in the second half of this year, namely the Kwun Tong Line Extension and South Island Line (East). Challenges remain in the completion of these extensions and our teams are working diligently to deliver these two projects as soon as possible.

Outside of Hong Kong, if the local currencies continue to be weak, this may have an adverse impact on profits when such profits are translated back into Hong Kong dollars. In our

Mainland property business, subject to project progress, we expect to book development profits relating to the low-rise units of Tiara which have been sold. Booking of profits for the high-rise units, which will contribute the bulk of total project profits, will likely take place in 2017, subject to construction progress.

To strengthen the senior management team, Mr Morris Cheung, formerly Human Resources Director, has taken up the role of European Business Director with effect from 15 June 2015. Mr Daniel Shim has taken over as Acting Human Resources Director and the recruitment of a Human Resources Director is underway. Ms Linda So joined MTR as Corporate Affairs Director on 16 September 2015 and Dr Peter Ewen joined MTR as Engineering Director on 22 February 2016 to oversee the Company's new Engineering Division. Mr Adi Lau, Deputy Director – Operating, became a member of the Executive Committee on 1 November 2015.

Having served as Chairman of the Board for over 12 years, Dr Raymond Ch'ien retired on 31 December 2015. I would like to express my deep appreciation to him for his leadership and tremendous contributions to the Corporation's success over the past years. I would also like to welcome Professor Frederick Ma as Chairman from 1 January 2016. Professor Ma has many years of experience with MTR having joined the Board as an Independent Non-executive Director in July 2013, and also prior to that, being a Non-executive Director from 2002 to 2007 in his role, at that time, as the Secretary for Financial Services and the Treasury. My colleagues and I look forward to working with Professor Ma.

I wish to express my gratitude to both Dr Ch'ien and Professor Ma as well as other Board members for their support. Finally I would also thank all my MTR colleagues both in and outside of Hong Kong for their hard work, dedication to excellence and support of the Company throughout the year; they really are the heroes of MTR.



Lincoln Leong Kwok-kuen, *Chief Executive Officer*
Hong Kong, 11 March 2016

Key Figures

	2015	2014	% Increase/ (Decrease)
Financial highlights (HK\$ million)			
Revenue			
– Hong Kong transport operations	16,916	16,223	4.3
– Hong Kong station commercial businesses	5,380	4,963	8.4
– Hong Kong property rental and management businesses	4,533	4,190	8.2
– Mainland of China and international subsidiaries	12,572	12,627	(0.4)
– Other businesses	2,300	2,153	6.8
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	16,120	15,423	4.5
Profit on Hong Kong property development	2,891	4,216	(31.4)
Operating profit before depreciation, amortisation and variable annual payment	19,011	19,639	(3.2)
Profit attributable to equity shareholders arising from underlying businesses	10,894	11,571	(5.9)
Total assets	241,103	227,152	6.1
Loans, other obligations and bank overdrafts	20,811	20,507	1.5
Obligations under service concession	10,564	10,614	(0.5)
Total equity attributable to equity shareholders	170,055	163,325	4.1
Financial ratios			
Operating margin (%)	38.7	38.4	0.3% pt.
Operating margin (excluding Mainland of China and international subsidiaries) (%)	53.3	53.1	0.2% pt.
Net debt-to-equity ratio* (%)	11.3	7.6	3.7% pts.
Return on average equity attributable to equity shareholders arising from underlying businesses (%)	6.5	7.3	(0.8%) pt.
Interest cover (times)	14.4	15.2	(0.8) time
Share information			
Basic earnings per share (HK\$)	2.22	2.69	(17.5)
Basic earnings per share arising from underlying businesses (HK\$)	1.87	1.99	(6.0)
Dividend per share (HK\$)	1.06	1.05	1.0
Share price at 31 December (HK\$)	38.40	31.80	20.8
Market capitalisation at 31 December (HK\$ million)	224,956	185,284	21.4
Operations highlights			
Total passenger boardings in Hong Kong (million)			
– Domestic Service	1,577.5	1,547.8	1.9
– Cross-boundary Service	114.2	113.0	1.1
– Airport Express	15.7	14.9	5.7
– Light Rail and Bus	226.7	224.6	0.9
Average number of passengers (thousand)			
– Domestic Service (weekday)	4,577	4,490	1.9
– Cross-boundary Service (daily)	313.0	309.7	1.1
– Airport Express (daily)	43.1	40.8	5.7
– Light Rail and Bus (weekday)	637.4	630.8	1.0
Fare revenue per passenger (HK\$)			
– Domestic Service	7.49	7.31	2.5
– Cross-boundary Service	27.76	26.97	2.9
– Airport Express	60.42	61.47	(1.7)
– Light Rail and Bus	2.96	2.85	4.0
Proportion of franchised public transport boardings (%)	48.5	48.1	0.4% pt.

* Including obligations under service concession and loan from holders of non-controlling interests as components of debts.

Key Events in 2015

January

The Company announced the appointment of Dr Eddy Fong Ching as an Independent Non-Executive Director.

The Company awarded the tender for LOHAS Park Package 6 Property Development to Great Team Development Limited, a subsidiary of Nan Fung Group Holdings Limited.

To thank passengers for 35 years of support and to celebrate the extension of the Island Line to Western District, the Company offered two days of fare discounts on the second and third days of the Chinese New Year.

February

The tender for the Tin Wing Stop Property Development was awarded to Best Vision Development Limited, a wholly-owned subsidiary of Sun Hung Kai Properties Limited.

March

The Company awarded a HK\$3.3 billion contract to replace the signalling systems for six MTR lines and the Airport Express.

The Company's UK joint venture, London Overground Rail Operations Limited ("LOROL"), received the "Rail Operator of the Year Award" at the "2015 London Transport Awards".

The Board appointed Mr Lincoln Leong as Chief Executive Officer with effect from 16 March for a term of three years.

Sai Ying Pun Station entered service on 29 March, marking the full opening of the Island Line extension to Western District.

MTR Express, a new intercity train service that connects Stockholm and Gothenburg in Sweden, commenced operations.



April

Mr Hon Chi-keung joined the Board as Non-Executive Director upon taking over the post of Permanent Secretary for Development on 7 April from Mr Wai Chi-sing.

A topping-out ceremony was held at the site of Hin Keng Station, signifying the completion of civil works for the first Shatin to Central Link station.

May

On 31 May, LOROL successfully expanded services on the London Overground and MTR Corporation (Crossrail) Limited, a wholly-owned subsidiary of the Company, launched the first phase of the future Crossrail operation.

June

Mr Morris Cheung, formerly Human Resources Director, took up the role of European Business Director to oversee the Company's business development in Europe.

The tender for LOHAS Park Package 7 Property Development was awarded to Ventures Smart Limited, a subsidiary of Wheelock and Company Limited.

A ground-breaking ceremony was held to mark the start of the main construction works for the Maritime Square Extension project.

A new wave of fare promotions including the five-month "10% Same-Day Second-Trip Discount" was launched on 21 June when new MTR fares took effect.

July

The Company awarded a contract for the purchase of 93 new 8-car trains to replace all of the older-generation trains now operating on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines.

A topping-out ceremony was held at Kai Tak Station to celebrate the completion of the civil structure.



August

The Company announced the appointments of Mr Lau Ping-cheung, Kaizer and Dr Allan Wong Chi-yun as Independent Non-Executive Directors on 11 August. Ms Christine Fang Meng-sang resigned as an Independent Non-executive Director with effect from the same day.

September

MTR Stockholm AB, a wholly-owned subsidiary of the Company was granted a six-year extension of its concession to operate the Stockholm Metro to 2023.

To reinforce the Company's commitment to empowering young people to reach their full potential, the new "Youth Connect" identity was launched at the "Cross-Sector Summit on Pathways to Employment".

Ms Linda So joined the Company as Corporate Affairs Director on 16 September to oversee stakeholder engagement, external communications and corporate responsibility.

About 1,500 race walkers participated in MTR HONG KONG Race Walking to promote healthy living. A record donation of HK\$1.42 million was raised to support the Hospital Authority Health InfoWorld's work.



October

The Company announced the award of the tender for the LOHAS Park Package 8 Property Development to Albany Investments Limited, a subsidiary of Cheung Kong Property Holdings Limited.

The Chief Executive of the HKSAR Mr C Y Leung visited London's Crossrail to learn more about the Company's leading role in its future railway operations.

November

The Company launched a "Trial Registration Scheme for Carriage of Oversized Musical Instruments".

The 5-km tunnel stretching from Hin Keng to Kai Tak for the Shatin to Central Link project was broken through.

A 5.7-km extension of Hangzhou Metro Line 1 successfully commenced passenger service. This extension is operated by our 49% owned associate in Hangzhou.

Our 49% associate Beijing MTR Corporation Limited ("BJMTR") signed the Concession Agreement for Beijing Metro Line 16 with the Beijing Municipal Government.

The Company signed the Express Rail Link Agreement with the HKSAR Government on the further funding of the Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") project.

December

MTR Nordic, a wholly owned subsidiary of the Company, was awarded the concession to operate and maintain the Stockholm Commuter Rail Systems (Stockholms Pendeltåg) for an initial period of ten years, starting from December 2016.

Excavation of the 26-km tunnel of the Express Rail Link project was successfully completed, marking a major breakthrough for the project.

Operated by BJMTR, the 16.6-km Phase 3 Middle Section of Beijing Metro Line 14 opened for passenger service on 26 December.

The Company awarded the tender for the LOHAS Park Package 9 Property Development to Ever Merits Investments Limited, a subsidiary of Wheelock and Company Limited.

Dr Raymond Chi'en Kuo-fung retired from the Board as Chairman on 31 December 2015. Professor Frederick Ma Si-hang was appointed as Chairman for a term of three years, effective from 1 January 2016.



A woman with long dark hair, wearing a light blue blazer over a matching textured dress and a dark blue handbag, is smiling and talking on a mobile phone. She is standing in a modern airport terminal with a high ceiling and other people in the background. The image is framed by a blue geometric overlay.

Liz
Flight Attendant



World Class Service Levels



Hong Kong Transport Operations

Our service performance in 2015 was one of our best since the Rail Merger with KCRC back in 2007, despite passenger numbers from 2008 to 2015 increasing by a significant 30.5%.

Total revenue from Hong Kong transport operations in 2015 was HK\$16,916 million, an increase of 4.3% over 2014 with operating costs increasing by 5.0% to HK\$9,702 million. Together, this resulted in a 3.2% increase in operating profit to HK\$7,214 million, with an operating margin of 42.6%.

Safety

Our efforts to ensure continuous improvement in safety led to a 6.1% reduction in reportable events to 1,246 on the Hong Kong heavy rail network in 2015 compared with 2014. In addition, we won the “Gold Award for Work Safe Behaviour” in the “14th Hong Kong Occupational Safety & Health Award” jointly organised by the Occupational Safety and Health Council and the Labour Department.

Escalator safety is one of our prime safety concerns. The 2015 MTR Escalator Safety Campaign was launched from August to September 2015. It aimed to inform passengers of the

dangers arising from potentially unsafe behaviour when using escalators, such as the use of mobile phones, incorrect handling of baby prams and standing too close to escalator edges. The campaign was accompanied by new safety posters and the deployment of specially-trained Escalator Safety Ambassadors. In addition, a new escalator safety video was broadcasted on trains and in station concourses, as well as on television and in other social media. Our safety initiatives helped reduce the reportable events involving escalators on the Hong Kong heavy rail network by about 6.5% when compared with 2014. The project to standardise door chimes across the network was completed early in 2015, helping to achieve a 22% reduction in door-related reportable events compared with 2014.

Since the launch of the automated external defibrillator (“AED”) programme in 2010, our station staff have saved 17 lives using the AED for emergency treatment.

48.5%
Share of Franchised
Public Transport Market

99.9%
Passenger
Journeys On-time

Over
1.9 billion
Total
Patronage



Liz, Flight Attendant

Liz is a flight attendant and she lives in Tuen Mun. She takes the MTR to and from the airport four to five times a week. She finds MTR service very reliable; only when her flight arrives late and she is unable to take the last train home will she use other modes of transport. Her usual route involves the West Rail Line, Tung Chung Line and the Airport Express, and travelling on MTR avoids the hassle of traffic jams.

As a frequent customer, Liz usually takes a nap or checks her smartphone when riding on the MTR. She lives near Siu Hong Station, which is on the West Rail Line. “It’s not often I can find a seat when I get on a train,” she says. “So whenever I do, I see it as a favourable sign for the rest of the day!”

Executive Management's Report

Hong Kong Transport Operations

Patronage

Total patronage from all our rail and bus passenger services in Hong Kong rose by 1.8% to a record 1,938.2 million in 2015.

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 1,577.5 million, a 1.9% increase over 2014. The rate of growth in 2015 was impacted by a higher patronage base in 2014 which was due to the effect of the public order events in Hong Kong in the fourth quarter of that year.

The Cross-boundary Service to Lo Wu and Lok Ma Chau showed a 1.1% rise in patronage to 114.2 million for the year. The rate of increase was impacted by a decrease in visitor arrivals from the Mainland of China using land transportation.

Passenger traffic on the Airport Express increased by 5.7% over 2014 to 15.7 million, supported by a moderate increase in air passenger traffic and more events being held at AsiaWorld-Expo.

Passenger volume on MTR's Light Rail and Bus services for 2015 was 226.7 million, a gain of 0.9%, while patronage on the Intercity service declined by 6.2% to 4.1 million due to fewer leisure travellers from the Mainland of China.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong increased by 1.8% to 5.56 million during 2015, (5.55 million excluding the Intercity service). The Domestic Service accounted for the majority of this patronage, increasing by 1.9% to 4.58 million.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong was 48.5% in 2015 as compared to 48.1% in 2014. Within this total, our share of cross-harbour traffic was 68.8%. Owing to continued competition from other modes of transport, our market share of the Cross-boundary business declined from 51.6% to 51.3% and our market share to and from the airport decreased to 21.5% from 22.3%.

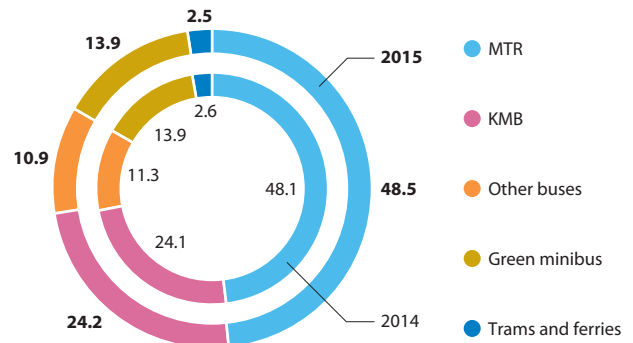
Fare Revenue

Total Hong Kong fare revenue in 2015 was HK\$16,754 million, a 4.3% increase over 2014. Of this total, the Domestic Service accounted for HK\$11,819 million or 71%. Average fare per passenger on our Domestic Service increased by 2.5% to HK\$7.49, the result of fare adjustments partially offset by concessions.

Market Share of Major Transport Operators in Hong Kong

The Company's overall market share increased from 48.1% in 2014 to 48.5% in 2015.

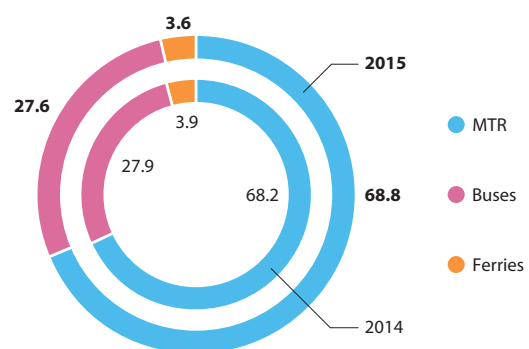
(Percentage)



Market Share of Major Transport Operators Crossing the Harbour

The Company's market share of cross-harbour traffic increased to 68.8%.

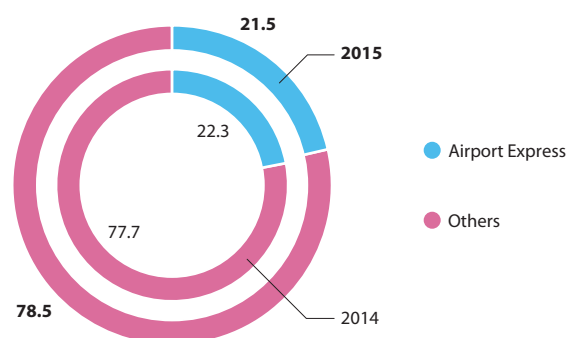
(Percentage)



Market Share of Airport Express

The proportion of air passengers using the Airport Express was 21.5%.

(Percentage)





To improve platform management in stations, over 300 additional station assistants were added in 2015

Fare revenue from the Cross-boundary Service in 2015 was HK\$3,172 million, an increase of 4.0% over 2014. Fare revenue from the Airport Express was 3.8% higher for the year at HK\$950 million. Light Rail and Bus fare revenue in 2015 was HK\$671 million, a 5.0% rise over 2014, while fare revenue from the Intercity service was HK\$142 million, a decrease of 2.1%.

The Company's fares are adjusted based on the Fare Adjustment Mechanism, in accordance with which an overall fare adjustment rate of 4.3% was implemented in June 2015. In conjunction with this, fare promotions estimated at over HK\$500 million for the year 2015/2016 were announced, adding to the approximately HK\$2.4 billion of ongoing fare concessions and promotions in 2015.

The "MTR Festive Discount" is a highlight of the 2015/2016 fare promotions package. Following a special promotion on two days of the Chinese New Year holiday in 2015, the Company offered the same promotion when travelling

on MTR domestic services on designated festive days over Christmas 2015 and Chinese New Year 2016, and will be offering the same discounts during the Easter holidays 2016.

In addition, the "MTR City Saver" and "Early Bird Discount Promotion" were extended for one year to 30 June 2016 and 31 May 2016 respectively. Other fare promotions included the "10% Same-Day Second-Trip Discount" from June to November 2015, using HK\$220 million set aside under the "Profit-related Fare Concession Scheme" and the "Service Performance Arrangement". We also offered free rides for the elderly on Senior Citizens Day and for the disabled on the International Day of Disabled Persons.

The Disneyland Resort Line celebrated its tenth year of operation in 2015 and to mark the occasion, four sets of souvenir tickets featuring Disney characters were sold in October and November 2015.

Executive Management's Report

Hong Kong Transport Operations



Since the launch of our programme to raise service levels in March 2012, more than 2,600 extra train trips have been added each week

For our MTR Club members, in addition to a new Bonus Point Scheme, promotions were offered to stimulate more cross-boundary travel for different segments of MTR Club members.

New fares on the Guangdong Line Through Train took effect on 15 July 2015, the first fare rise since 1998. The Company has partnered with various hotels and tourist attractions in Hong Kong and Guangzhou to offer special

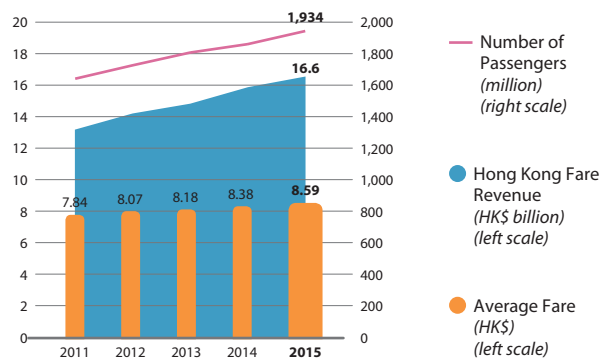
travel package deals to the passengers of Guangzhou-Kowloon Through Train.

On the Airport Express, three rounds of “Free Child Travel” were launched during festive seasons. Besides, two promotions were offered in 2015 for tourists purchasing MTR Tourist Tickets (except Child Tourist Day Pass), with free gifts and cash vouchers from MTR shopping malls plus discounts offers to various attractions.



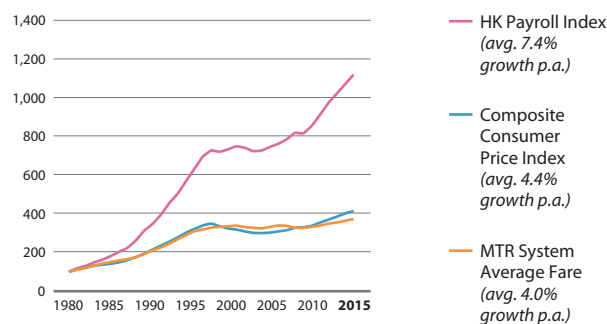
Passengers and Fares (Hong Kong Transport Operations excluding Intercity)

Economic growth supported the increase in fare revenue and patronage.



Fare Trend

In past years, MTR fares have consistently lagged behind the growth in Hong Kong payroll but were in line with the long-term changes in consumer prices in Hong Kong.



Service Quality Index and Fare Index

Customer satisfaction on our service and fares are measured through regular surveys and research, and reflected in the Service Quality Index and Fare Index respectively.

	2015	2014
Service Quality Index		
Domestic and Cross-boundary services	71	70
Airport Express	82	82
Light Rail	74	72
Bus	69	68
Fare Index		
Domestic and Cross-boundary services	61	62
Airport Express	75	71
Light Rail	73	73
Bus	68	66

Service and Performance

Service performance during 2015 remained excellent. Our train service delivery and passenger journeys on-time in our heavy rail network were maintained at 99.9%, a world-class performance that exceeds the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. Of more than 1.9 million train trips on our heavy rail network and more than 1 million train trips on our light rail network during the year, only seven 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. Our service performance in 2015 was one of our best since the Rail Merger with KCRC back in 2007, despite passenger numbers from 2008 to 2015 increasing by a significant 30.5%.

Executive Management's Report

Hong Kong Transport Operations

As in previous years, the MTR's high level of service was recognised locally and internationally, with some of the awards received listed in the table below:

Awards Received in Hong Kong	Organisation
Hong Kong Service Awards 2015 <ul style="list-style-type: none"> Category Award of Public Transportation 	East Week
Top Service Awards 2015 <ul style="list-style-type: none"> Category Award of Public Transportation 	Next Magazine
Yahoo! Emotive Brand Awards 2015 <ul style="list-style-type: none"> Category of Logistics/Transportation 	Yahoo! Hong Kong
Sing Tao Service Awards 2014 <ul style="list-style-type: none"> Category Award of Public Transportation 	Sing Tao Daily News
Tomo Brand Awards 2015 <ul style="list-style-type: none"> Public Transportation Category Tomo Brand of the Year 	Apple Daily Action News
HKACE Customer Service Excellence Award 2015 <ul style="list-style-type: none"> Outstanding Customer Service Program Award – Silver Award 	Hong Kong Association for Customer Service Excellence
TVB Most Popular TV Commercial Awards 2015 <ul style="list-style-type: none"> Professional Selection Award 	Television Broadcasts Limited
Web Accessibility Recognition Scheme 2015 MTR Mobile app <ul style="list-style-type: none"> Gold Award (iOS) Gold Award (Android) Most Favorite Mobile Apps Award MTR Website <ul style="list-style-type: none"> Gold Award 	Office of the Government Chief Information Officer & Equal Opportunities Commission

Awards Received outside of Hong Kong	Organisation
Most Popular Hong Kong and Macau Brands of 2015 <ul style="list-style-type: none"> Golden Cup Award (for <i>The Guangzhou-Kowloon Through Train service</i>) 	China Media in Mainland of China
2015 Communicator Awards <ul style="list-style-type: none"> Award of Distinction: Websites – Transportation (for <i>MTR website</i>) 	Academy of interactive & Visual Arts, US
2015 WebAward Competition <ul style="list-style-type: none"> The Best Transportation Website (for <i>MTR website</i>) 	Web Marketing Association, US



The MTR network carries 5.56 million passengers efficiently and safely every weekday



We invest heavily in maintaining, renewing and upgrading our Hong Kong network

Responding to Our Customers

We continue to generate initiatives designed to make our services more comfortable, improve station access and facilities, as well as enhance communication.

A Customer Experience Development Section has been set up to deepen our understanding of customers' needs and formulate plans to bring about continuous enhancement. During the year, a Customer Experience Management Model was established, with journey mapping exercises conducted and customer group meetings held, leading to the development of various customer service initiatives that are now being implemented. In addition, to enhance communication during incidents, clear, timely and accurate information is being delivered to affected customers. A detailed survey is also carried out after each major delay to collect feedback with a view to improving services. To thank our customers for their support, a "Happy Birthday • Happy Journey" campaign will be launched in April 2016. Customers with Hong Kong Identity Cards whose birthdays fall on a lucky day drawn for each month will be eligible to redeem a

birthday pack, including a specially designed free one-day pass for unlimited journeys on our Domestic Service, as well as a HK\$50 MTR Malls gift voucher and merchant coupons.

In response to opinions expressed by some customers, in September 2015 the Company reviewed its rules on the size of objects which can be carried on the railway network. Members of the public were invited to express their views. Following a smooth trial that ran from November 2015 to 29 February 2016, allowing passengers with musical instruments that exceed our normal size restrictions (but are still within a certain limit) to be carried on our system upon issuance of a "Carriage of Oversized Musical Instrument Permit", the registration scheme has become an ongoing arrangement starting on 1 March 2016.

Providing More Rail Services

During 2015, 599 additional weekly services were added on the Ma On Shan, Tseung Kwan O, Island, Kwun Tong, East Rail and West Rail lines as well as on some Light Rail routes. In addition, more coupled set Light Rail vehicles have been deployed on nine routes.

Executive Management's Report

Hong Kong Transport Operations



We continue to enhance our customer service

Since launching of our programme to raise service levels in March 2012, more than 2,600 extra train trips have been added per week to different MTR heavy rail lines, and more than 650 weekly train trips added to Light Rail routes.

Rail Gen 2.0 – Investing in Network Improvements

In early 2016, we announced the launch of Rail Gen 2.0, which encompasses both the significant on-going enhancements to our existing rail network and the four remaining railway 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 network. It will truly be a “next generation” rail network.

As part of Rail Gen 2.0, MTR's extensive asset maintenance and replacement programme saw more than HK\$7 billion spent on maintaining, renewing and upgrading our Hong Kong network in 2015.

A highlight of the asset replacement programmes was the signing, in July 2015, of a HK\$6 billion contract to purchase 93 8-car trains to replace the same number of existing 8-car trains currently operating on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. These new trains will bring greater comfort and a better travelling environment to our passengers.

In addition, we awarded a HK\$3.3 billion contract in March 2015 to install new signalling systems on the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines as well as the Airport Express. The new signalling system is expected to increase overall capacity by about 10% on these lines through enhancing service frequencies. The initial design has been completed and advance works to facilitate installation of new signalling equipment commenced in December 2015.

To increase train service further, the existing 28 7-car trains on the West Rail Line will be gradually converted to 8-car trains under the Shatin to Central Link project. The first 8-car train entered passenger service in January 2016, with all 8-car trains targeted to be in service in 2018. The Company is also exploring the feasibility of procuring ten new Light Rail Vehicles and ten buses for a total of more than HK\$300 million, pending a Government review on overall transport needs in the Northwest New Territories.

As part of our ongoing efforts to improve station environments, major works are underway at several stations.

At Mong Kok Station, the two existing paid concourses were connected to form one enlarged and integrated paid area in August 2015. This provides easier access to all locations

around Mong Kok Station for passengers and has made room for the installation of three additional escalators. When the installation are completed in 2017, it will facilitate smoother passenger flow between the concourse and platform levels. At Diamond Hill Station, one lift and two escalators connecting the concourse and platform levels were put into service to provide more convenience for passengers. At Fo Tan Station, the previous two individual paid concourses have been connected to create a more spacious overall environment and improve connectivity.

In addition, new external lifts came into service at Lai Chi Kok, Prince Edward and Sai Wan Ho stations during 2015. Passengers at Austin Station benefited from new entrances connecting to The Austin and Grand Austin residential developments.

As part of the Shatin to Central Link project, installation works for Automatic Platform Gates on the Ma On Shan Line are moving forward. The first set of gates was retrofitted at Tai Wai Station in July 2015. The programme is now expected to be completed in 2017, one year earlier than planned. Installation of wide gates at 25 stations was completed during 2015.

In response to customers' needs, new public toilets at Mong Kok and Prince Edward stations were opened in January 2015, and toilets at Ma On Shan Line stations were refurbished.

To facilitate smooth train operations and raise door safety awareness, the Door Chimes Standardisation Programme was successfully completed, with the roll out to the East Rail Line in March 2015.

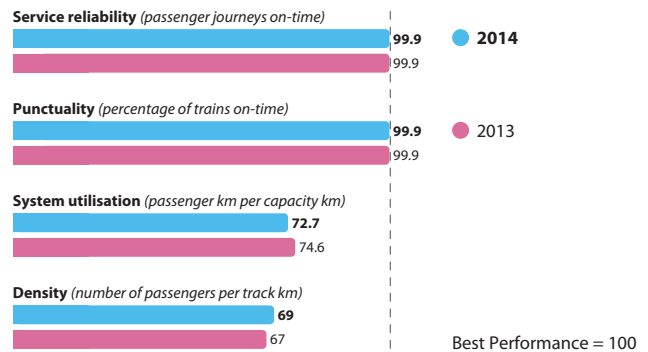


Friendly, well-trained staff help ensure a positive passenger experience on our network

Benchmarking Comparisons

MTR Corporation maintained its strong position, particularly in service reliability, against international benchmarks.

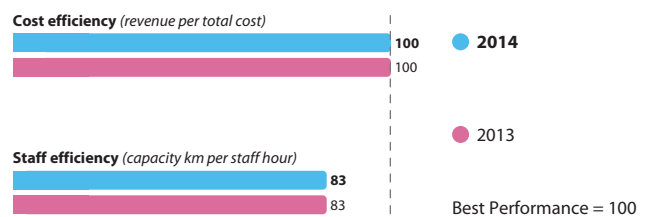
MTR Performance vs. Best Performance



Cost Efficiency and Staff Efficiency

New initiatives continue to be introduced to enhance operating efficiency.

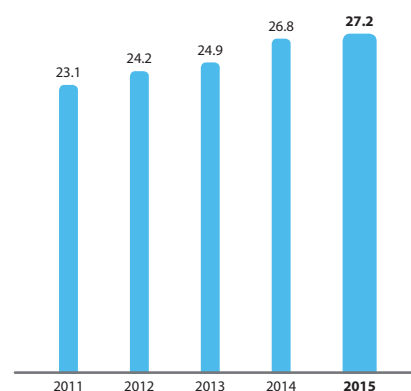
MTR Performance vs. Best Performance



Operating Costs Per Car-km Operated for Hong Kong Transport Operations

The increase in operating costs per car-km reflected the increase in expenditure on enhancing our service and system.

(HK\$)



Executive Management's Report

Hong Kong Transport Operations



Over 15 million passengers travelled on the Airport Express in 2015

For our Light Rail service, improvements at Platform 2 Tai Tong Road Stop were completed during 2015, while the replacement programme of new Light Rail ticket machines is in progress.

Looking forward, as part of Rail Gen 2.0, we will continue to upgrade our station facilities to enhance the overall customer experience. One upcoming project is to replace 160 chillers that provide air conditioning in stations with more energy efficient models. A new CCTV system is also planned to enhance coverage to ensure we continue to provide a safe and secure travel environment for our customers.

Enhancing Passenger Communication

We continue to enhance our communications with passengers. Our aim is to improve the delivery and content of messages, particularly during incidents.

New liquid-crystal display ("LCD") information display systems for station concourses and platforms providing more timely and useful information to passengers, are being progressively installed on the Island, Kwun Tong and Tsuen Wan lines.

The total number of users of MTR Mobile, MTR Tourist and Next Train apps exceeded 3.5 million during 2015. The Train Trip Planner and Light Rail Planner on MTR Mobile have been upgraded to include over 35,000 landmarks for route searches.

Increasing Support Staff in Stations

An additional 300 station assistants were introduced during 2015 to help manage the flow of passengers through stations, especially during peak periods. We have also deployed more staff to assist during specific incidents and to reinforce safety campaigns.

System and Market Information

Railway operation data	2015		2014	
Total route length (km)	220.9		220.9	
Number of rail cars	2,106		2,106	
Number of stations (Island Line, Tsuen Wan Line, Kwun Tong Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, West Rail Line, Airport Express, East Rail Line and Ma On Shan Line)	87		87	
Number of Light Rail stops	68		68	
Number of eInstant Bonus Terminals in stations	51		51	
Number of station shops	1,362		1,350	
Number of advertising units in stations	21,730		21,592	
Number of advertising units in trains	23,455		23,415	
Daily hours of operation (Island Line, Tsuen Wan Line, Kwun Tong Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, West Rail Line, Airport Express and Light Rail)	19.0		19.0	
East Rail Line and Ma On Shan Line	19.5		19.5	
Minimum train headway (second)	Morning Peak	Evening Peak	Morning Peak	Evening Peak
– Tsuen Wan Line	120	120	120	120
– Kwun Tong Line	126	140	126	140
– Island Line	112	124	112	124
– East Rail Line				
Hung Hom to Sheung Shui	212	200	212	200
Hung Hom to Lo Wu	327	327	327	327
Hung Hom to Lok Ma Chau	600	600	600	600
– Ma On Shan Line	180	240	180	240
– Tseung Kwan O Line	133	133	133	133
– Tung Chung Line				
Hong Kong to Tung Chung	360	360	360	360
Hong Kong to Tsing Yi	240	240	240	240
– Airport Express	600	600	600	600
– West Rail Line	171	210	171	210
– Disneyland Resort Line	270	270	270	270
– Light Rail	270	300	270	300

International Performance Comparisons: the 17-member Community of Metros (CoMET)

Metro system network data (2014)	MTR*	Metro A	Metro B	Metro C	Metro D	Metro E	Metro F	Metro G	Metro H	Metro I	Metro J	Metro K	Metro L	Metro M	Metro O	Metro P	Metro Q
Passenger journeys (million)	1,661	1,545	1,358	1,324	1,614	562	2,469	1,786	1,570	486	668	1,668	896	680	517	731	871
Car kilometres (million)	274	373	236	554	372	171	825	555	256	110	140	394	108	117	122	127	157
Route length (km)	177	450	253	439	226	284	327	501	206	115	104	548	66	129	146	130	171
Number of stations	84	216	143	270	163	247	177	424	303	66	100	290	59	107	173	79	134

* The Lines included in the CoMET metro benchmarking programme are Kwun Tong Line, Tsuen Wan Line, Island Line, Tung Chung Line, Tseung Kwan O Line and Disneyland Resort Line, East Rail Line, Ma On Shan Line and West Rail Line. The Airport Express is excluded from the benchmarking.

Note: The other metros in the comparison are London Underground Limited, New York City Transit, Sistema de Transporte Colectivo, Régie Autonome des Transports Parisiens Metro, Régie Autonome des Transports Parisiens Réseau Express Régional, Metropolitano de São Paulo, Moscow Metro, Metro de Madrid, Metro de Santiago, Berliner Verkehrsbetriebe, SMRT Corporation Limited, Shanghai Metro Operation Corporation, Beijing Mass Transit Railway Operation Corporation, Taipei Rapid Transit Corporation and Guangzhou Metro Corporation. The benchmarking agreement prohibits specifically identifying the data by metro system.

Executive Management's Report

Hong Kong Transport Operations

Operations Performance in 2015

Service performance item	Performance Requirement	Customer Service Pledge Target	Actual Performance
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	99.9%
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	99.9%
– West Rail Line	98.5%	99.5%	99.9%
– Light Rail	98.5%	99.5%	99.9%
Passenger journeys on-time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	99.9%
– Airport Express	98.5%	99.0%	99.9%
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	99.9%
– West Rail Line	98.5%	99.0%	99.9%
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	99.8%
– Airport Express	98.0%	99.0%	99.9%
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	99.9%
– West Rail Line	98.0%	99.0%	99.9%
– Light Rail	98.0%	99.0%	99.9%
Train reliability: train car-km per train failure causing delays ≥ 5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	650,000	2,861,014
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	650,000	7,386,248
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	8,000	20,254
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%	99.9%
– Light Rail	N/A	99.0%	99.6%
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	99.7%
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	99.7%
– West Rail Line	97.0%	99.0%	99.7%
– Light Rail	N/A	99.0%	99.9%

Operations Performance in 2015 *(continued)*

Service performance item	Performance Requirement	Customer Service Pledge Target	Actual Performance
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%	99.8%
– 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%



Welcoming Experiences



Issac
Insurance Agent

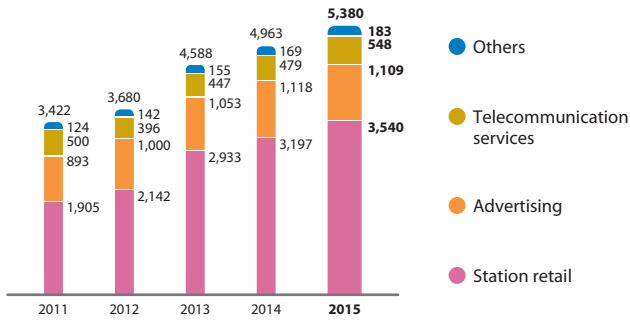
Hong Kong Station Commercial Businesses

Revenue from the Hong Kong station commercial businesses grew by 8.4% in 2015 to HK\$5,380 million. The increase mainly reflected higher rental income from station shops.



Revenue from Hong Kong Station Commercial Businesses

Revenue increased in 2015 due to higher rental income from station shops.
(HK\$ million)



Revenue from the Hong Kong station commercial businesses grew by 8.4% in 2015 to HK\$5,380 million. The increase mainly reflected higher rental income from station shops. Operating costs of the Hong Kong station commercial businesses increased by 6.8% to HK\$550 million, resulting in an 8.6% rise in operating profit to HK\$4,830 million, representing an operating margin of 89.8%.

Station Retail

Station retail revenue for the year increased 10.7% to HK\$3,540 million as rents increased and new shops were added in ten stations. Rental increases were driven by trade mix refinements, positive rental reversions, and increases in rents in accordance with lease contracts for Duty Free Shops at Lo Wu and Hung Hom stations as well as higher turnover rents from the Lok Ma Chau Station Duty Free Shops.

As at 31 December 2015, there were 1,362 station shops, occupying 56,238 square metres of retail space, an increase of 542 square metres as compared with 31 December 2014.

25

New brands were introduced

4G

Data access along the journey



Issac, Insurance Agent

Issac, an insurance agent, describes MTR as one of Hong Kong's most iconic companies, a brand name known by virtually everyone. He finds MTR stations especially useful when meeting clients. "For example, if I arrange to meet them at a restaurant, I may need to explain how to get there. But if I ask to meet them at a specific location inside an MTR station, they will know exactly where to go."

Issac's occupation takes him to different places all over Hong Kong every day of the week and his extensive use of MTR has made a number of MTR shops his favourite shopping destinations. "The variety of shops in the MTR network has increased tremendously in recent years, and I can now buy health food, organic vegetables and clothes at the station. For example, I often buy health drinks and soups in one of the chain stores. It's very convenient indeed."

Executive Management's Report

Hong Kong Station Commercial Businesses



We continue to introduce new brands to MTR Shops to improve passengers' satisfaction



Telecom operators continue to enhance mobile data capacity on our network

Renovation works at Wan Chai and Admiralty stations to facilitate the station improvement programme and the construction works of the Shatin to Central Link respectively resulted in the closure of some outlets, partially offsetting the new shops that opened during the year. In 2015, 25 new brands were introduced, with posters featuring selected new brands displayed across the MTR network.

To reinforce the "Style to Go" branding for MTR Shops, a thematic campaign ran from March to November 2015. In-station publicity and digital media featuring local pop stars was launched to reinforce the brand message. To promote the wide variety of MTR Shops serving passengers' daily needs, an MTR Shops Voting Campaign ran between July and August 2015 for the public to vote for their favourite MTR Shops.



Advertising

Advertising revenue in 2015 decreased slightly by 0.8% to HK\$1,109 million, as the advertising market softened. The number of advertising units in stations and trains reached 45,185. During the year, new 40-inch digital escalator panels were installed in stations, replacing all of the existing 32-inch models. In response to the popularity of the Concourse 103-inch TV zone at Lo Wu Station, this concept has been extended to Kowloon Tong and Tuen Mun stations. Starting from May 2015 an e-shop zone package was introduced to capture the rising trend of online-to-offline advertising.

Telecommunications

Revenue from telecommunications in 2015 was 14.4% higher at HK\$548 million. The increase was due to a one-off project administration fee, incremental revenue from new stations on the Western extension of the Island Line and mobile data capacity enhancement projects by operators. Installation for the provision of mobile phone and Wi-Fi services continues along the new South Island Line (East) and Kwun Tong Line Extension stations. MTR has also agreed with all mobile network operators to build a new mobile network offering increased data capacity and more 4G services at eight busy stations. The project is now in the tendering stage.



Hong Kong Station interchange provides extensive advertising opportunities



Access to Quality Living



Maurice, Mr and Mrs Law
Residents of MTR Properties



Hong Kong Property and Other Businesses

The buoyant primary residential market in 2015 supported our property tendering activities... The total gross floor area (“GFA”) which can be developed from these packages is about 621,460 square metres.

6

property development
tenders awarded in 2015

96,066

managed
residential flats

13 Shopping
Malls

in
our portfolio

The Hong Kong property market remained stable in the first half of 2015 but started to soften towards the end of the year, as slower economic growth in the Mainland of China began to impact Hong Kong. In the residential sector, low interest rates and sales incentives offered by developers continued to lend support to the primary market, whilst the secondary market weakened following further tightening of mortgage financing in February 2015. Grade-A office rents were underpinned by limited new supply in Central and continued demand from Mainland enterprises. The retail segment was increasingly affected by a fall-off in tourism from the Mainland of China and a sharp reduction in spending on luxury goods and high-value consumables, as well as increasing outbound travel as a result of the strong local currency.

Property Development in Hong Kong

Profit from Hong Kong property developments in 2015 was HK\$2,891 million mainly from the booking of profits from Hemera (LOHAS Park Package 3), together with sale of inventory units from The Riverpark at Che Kung Temple Station and car parking spaces at various developments.

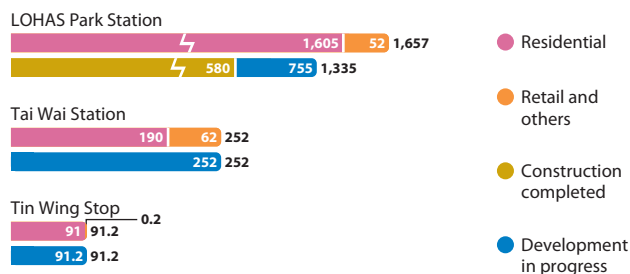
Presale of Hemera saw all 1,648 units sold by April 2015, with the development attracting strong interest.

The buoyant primary residential market in 2015 supported our property tendering activities. In January 2015, LOHAS Park Package 6 was awarded to a subsidiary of Nan Fung Group Holdings Limited and the Tin Wing Stop property development in Tin Shui Wai was awarded to a subsidiary of Sun Hung Kai Properties Limited in February. LOHAS Park

Property Development Packages for Operating Network – Plan and Progress

The presale of Hemera (LOHAS Park Package 3) was launched in April 2015, with all 1,648 units sold.

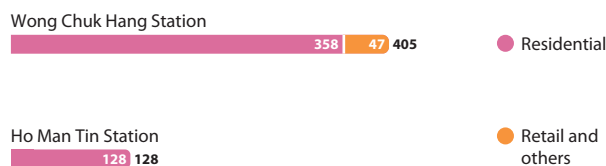
Gross floor area (thousand sq. m.)



Property Development Packages for Future Extensions

Master Layout Plan for the Wong Chuk Hang Station site along the South Island Line (East) has been approved by the Town Planning Board.

Gross floor area (thousand sq. m.)



Maurice, Mr and Mrs Law Residents of MTR properties

The Law family has been living in MTR properties for five years. They chose to live here not just because it was near to their parents, but also because the property really suited their lifestyle. Two years after the Laws moved in, their son Maurice was born. With ample green space, a swimming pool and a spacious playroom in the clubhouse, the child-friendly facilities in the development are perfect for the Law family to enjoy quality time together. "We live just above the MTR station and it only takes me 30 minutes to go to work," Mrs Law says. "our son loves playing in the park, and we are delighted to have one so close to where we live."

Executive Management's Report

Hong Kong Property and Other Businesses



Maritime Square at Tsing Yi Station offers an exciting and varied shopping experience

Package 7 was awarded to a subsidiary of Wheelock and Company Limited in June and for this property development, apart from profit sharing in the residential component, MTR will also contribute HK\$4.98 billion and will retain ownership of the shopping mall. This contribution will be in two tranches with the first payment of HK\$2.44 billion already paid in July 2015 and the balance to be paid upon the completion of the mall construction, estimated to be in 2019. In October, LOHAS Park Package 8 was awarded to a subsidiary of Cheung Kong Property Holdings Limited and in December, LOHAS Park Package 9 was awarded to a subsidiary of Wheelock and Company Limited. In March 2016, LOHAS Park Package 10 was also awarded to a subsidiary of Nan Fung Group Holdings Limited. The total gross floor area ("GFA") which can be developed from these packages is about 621,460 square metres.

Acting as agent for the relevant subsidiaries of KCRC, we awarded the Yuen Long Station property development to a subsidiary of Sun Hung Kai Properties Limited in August 2015.

In total all these seven development packages will supply about 11,410 residential units when completed.

We continue to assess the feasibility of other property developments along our railway lines to increase housing supply in Hong Kong. One possible site is above our depot in

Siu Ho Wan on Lantau Island where, with the necessary zoning and other approvals, not less than 10,000 residential units can be built. Much work is still required including zoning, site planning, depot re-positioning, obtaining necessary approvals, land premium assessment as well as the business model to implement the works. At this preliminary stage there can be no assurance that this proposal would become a viable commercial project for MTR.

Property Rental and Management Businesses in Hong Kong

Revenue from the Hong Kong property rental and property management businesses in 2015 increased by 8.2% to HK\$4,533 million. Operating costs rose by 15.8% to HK\$865 million mainly due to higher Government rent and rates as well as a one-off provision, resulting in operating profit rising 6.5% to HK\$3,668 million, with the operating margin at 80.9%.

Property Rental in Hong Kong

Total property rental income in Hong Kong for the year was HK\$4,267 million, 8.2% higher than in 2014. The Company's shopping mall portfolio achieved an average 12% increase in rental reversion for the year. As at 31 December 2015, MTR's shopping malls in Hong Kong and the Company's 18 floors at Two International Finance Centre remained close to 100% let.

As at 31 December, the Company's attributable share of investment properties in Hong Kong was 212,301 square metres of lettable floor area of retail properties, 41,006 square metres of lettable floor area of offices, and 14,282 square metres of property for other use.

Our investment properties received numerous awards during 2015. Metro Daily included MTR in its "Metro Awards for Eco-Business 2015 - Shopping Centres". Elements made the Hong Kong Economic Times' "Top 10 - My Favourite Shopping Mall Awards 2014-2015". It also received a "Certificate of Excellence 2015" from TripAdvisor, as well as "The Marketing Events Award 2015 - Best Experiential Award - Bronze", given by Marketing Lighthouse Independent Media. Telford Plaza received East Week magazine's "Hong Kong Services Award 2015 - Shopping Mall Award" and the "Smart Telford Program" Mobile app won two awards from the Hong Kong Wireless Technology Industry Association. All 13 MTR Malls also received "Indoor Air Quality Certificate (Good Class)" awards from the Environmental Protection Department.

MTR Malls have been serving on the Steering Committee of the Food Wise Hong Kong Campaign under the Environment Bureau since 2013 and will continue in this role for a further three years. MTR Malls also initiated its own "MTR Malls Food Waste Reduction Pledge" incentive scheme to encourage food waste reduction practices in the shopping mall sector.

Property Management in Hong Kong

Hong Kong property management revenue in 2015 increased by 8.6% to HK\$266 million. As at 31 December 2015, the number of residential units under the Company's

management in Hong Kong had risen to 96,066, following the addition of 1,648 units from Hemera and 691 units from Grand Austin. The area of managed commercial space was 764,018 square metres.

Two International Finance Centre named "Property / Facility Management Team of the Year" at the "RICS Hong Kong Awards 2015" organised by the Royal Institution of Chartered Surveyors and gained a "Grand Award" in the "Excellence in Facility Management Award 2015" given by The Hong Kong Institute of Facility Management. Several recognitions for our safety management were received in the "14th Hong Kong Occupational Safety & Health Award" jointly organised by the Occupational Safety and Health Council and the Labour Department. The Palazzo secured the "Grand Award" in the "GreenPlus Awards" organised by CLP.

Hong Kong Property Investment Projects

Another avenue of growth in Hong Kong is the expansion of our investment properties portfolio. Over the next five years or so, we will be adding about 120,620 square metres (gross floor area, "GFA") to our shopping centre portfolio, thereby increasing attributable GFA of our existing retail portfolio by approximately 40%.

Two key additions will be retail malls in Tai Wai and LOHAS Park. The Tai Wai shopping centre will have 60,620 square metres GFA and is targeted to open in the third quarter of 2021. The Company has contributed HK\$7.5 billion to this development, and will retain ownership of the mall and bear the fit-out costs.



Residents at City Point enjoy the clubhouse facilities

Executive Management's Report

Hong Kong Property and Other Businesses



Telford Plaza received the "Hong Kong Service Award 2015 – Shopping Mall Award" and provides a fantastic shopping experience

The LOHAS Park shopping centre will have 44,500 square metres GFA and is targeted to open in the fourth quarter of 2020. The Company will contribute a total of HK\$4.98 billion to the development, retain ownership and fit out the shopping centre.

The extension of Maritime Square will increase the retail area by 12,100 square metres GFA at a cost of approximately HK\$2.4 billion. All statutory submissions have been obtained and construction works commenced in June 2015. Construction is progressing according to programme and the extension is targeted to open in the fourth quarter of 2017.

To meet growing demand for retail services in East Kowloon, two floors of our offices above Telford Plaza are being converted to retail use, adding a further 3,400 square metres GFA to the shopping centre. The estimated project cost is HK\$550 million. Land premium was paid in September 2015, and the conversion works commenced in December 2015 with opening targeted for the second quarter of 2017.

Other Businesses

Ngong Ping cable car

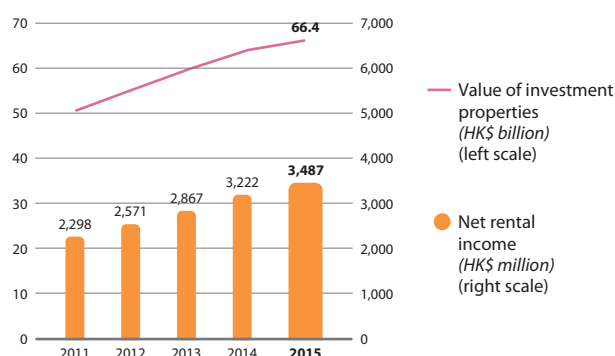
The Ngong Ping Cable Car and associated theme village ("Ngong Ping 360") recorded a 7.5% decrease in revenue in 2015 to HK\$347 million. The decline in visitor numbers of 11.5% to 1.62 million in 2015 was due mainly to 28 fewer operating days because of rope maintenance works, as well as the challenges faced by the Hong Kong tourism industry during the year. Service reliability remained excellent.

To attract more customers, coupons for Crystal Cabin rides and ticket packages were distributed at selected MTR and Airport Express stations during July and September, while throughout the autumn period, an integrated campaign was launched to invite visitors to explore the beauty of Lantau during the hiking season. During the year, the 360 Buddhist Walk was organised, integrating Buddhist learning and hiking. Ngong Ping 360 also



Investment Properties

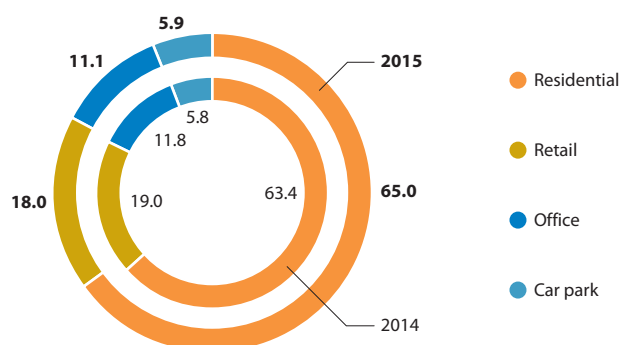
Rental income continued to grow with good rental reversion in our shopping malls.



Distribution of Hong Kong Property Management Income

At the end of the year, the Company had 96,066 residential units and 764,018 sq.m. of commercial and office space under management in Hong Kong.

(Percentage)



collaborated with Pegasus Motion Pictures Limited to create the Ip Man Experience Hall at Ngong Ping Village.

Ngong Ping 360 garnered numerous awards during the year. It was named one of the "10 of the World's Most Amazing Cable Car Experiences" by CNN.com USA in February 2015 and selected by the Hong Kong Q-Mark Council on 27 August 2015 as a top three Q-Mark New Elite Brand under the "Q-Mark Elite Award 2015".

Octopus

The Company's share of Octopus' net profit for 2015 increased by 4.0% to HK\$235 million. By the end of the year, more than 7,000 service providers in Hong Kong were accepting Octopus for payment. Total Octopus cards and other stored-value Octopus products in circulation during the year reached 30.5 million, while average daily transaction volumes and value reached 13.7 million and HK\$165.3 million respectively.

Consultancy Business

We continue to 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 the consultancy business in 2015 was HK\$189 million, 5.0% higher than in 2014.

Project Management

Income from project management services to Government is predominately for entrustment works on the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and Shatin to Central Link. Such income increased by 11.2% in 2015 to HK\$1,736 million. Income from the entrustment works is currently booked on a cost recovery basis.

Executive Management's Report

Hong Kong Property and Other Businesses



The Austin and Grand Austin were completed

West Rail Line Property Development Plan

The Company acts as development agent for the West Rail property projects.

Station/Site	Site Area (hectares)	Actual/Expected tender award date	Actual/Expected completion date
Property Development Packages awarded			
Tuen Mun	2.65	Aug 2006	By phases from 2012 – 2014
Tsuen Wan West (TW7)	2.37	Sep 2008	2014
Nam Cheong	6.18	Oct 2011	By phases from 2017 – 2019
Tsuen Wan West (TW5) Cityside	1.34	Jan 2012	2018
Tsuen Wan West (TW5) Bayside	4.29	Aug 2012	2018
Long Ping (North)	0.99	Oct 2012	2018
Tsuen Wan West (TW6)	1.38	Jan 2013	2018
Long Ping (South)	0.84	Jun 2013	2019
Yuen Long	3.91	Aug 2015	2022
	23.95		
Property Development Packages to be awarded			
Kam Sheung Road	About 9.37	Under review	Under review
Pat Heung Maintenance Centre	About 23.56	Under review	Under review
	32.93		
Total	56.88		

Property Development Packages Completed during the year 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	2018
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		
Wong Chuk Hang Station	Residential Retail	357,500 47,000	2016 – 2020	2020 – 2025
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.

Executive Management's Report

Hong Kong Property and Other Businesses

Investment Property Portfolio in Hong Kong (as at 31 December 2015)

Location	Type	Lettable floor area (sq. m.)	No. of parking spaces	Company's ownership interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping centre	39,305	–	100%
	Car park	–	993	100%
Telford Plaza II, Kowloon Bay, Kowloon	Shopping centre	19,328	–	50%
	Car park	–	136	50%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping centre	11,107	–	100%
	Car park	–	651	100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping centre	18,050	–	100%
	Wet market	1,216	–	100%
	Car park	–	415	100%
Maritime Square, Tsing Yi	Shopping centre	29,161	–	100%
	Kindergarten	920	–	100%
	Car park	–	220	100%
	Motorcycle park	–	50	100%
The Lane, Hang Hau	Shopping centre	2,629	–	100%
	Car park	–	16	100%
	Motorcycle park	–	1	100%
PopCorn 2, Tseung Kwan O	Shopping centre	8,451	–	70%
	Car park	–	50	70%
PopCorn 1, Tseung Kwan O	Shopping centre	12,173	–	50%
	Car park	–	115	50%
	Motorcycle park	–	16	50%
G/F, No. 308 Nathan Road, Kowloon	Shop unit	70	–	100%
G/F, No. 783 Nathan Road, Kowloon	Shop unit	36	–	100%
New Kwai Fong Gardens, Kwai Chung, New Territories	Kindergarten	540	–	100%
	Car park	–	126	100%
International Finance Centre (ifc), Central, Hong Kong	– Two ifc	39,410	–	100%
	– One and Two ifc	–	1,308	51%
Phase I, Carpark Building, Kornhill, Quarry Bay, Hong Kong	Car park	–	292	100%
Roof Advertising Signboard, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Advertising signboard	–	–	100%
Ten Shop Units, First Floor Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Shop unit	286	–	50%
Olympian City One, Tai Kok Tsui, Kowloon	Indoor sports hall	13,219	–	100%
Olympian City Two, Tai Kok Tsui, Kowloon	Shop unit	1,252	–	100%
Choi Hung Park & Ride Public Car Park, No. 8 Clear Water Bay Road, Choi Hung, Kowloon	Car park	–	54	100%
	Motorcycle park	–	10	100%
	Park & ride	–	450	100%
Elements, No. 1 Austin Road West, Kowloon	Shopping centre	45,800	–	81%
	Car park	–	898	81%
Cross Border Coach Terminus, No. 1 Austin Road West, Kowloon	Coach terminus	5,113	–	100%
Kindergarten, No. 1 Austin Road West, Kowloon	Kindergarten	1,045	–	81%
Plaza Ascot, Fo Tan	Shopping centre	7,720	–	100%
Royal Ascot, Fo Tan	Residential	2,784	–	100%
	Car park	–	20	100%
Ocean Walk, Tuen Mun	Shopping centre	6,083	–	100%
	Car park	–	32	100%
Sun Tuen Mun Shopping Centre, Tuen Mun	Shopping centre	9,022	–	100%
	Car park	–	421	100%
Hanford Plaza, Tuen Mun	Shopping centre	1,924	–	100%
	Car park	–	22	100%
Retail Floor and 1-6/F, Citylink Plaza, Shatin	Shopping centre	12,054	–	100%
Portion of G/F and portion of 1/F, MTR Hung Hom Building, Hung Hom	Office	1,596	–	100%
The Capitol, LOHAS Park	Shop unit	391	–	100%
	Residential care home for the elderly	2,571	–	100%
Le Prestige, LOHAS Park	Kindergarten	800	2	100%
The Riverpark, Che Kung Temple	Shop unit	154	–	100%
	Kindergarten	708	–	100%

Investment Property Portfolio in Hong Kong (as at 31 December 2015) (continued)

All Properties are held by the Company and its subsidiaries under Government Leases for over 50 years except for:

- Telford Plaza I and II, Luk Yeung Galleria, Maritime Square, New Kwai Fong Gardens, IFC, Olympian City, Elements, Cross Border Coach Terminus and Kindergarten at No. 1 Austin Road West, Plaza Ascot, Royal Ascot, Ocean Walk, Sun Tuen Mun Shopping Centre and Hanford Plaza where the Government Leases expire on 30 June 2047
- Choi Hung Park & Ride where the Government Lease expires on 11 November 2051
- The Lane where the Government Lease expires on 21 October 2052
- PopCorn 2 where the Government Lease expires on 27 March 2052
- LOHAS Park where the Government Lease expires on 16 May 2052
- Citylink Plaza and MTR Hung Hom Building where the Government Leases expire on 1 December 2057
- The Shop units and Kindergarten of The Riverpark, Che Kung Temple where the Government Lease expires on 21 July 2058

Properties held for sale (as at 31 December 2015)

Location	Type	Gross floor area (sq.m.)	No. of parking spaces	Company's ownership interest
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping centre	6,026*	–	40%
	Car park	–	330	40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car park	–	117	40%
The Arch, No. 1 Austin Road West, Kowloon	Residential	548**	–	38.5%
	Car park	–	12	38.5%
Residence Oasis, No. 15 Pui Shing Road, Hang Hau, Tseung Kwan O	Motorcycle park	–	18	71%
The Grandiose, No. 9 Tong Chun Street, Tseung Kwan O	Motorcycle park	–	24	70%
Harbour Green, No. 8 Sham Mong Road, Kowloon	Car park	–	24	35%
	Kindergarten	1,299	–	50%
The Palazzo, No. 28 Lok King Street, Shatin	Residential	1,022**	–	55%
	Retail	2,000	–	55%
	Car park	–	15	55%
	Motorcycle park	–	5	55%
Lake Silver, No. 599 Sai Sha Road, Shatin	Residential	1,674**	–	92.88%
	Retail	3,000	–	92.88%
	Kindergarten	1,000	–	92.88%
	Car park	–	51	92.88%
Festival City, No. 1 Mei Tin Road, Shatin	Car park	–	231	100%
Le Prestige, LOHAS Park, Tseung Kwan O	Car park	–	25	52.93%
Hemera, LOHAS Park, Tseung Kwan O	Car park	–	330	73.10%
The Riverpark, No. 8 Che Kung Miu Road, Shatin	Residential	1,696***	–	87%
	Car park	–	21	87%
Grand Austin, 9 Austin Road West, Kowloon	Car park	–	7	67.5%

* Lettable floor area

** Brochure gross floor area as per previously issued marketing brochures

*** Saleable area

Managed properties in Hong Kong (as at 31 December 2015)

Number of managed residential flats	96,066 units
Area of managed commercial and office space	764,018 sq.m.

A young woman with long brown hair, wearing a light blue jacket over a white top, is smiling and pointing upwards with her right index finger. She is standing in front of a building with blue horizontal slats. Above her, there is a red circular logo with a white stylized figure inside. The background shows green foliage and a clear sky. The image is framed by a yellow geometric pattern on the left and bottom.

Kayi, Ling and Danny
Students

Investing in the Future



Executive Management's Report

Hong Kong Network Expansion

One of our key areas of growth in Hong Kong is the development of new rail lines in our home market. The completion of the remaining four new rail lines in Hong Kong is the centrepiece of our Rail Gen 2.0 initiative, which will add 53 km to our existing 220.9 km of route network.



4

New Railway Projects are in progress

53 km

will be added to our Hong Kong network



Kayi and Danny, Students

Kayi is a student from Shue Yan University. She has been a keen fan of Ocean Park ever since she was a child, always wanting to visit thrilling attractions such as Marine World and the cable car. "My parents would take me there on special occasions such as my birthday, and now I like to come with my friends and schoolmates," she explains. The only difficulty so far has been the time it needs to get there from her home in North Point. But with the South Island Line (East) due to open soon, it will not be long before she can enjoy the efficiency and comfort of taking MTR to Ocean Park.

Danny is a student from the Hong Kong Polytechnic University and he lives in Hung Hom. He is also pleased to see MTR connecting to Ocean Park very soon. He has many friends from abroad and he plans to take them to the Ocean Park once the new line commences service. Danny was born after the MTR service has commenced. "We've seen the network grow and expand into different areas of Hong Kong, and quite frankly we can't quite imagine how life would be without MTR," he says.

One of our key areas of growth in Hong Kong is the development of new rail lines in our home market. The completion of the remaining four new rail lines in Hong Kong is the centrepiece of our Rail Gen 2.0 initiative, which will add 53 km to our existing 220.9 km of route network.

New Rail Projects Owned by MTR

Western Extension of the Island Line

The last station of the 3-km Western extension of the Island Line, Sai Ying Pun Station, opened in March 2015, with its last remaining entrance at Ki Ling Lane to be opened later on in March 2016. This community railway has been greatly welcomed by residents and visitors to the area. Average daily usage of the three stations totalled approximately 184,000 passengers in the second half of 2015.

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 31 December 2015, the project was 93% complete, with opening of the line targeted for the end of 2016.

The extension of Admiralty Station has been and remains the most challenging part of the project. In relation to this extension, excavation and structural works for the station cavern and platforms required for the line opening have been completed, and fit-out and electrical & mechanical ("E&M") works are now in progress. By the end of 2015, the difficult underpinning excavation works were substantially complete and the construction of the concrete structure of the station box was approximately 80% complete. Completion of the remaining structural works in close proximity to the operational railway

and securing sufficient resources for the E&M fit out are key challenges that must be overcome for the project to meet the targeted opening date.

Structural lining of the 3.2-km Nam Fung Tunnel connecting Admiralty and Ocean Park stations was completed in August 2015. Trackwork and E&M works in the tunnel are also substantially complete. Fitting-out and E&M works have been completed at Wong Chuk Hang Depot, as well as Ocean Park and Wong Chuk Hang stations. Testing of the new 3-car trains between Wong Chuk Hang and South Horizons stations has been in progress since April 2015 and testing for the whole line commenced in mid February 2016.

The current estimated cost of the project remains at HK\$16.9 billion (before capitalised interest).

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 31 December 2015, the project was 91% complete with overall civil works being 97% complete and E&M works 71% complete. Opening is targeted for the third or fourth quarter of 2016.

Major progress milestones achieved during the year included energisation of overhead lines to Ho Man Tin Station and the completion of track laying works. The Ho Man Tin Station structure was topped out in June 2015 and E&M works are progressing well, with major plant and equipment in position. Assembly of platform screen doors, lifts and escalators is in progress. The pedestrian footbridge and subway structures connecting the station with the neighbouring community are substantially complete.

Executive Management's Report

Hong Kong Network Expansion



The Express Rail Link will connect Hong Kong to the Mainland of China's high speed rail network

At Whampoa Station the platform tunnel connecting the East and West concourses was fully excavated in July 2015 and the tunnel lining has been completed. Internal finishings and fitting-out works are in full swing.

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

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 31 December 2015, the project was 76% complete.

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, construction and commissioning into service of the Express Rail Link. Under the XRL Entrustment Agreement, Government is responsible for funding the construction of the Express Rail Link.

A major milestone for the project was the completion of tunnel excavation which took place on 12 December 2015 with the last tunnel section, the northern northbound section of the Tai Kong Po to Tse Uk Tsuen tunnel breaking through. Track laying, tunnel lining, overhead line installation and other E&M works are progressing and were 52% complete at year end. The West Kowloon Terminus excavation was 98% complete and



the concrete structure 70% complete at year end. The major construction challenges going forward are the completion of the complicated roof structure for the station as well as maintaining the pace of concreting works and internal wall construction.

Another milestone for the Express Rail Link project in the year was the conditional agreement entered into by Government and MTR ("XRL Agreement") relating to the further funding arrangements for the project ("XRL Arrangements"). With the approval of the XRL Agreement and the XRL Arrangements by the Company's shareholders who are independent of Government ("Independent Shareholders") on 1 February 2016 and also the approval by LegCo on 11 March 2016 of Government's additional funding obligations under the XRL Agreement, the XRL Agreement has become unconditional.

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, in two equal tranches of HK\$2.20 per share, which are expected to be paid in the second half of 2016 and the second half of 2017, respectively. This amounts to a total special dividend of approximately HK\$25.76 billion based on the number of shares outstanding as at 31 October 2015. Other terms of the Entrustment Agreements relating to the project previously entered into by Government and MTR 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.



The completion of track laying works was one of the major milestones achieved for Kwun Tong Line Extension in 2015

Executive Management's Report

Hong Kong Network Expansion



New trains for the Shatin to Central Link are being delivered to Hong Kong in batches starting from September 2015 for testing and commissioning

The XRL Agreement and the XRL Arrangements were approved by the Company's Independent Shareholders on 1 February 2016 and on 11 March 2016, LegCo gave approval for Government's additional funding obligations under the XRL Agreement and hence the XRL Agreement has become fully effective.

Shatin to Central Link

The ten stations 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 much needed new links across the New Territories, serving an estimated residential and working population of 640,000 in 2021. Overall progress on the project was about 48% complete

as at end of 2015, with the East West Corridor and North South Corridor being 63% and 23% complete, respectively. Government is responsible for funding the construction of the Shatin to Central Link except for certain costs of modification, upgrade or expansions of certain assets for which the Company is responsible under the existing service concession agreement with KCRC.

Reasonable progress was made on construction works during the year. For the East West Corridor, the downtrack tunnel from Hin Keng Station to Kai Tak Station was bored through in 2015. Both Hin Keng Station and Kai Tak Station were topped out in April and July 2015 respectively and E&M, other fitting out

Progress of New Railway Projects in 2015

New Projects Owned by MTR Admiralty to South Horizons	Number of Stations 5	Route Length (km) 7	Project Funding Rail plus Property
New Projects Owned by MTR Yau Ma Tei to Whampoa	Number of Stations 2	Route Length (km) 2.6	Project Funding Rail plus Property
New Projects Entrusted to MTR by Government West Kowloon to Guangzhou South	Number of Stations 1	Route Length (km) 26*	Project Funding Service Concession
New Projects Entrusted to MTR by Government Tai Wai to Hung Hom Hung Hom to Admiralty	Number of Stations 8 2	Route Length (km) 11 6	Project Funding Service Concession

* This represents the route length from West Kowloon in Hong Kong to the boundary of Hong Kong and Shenzhen.

works, as well as track laying have commenced. Ma Tau Wai Station and To Kwa Wan Station (which had been affected by the archaeological finds) were 61% and 49% complete, respectively and the interchange stations at Diamond Hill and Hung Hom were over 65% complete. Meanwhile, the modification works on station platforms of the Ma On Shan Line to tie in with the future 8-car train configuration of the East West Corridor were 95% complete. Installation of automatic platform gates has commenced in three Ma On Shan Line stations.

For the North South Corridor, the immersed tube cross-harbour tunnel contract was about 26% complete at year end and construction of the launching shafts for the two tunnel boring machines on Hong Kong Island are underway with tunnel boring works planned to commence in the second quarter of 2016. Construction of Exhibition Station, including the diaphragm wall and foundation works, is underway. Reprovisioning of the new Wan Chai Swimming Pool was completed in October 2015. This facilitated the timely release of the site previously occupied by the original swimming pool to the contractor, thus enabling construction of Exhibition Station to start on time.

New trains for both corridors are being delivered to Hong Kong in batches starting from September 2015 for testing and commissioning. To facilitate the 8-car train operation of the East West Corridor, the existing 7-car trains of the West Rail Line are being converted to 8-car trains progressively. The first 8-car train was put into service in January 2016 and a total of 28 West Rail Line trains are expected to be converted by mid-2018.

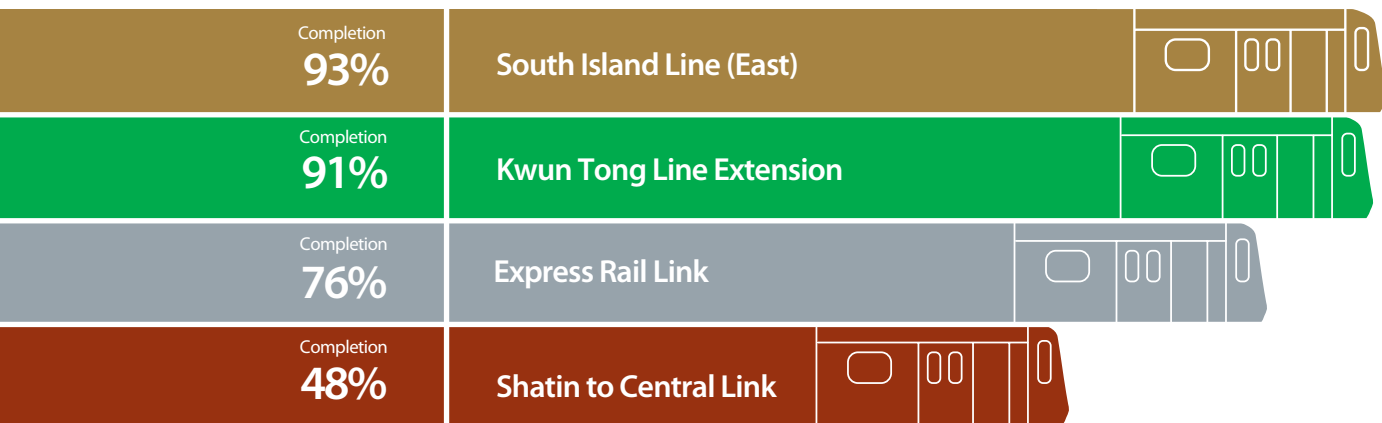
Despite reasonable construction progress, and as reported previously, the programme for delivery of the Shatin to Central Link has been impacted by a number of key external events. Firstly, on the East West Corridor the time taken in confirming actions to be undertaken relating to archaeological finds 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, the anticipated late hand-over at the Central-Wan Chai Bypass of a construction site for the new Exhibition Station on the North South Corridor, due to infrastructure works by other parties, has already caused a six-month delay in that corridor. The estimated completion is now 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.

Given the above delays, we are reviewing again the project cost estimate and the target completion dates for this project. Taking into account the continued difficulties and challenges, including those described above, we expect that the cost estimate will be revised upwards. In addition, mainly as a result of the increase in the estimated project costs relating to Admiralty Station, where the Shatin to Central Link will interchange with, amongst other lines, the South Island Line (East), we have notified Government of an increase in the expected cost of the Shatin to Central Link advance works. The programme and cost review in respect of the project as a whole is expected to be completed later in 2016, after which the Company will formally report the findings to Government.

New Railway Projects Under Discussion

To meet Hong Kong's growing public transport needs, Government's strategy is to continue using railway as the backbone in the development of our public transport network. Beyond the four rail lines that we are building now, Government has identified seven new rail projects under its Railway Development Strategy 2014 to be implemented in phases up to 2031, of which three are priority lines, namely the Tuen Mun South Extension, the Northern Link including Kwu Tung Station, and the East Kowloon Line. We continue to work with Government in taking forward these rail expansion plans.



A photograph of Jessica Thylander, a woman with blonde hair tied back, wearing a dark blue long-sleeved shirt and a bright yellow-green high-visibility safety vest with reflective silver stripes. The vest has the 'MTR' logo on the chest. She is smiling and gesturing with both hands raised, palms facing forward. She is wearing a gold chain bracelet on her right wrist and a silver watch on her left wrist. A lanyard with an ID badge is around her neck. The background is a blurred indoor setting, possibly a transit station, with a blue geometric graphic overlay on the left side of the image.

Jessica Thylander
Station Manager



Networks Around the World



Mainland and International Businesses and Growth

The total number of passengers carried by our railway related subsidiaries and associates outside of Hong Kong was approximately 1,598 million in 2015, compared to approximately 1,458 million in 2014.

In 2015, revenue from our Mainland of China and International railway and property related subsidiaries was HK\$12,572 million. This was a 0.4% decrease when compared to 2014.

Revenue from our railway related subsidiaries outside of Hong Kong, namely MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), Metro Trains Melbourne Pty. Ltd. ("MTM"), MTR Stockholm AB ("MTRS"), MTR Express (Sweden) AB ("MTRX"), MTR Corporation (Crossrail) Limited ("MTR Crossrail"), Metro Trains Sydney Pty. Limited ("MTS") and the Joint Venture for the design and construction of the ("JV-SMNW"), was HK\$12,418 million. This represents a slight decrease of 0.4% over 2014 and mainly reflects the net result of adverse exchange rate movements offset by incremental contributions from new start-up operations. Operating costs increased to HK\$11,719 million, resulting in a 16.2% decrease in operating profit to HK\$699 million with an operating profit margin of 5.6%. On a constant exchange rate basis, revenue from our railway related subsidiaries (excluding the new start-up operations of MTRX, MTR Crossrail, MTS and JV-SMNW) would have increased by 7.4%, operating cost by 8.2%, and operating profit decreased by 2.9%, mainly due to a lower volume of project activities in MTM.

Our rail associates outside of Hong Kong contributed profits of HK\$126 million in 2015. This compared with a loss of HK\$105 million in 2014 and reflects the improved performance of our Hangzhou and Beijing associate companies.

The total number of passengers carried by our railway related subsidiaries and associates outside of Hong Kong was approximately 1,598 million in 2015, compared to approximately 1,458 million in 2014.

Railway Businesses in the Mainland of China

In Beijing, our 49% associate Beijing MTR Corporation Limited ("BJMTR") operates three lines (Beijing Metro Line 4 ("BJL4"), Daxing Line and Beijing Metro Line 14 ("BJL14")) and entered



We continue to enhance the operational performance of our railways outside of Hong Kong



Jessica Thylander, Station Manager

Jessica Thylander is a Stationschef (ie "Station Manager" in Swedish) of MTR Stockholm Operations Department in Sweden. Her everyday work includes managing station staff and customer service.

Jessica's customer service motto is 'satisfaction and safety'. 'We strive to make customers feel satisfied, welcome and safe. Our goal is to be the preferred mode of transport for Stockholm people.'

Stockholm is a vibrant cosmopolitan city and here MTR serves a large urban population as well as people commuting from outside. What role does it play in community life? 'It's very important. I can say that without MTR, everything would stop. We ensure that passengers get to their destination, work or leisure, in comfort and safety. We operate almost around the clock. People rely on us and have high expectations. We Swedes are also very environmentally conscious. We strive to be on time, safe and environmentally responsible. These are our core values.'

8 Rail Services
in operation outside
of Hong Kong

867.5km
total route length in
operation outside of
Hong Kong

Executive Management's Report

Mainland and International Businesses and Growth



A 5.7-km extension of HZL1 opened in November 2015

into a concession agreement for a fourth line (Beijing Metro Line 16, "BJL16") towards the end of 2015. BJL4 and the Daxing Line exceeded their service targets. Combined ridership in 2015 was 429 million passenger trips, with average weekday patronage of more than 1.24 million. Compared with 2014 these numbers represented declines of 6.9% and 4.6% respectively, which were due to the increase in fares across the Beijing metro network in December 2014. The two lines have 35 stations and a combined length of 50 km.

The Phase 1 West Section and Phase 2 East Section of BJL14 recorded a combined 62.65 million passenger trips and average weekday patronage of 196,039 during 2015. The Phase 1 West Section has seven stations, running for 12.4 km. The Phase 2 East Section runs for 14.8 km and covers 12 stations, two of which are bypassed. The Phase 3 Middle Section of BJL14 opened in December 2015. It has 11 stations (two of which are bypassed) with over 16.6 km of route length. During 2015, the various sections of BJL14 were managed by BJMTR on an operating and maintenance business model. With the opening of Phase 3, as from 31 December 2015, the 30-year concession has commenced.

In Shenzhen, the Shenzhen Metro Longhua Line ("SZL4") operated by our wholly-owned subsidiary MTR(SZ), continued to enhance operational performance and saw a 12% increase in patronage to 189.4 million in 2015. Capacity on the line has been increased by the conversion of all 4-car trains into 6-car trains with all works completed ahead of schedule in February 2015.

Although patronage has continued to increase on SZL4, there has been no increase in fares since we started operating

the line in 2010 and unlike our rail business in Beijing and Hangzhou, MTR(SZ) does not benefit from a shadow fare protection mechanism. We understand that there have been discussions within the Shenzhen Municipal Government regarding fare adjustments, possibly in 2016. If such fare adjustments are not implemented, the long-term financial viability of SZL4 may be impacted.

Our 49% owned associate in Hangzhou, Hangzhou MTR Corporation Limited ("HZMTR"), operates Hangzhou Metro Line 1 ("HZL1") which was extended by 5.7 km in November 2015 and now covers 54 km, with 34 stations. Patronage on HZL1 continues to grow and 2015 saw the number of passenger trips rise by 23% to 176.9 million. A 5.7-km extension of HZL1 opened in November 2015; this extension is operated under an operating and maintenance business model. HZMTR has continued to record a net loss due to lower patronage than originally expected although this net loss was lower than in the previous year due mainly to higher fare revenue and fare subsidy and a number of one-off adjustments, partially offset by incremental interest expenses.

International Railway Businesses

During 2015, the Company notched up a series of successes in the UK and Sweden. In the UK, London Overground Rail Operations Limited ("LOROL") has continued to deliver best-in-class operational performance and was named "Rail Operator of the Year", which was a prestigious title from the "2015 London Transport Awards". In May 2015, LOROL took over the management of the West Anglia Inner suburban routes, increasing the scale of its operations by 30.8% to 111 stations (with 81 managed by LOROL) and 167 km of route length. The route extension increased ridership by 27% to 146 million. LOROL has assisted Transport for London ("TfL") to complete the GBP320 million project to increase train capacity by lengthening 57 trains from 4-car to 5-car on key London Overground routes.

MTR Crossrail started operating the new Crossrail concession in May 2015 under the brand name "TfL Rail". TfL Rail consists of services devolved from the previous Greater Anglia franchise covering 14 stations. When full Crossrail services commence in 2019, it will serve 40 stations with a route length of 118 km. Since commencement of services, MTR Crossrail has achieved significant improvements in operational performance, customer satisfaction and employee engagement.

In Sweden, MTRS recorded excellent operational performance in 2015, setting record-breaking levels for punctuality across all metro lines in Stockholm. Average weekday patronage reached 1.19 million. MTRS's consistent improvement in operational performance and customer service was recognised by being awarded the prestigious "2014 Swedish

Quality Award". More importantly, it was granted an extension of the Stockholm Metro operating concession for a further six years to 2023. Helped by this solid track record, in December 2015 we were awarded the operating concession to operate and maintain the Stockholm Commuter Rail Systems (Stockholms Pendeltåg) 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 concession is expected to start in December 2016, although there is currently a legal challenge from one of the failed bidders in the tender process which we are closely monitoring. In addition, MTR Express commenced service between Stockholm and Gothenburg in March 2015, winning very positive customer satisfaction for its best-in-class service quality and operational performance. However passenger numbers have been below initial projections, and we are addressing this issue through initiatives including enhanced marketing, promotions and sales campaigns.

In Australia, our 60% owned subsidiary MTM saw patronage in the Melbourne metro network increased from approximately 222 million in 2014 to 230 million in 2015, whilst further improvements in operational performance resulted in higher customer satisfaction. The Melbourne metro network has 218 stations and covers 390 km.

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 Sydney Metro Northwest ("SMNW"). SMNW is our first international Public-Private-Partnership ("PPP") project, and is also Australia's largest public transport project. 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. Construction work has begun and initial milestones were achieved, including the delivery of the life-size train model, which has met with a positive response. The consortium also won the "Government Partnership Excellence Award" at the "National Infrastructure Awards" in Sydney in March 2015.

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

During 2015, we launched presales of Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1. This is our first property development project in the Mainland of China and the response from buyers was excellent, with about 96% of 1,698 units sold by the end of 2015. The project has a total developable gross floor area ("GFA") of approximately 206,167 square metres including a 10,000 square metre (GFA) retail centre. Booking of revenue for Tiara will take place when the units are handed over to buyers in subsequent years. For accounting reasons, sales and marketing expenses for Tiara are expensed as incurred and hence in 2015, the operating loss relating to this project was HK\$140 million.

In Tianjin, our 49% owned associate, Tianjin TJ-Metro MTR Construction Company Limited, is encountering a number of obstacles in the development of the Beiyunhe Station project on Tianjin Metro Line 6. These obstacles include softening market demand in Tianjin, especially for offices (the mix-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 and enlarged basement construction. We are working with our 51% partner, Tianjin Metro (Group) Company Limited to find ways to reduce the negative impact of these challenges. The possible



MTRS was granted an extension of the Stockholm Metro operating concession for six years to 2023

Executive Management's Report

Mainland and International Businesses and Growth



MTM in Melbourne provides excellent services and enhances connectivity in the area

solutions being explored with Tianjin Metro (Group) Company Limited 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 slightly by 0.6% to HK\$154 million in 2015. Our shopping mall in Beijing, Ginza Mall was 93.4% occupied as at 31 December 2015.

The Company manages third party properties in the Mainland of China which, at the end of 2015, covered a total gross floor area of 230,000 square metres. The properties comprised AO City Fortune Centre in Beijing, with 24,000 square metres of commercial and 58,000 square metres of residential space, and the North Star Paseo Mall and office towers in Beijing with 148,000 square metres of commercial space.

Mainland of China and International Growth

In Beijing, BJMTR continues to make good progress with the remaining sections of BJL14. Once complete, the entire line will run for 47.3 km and have 37 stations, including ten interchange stations. Under the RMB50 billion PPP project, BJMTR's investments is RMB 15 billion and is responsible for provision of E&M systems and rolling stock, as well as operation and maintenance of the line over a term of 30 years.

The Concession Agreement for BJL16, another PPP project, was signed by BJMTR on 28 November 2015. The line will run 50 km from Beianhe to Wanping, encompassing 29 stations. 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 the first phase operation is expected to commence in 2016 with full line operation after 2017.

MTR's equity contribution to BJMTR to support the BJL14 and BJL16 PPPs is estimated at RMB 2.45 billion for BJL14 and up to RMB 2.45 billion for BJL16.

In Sweden, the Stockholm County Council awarded MTR Nordic, a wholly owned subsidiary of the Company, the concession to operate and maintain Stockholms Pendeltåg. Moreover, in the first quarter of 2016, MTR acquired the remaining 50% shareholding in Tunnelbanan Teknik Stockholm ("TBT"), a 50:50 joint venture established initially between MTRS and Mantena AS in 2009. This acquisition will bring rolling stock maintenance for the metro network in Stockholm fully under our management.

Mainland of China and International Railway Businesses at a Glance

	MTR Corporation Shareholding	Business Model	Commencement of Franchise / Expected Date of Commencement of Operation	Franchise / Concession Period (years)	Number of Stations	Route Length (km)
Projects In Operation						
Mainland of China						
Beijing Metro Line 4 ("BJL4")	49%	Public-Private-Partnership ("PPP")	Sep 2009	30	24	28
Daxing Line of BJL4	49%	Operations and Maintenance ("O&M") Concession	Dec 2010	10	11	22
Beijing Metro Line 14 ("BJL14")	49%	PPP	Phase 1 West Section: May 2013 Phase 2 East Section: Dec 2014 Phase 3 Middle Section: Dec 2015	30	Phase 1 West Section: 7 Phase 2 East Section: 12 Phase 3 Middle Section: 11	Phase 1 West Section: 12.4 Phase 2 East Section: 14.8 Phase 3 Middle Section: 16.6
Shenzhen Metro Longhua Line	100%	Build-Operate-Transfer ^{Note 2}	Phase 1: Jul 2010 Phase 2: Jun 2011	30	Phase 1: 5 Phase 2: 10	Phase 1: 4.5 Phase 2: 16
Hangzhou Metro Line 1 ("HZL1")	49%	PPP	Nov 2012	25	31	48
HZL1 Extension	49%	O&M Concession	Nov 2015	End together with HZL1 concession	3	5.7
Overseas						
London Overground, United Kingdom	50%	O&M Concession	Nov 2007	9	111 (81) ^{Note 3}	167
Stockholm Metro, Sweden	100%	O&M ^{Note 4} Concession	Nov 2009	14 ^{Note 5}	100	110
Metro Trains Melbourne, Australia	60%	O&M Concession	Nov 2009	8	218	390
Crossrail, United Kingdom	100%	O&M Concession	May 2015	8	40 (28) ^{Note 6}	118
MTR Express, Sweden	100%	Open Access Operation	Mar 2015 ^{Note 7}	N/A ^{Note 8}	5 ^{Note 9}	455
Projects In Progress						
BJL14, Mainland China	49%	PPP	Full Line: After 2017	30	Full Line: 37	Full Line: 47.3
Beijing Metro Line 16, Mainland China	49%	PPP	Phase 1: 2016 Phase 2: After 2017	30	Full Line: 29	Full Line: 50
Stockholm Commuter Rail Systems (Stockholms Pendeltåg), Sweden	100%	O&M ^{Note 10} Concession	Dec 2016	10	53	241
Sydney Metro Northwest, Australia	Mixed	PPP (Operations, Trains & Systems)	2019	15	13 ^{Note 11}	36 ^{Note 11}

Notes:

- 1 B JL14 Phase 2 East Section has 12 stations, ten opened (two are currently bypassed). B JL14 Phase 3 Middle Section has 11 stations, nine opened (two are currently bypassed).
- 2 Shenzhen Metro Longhua Line Phase 1 assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Limited took over the operation of Phase 1 in July 2010.
- 3 This represented the number of stations managed by LOROL. The total number of stations served for London Overground is 111. Starting from May 2015, the ex-West Anglia services have been integrated into London Overground, adding 28 stations (24 managed by LOROL) and about 43km of route length.
- 4 Rolling stock maintenance under a 50:50 joint venture between MTR Stockholm and Mantena AS.
- 5 In September 2015, the eight-year operating concession of Stockholm Metro was extended for another six years (from 2017 to 2023) to a total of 14 years by Stockholm authority.
- 6 MTR Crossrail will manage 28 out of the total 40 stations in the Crossrail network.
- 7 MTR Express initial service commenced on 21 March 2015 with full schedule started in August 2015.
- 8 The license to operate this service is subject to renewal.
- 9 MTR Express is not responsible for the management of these stations.
- 10 The award of the concession is subject to a judicial review on the procurement process undertaken by the Swedish authority. The case is between one of the bidders and the local authority, that the Company is not involved.
- 11 Sydney Metro Northwest has eight new stations and five retrofitted stations, and a 13-km existing line extended with a 23-km new line construction.



Professional and Caring Services

The MTR Team
Different Departments





Human Resources

People are MTR's most valuable asset and we offer long-term, rewarding careers in many disciplines.

Staff turnover
remained low at
3.7%
in Hong Kong

6.6
training days
per Hong Kong
employee

8,700
enhanced staff
communication
sessions

People are MTR's most valuable asset and we offer long-term, rewarding careers in many disciplines.

The Company, together with its subsidiaries, employed 17,127 people in Hong Kong and 8,157 people outside of Hong Kong as at 31 December 2015. Our associates employed an additional 11,109 people in and outside Hong Kong.

To strengthen organisational effectiveness and support business growth, an Engineering Division was established in early 2016. This new division will drive excellence and support long-term planning within the Company's engineering functions.

Recruitment and Retention

Various manpower resourcing initiatives were carried out during 2015 in support of both current operational needs and future business growth in Hong Kong, the Mainland of China and internationally. In 2015, 1,806 new hires were taken on, while staff turnover remained low at 3.7% in Hong Kong.

We have strengthened our branding as an employer through various initiatives that connect with the community and engage with young people. We offered internships through an Undergraduates Sandwich and Co-op Programme with local universities and participated in the Life and Career Education Forum to help young people prepare for the transition from school to work.

We put particular effort into attracting young talents, and recruited a record 153 Apprentices and Technician Associates during the year. In addition, a total of 40 graduates were recruited into the Company's different graduate development programmes. Currently, we have 128 trainees and 407 apprentices under various kinds of development schemes.

In support of the Talent-wise Employment Charter, we collaborated with the Hong Kong Council of Social Service and local universities to offer summer internship opportunities in 2015 to university students with disabilities or special educational needs.

To help retain staff, the Company provides market competitive salaries and benefits, including a performance-based pay review mechanism, and most importantly good career development opportunities. We had 1,454 staff promoted internally in Hong Kong during the year.

To nurture our leadership talents and develop young professionals to sustain our ever-growing business, we continued to provide a range of leadership development programmes, as well as ample opportunities in and outside of Hong Kong for staff at different levels to develop.



Kelvin, MTR Staff

Kelvin has been with MTR for eight years and currently works in the station retail department. He has had a variety of roles within the Company, ranging from marketing, property, corporate affairs and intercity, to a posting in Beijing. These rotations to different departments have helped Kelvin gain a deeper understanding of the corporate culture. He describes MTR as a "big family" and he greatly appreciates the excellent co-operation both within and among departments, with colleagues helping each other to accomplish tasks in the most appropriate and effective manner. This reflects the comprehensive training MTR provides and the encouragement given to employees to act proactively when faced with a task.

Among Kelvin's fondest memories is the time he spent with his fellow graduate trainees, whom he first met during training eight years ago. "Each one of us came from a different discipline and we trained together. Although we are now in different departments, our goal is the same, which is to provide a safe, reliable and comfortable experience to our customers."

Executive Management's Report

Human Resources

Staff Engagement and Motivation

The Company encourages positive engagement between management and staff and provides effective communication channels for the discussion of matters of mutual concern. To this end we have a well-established Staff Consultation Mechanism, comprising Joint Consultative Committees and the Staff Consultative Council, with more than 800 staff representatives who are elected by staff. An Enhanced Staff Communication Programme has also been put in place to strengthen staff engagement and reinforce two-way communication between line managers and their staff. There were 8,700 communication sessions organised under this programme in 2015.

In recognition of the exemplary performance of our staff, a total of 12 team Grand Awards and 22 Certificates of Merit were presented to 4,243 awardees in 2015. Our short motivational video series "MTR People Making a Difference" continued to be an effective channel to motivate our staff with over 170,000 viewings and 22,000 positive comments. The "We are MTR" programme continued to strengthen connections with retirees and former MTR colleagues.

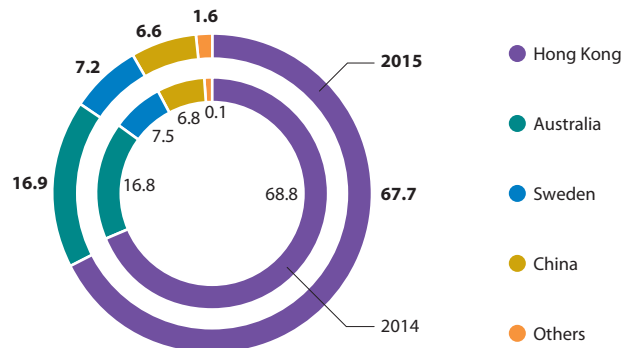
The internal global communication platform, MTRconnects, was used to engage staff worldwide through sharing corporate updates and stories about MTR people. The platform's view rate had reached over 563,000 by year-end, with more than 13,300 unique visitors recorded.



Through the More Time Reaching Community Scheme, we engage our staff in providing volunteering service to the community

Staff Distribution by Geographical Location

(Percentage)



Staff Productivity – Earnings Per Employee*

* Hong Kong businesses excluding property development

(HK\$ million)



A Culture of Continuous Learning and Development

Having a professional and competent workforce to serve our customers is our key mission. We provided all-rounded training and development curricula including leadership, operations, technical and customer service programmes, with 6,510 courses and an average of 6.6 training days per employee during 2015.

Our efforts in training and development again won several local and international awards, including the "Excellence in Practice Award" from the Association for Talent



Various graduate development programmes are provided to groom and develop our young professionals

Development in the US. MTR was one of only five companies to achieve the Hong Kong Management Association's "25th Anniversary Award: Most Dedicated Organisation to People Development", recognising the Company's outstanding achievements in staff development over the years.

Driving Work Improvement

The Staff Suggestion Scheme is a successful staff engagement channel that encourages creativity in the workplace. The Scheme has been revamped with the introduction of new awards to encourage staff to submit innovative ideas. Among the 735 submissions received in 2015, nine were categorised as "transformative ideas" and eight of these were implemented in the workplace.

The Work Improvement Team ("WIT") programme has continued to encourage collective innovation, continuous improvement and staff engagement. WIT has been MTR's "DNA" in Hong Kong for more than 27 years and in 2015,

there were 5,672 members and 953 teams, with 950 projects submitted. The first Global WIT Conference was held in June 2015, with 1,600 attendees, including 120 delegates from our business hubs in Shenzhen, Beijing, Hangzhou, Stockholm, Melbourne and London.

Vision For the Future

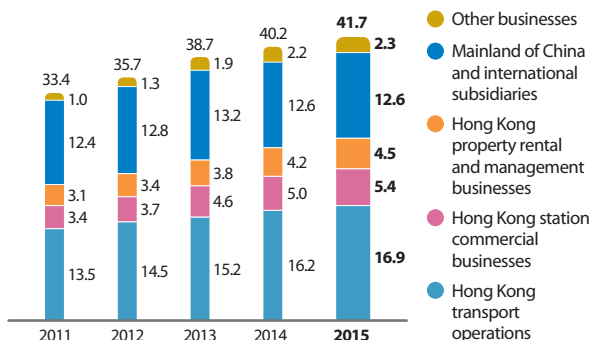
Our vision for the future is to become a recognised base for the training and development of future generations of railway professionals through the establishment of an "MTR Academy". Revealed in January 2016 in the Policy Address of the Chief Executive of the HKSAR, this initiative aims to develop talent to operate and maintain safe, reliable and efficient railway systems in and outside of Hong Kong. While planning is in the early stages, the "MTR Academy" is envisaged to offer signature programmes in engineering, operations, management and customer service.

Financial Review

Total Revenue

Total Revenue showed continuous growth and increased by 3.8% to HK\$41.7 billion in 2015.

(HK\$ billion)



Profit and Loss

In 2015, the Group recorded reasonable profits from our recurrent businesses and moderate profits from our property development business.

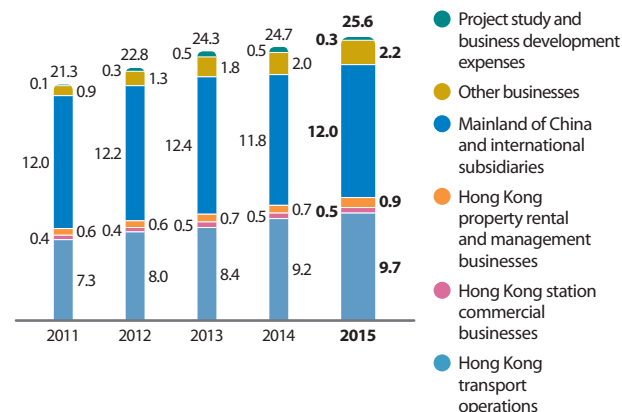
Hong Kong transport operations reported total fare revenue of HK\$16,754 million, up 4.3% against 2014. Fare revenues in 2015 amounted to HK\$11,819 million for the Domestic Service, HK\$3,172 million for the Cross-boundary Service, HK\$950 million for the Airport Express, HK\$671 million for Light Rail and Bus services and HK\$142 million for the Intercity Service. Overall demand for our rail and bus services was higher and total patronage increased by 1.8% to 1,938.2 million in 2015. Average fares for the Domestic, Cross-boundary, Light Rail and Bus services were higher than in 2014, rising by 2.5%, 2.9%, 3.8% and 4.5% respectively. The increases were due to the fare adjustments under the FAM which were partly offset by fare concessions. The Airport Express and Intercity Service are not subject to the FAM. The average fare for the Airport Express decreased by 1.7% owing to fare promotions targeted at achieving higher patronage, while the average fare for the Intercity Service increased by 4.5%. Including other rail-related income of HK\$162 million, total revenue from Hong Kong transport operations increased by 4.3% to HK\$16,916 million. Expenses related to Hong Kong transport operations grew by 5.0% to HK\$9,702 million in 2015 with the opening of the Western extension of the Island Line, as well as increased train trips and more front line operational staff. As a result, the operating profit for Hong Kong transport operations rose by 3.2% to HK\$7,214 million, while the operating margin declined by 0.5 percentage point to 42.6%.

Hong Kong station commercial businesses reported growth, with total revenue of HK\$5,380 million, an increase of 8.4% over 2014. Station retail revenue grew by 10.7% to HK\$3,540 million, due to trade mix refinements, positive rental reversions, and increases in rents in accordance with lease contracts for Duty Free Shops at Lo Wu and Hung Hom stations as well as higher turnover rents from the Lok Ma Chau Station

Operating Expenses

Operating expenses in 2015 increased to HK\$25.6 billion in support of various service enhancement initiatives.

(HK\$ billion)



Duty Free Shops. Advertising revenue decreased marginally by 0.8% to HK\$1,109 million as the advertising market softened. Telecommunication revenue increased by 14.4% to HK\$548 million, due to a one-off project administration fee, incremental revenue from new stations on the Western extension of the Island Line and mobile data capacity enhancement projects by operators. Revenue from other station commercial businesses also saw an 8.3% increase to HK\$183 million. Expenses in relation to Hong Kong station commercial businesses increased by 6.8% to HK\$550 million, mainly due to higher Government rent and rates. Overall, the operating profit of the Hong Kong station commercial businesses increased by 8.6% to HK\$4,830 million, while the operating margin increased slightly by 0.2 percentage point to 89.8%.

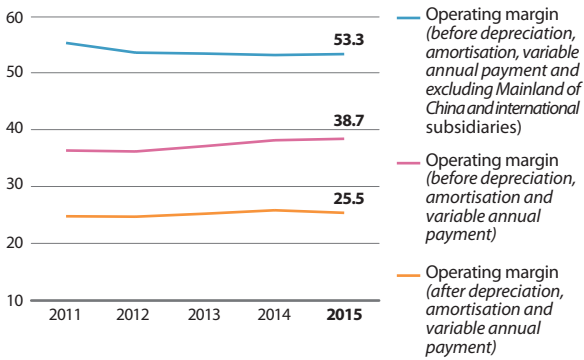
Hong Kong property rental and management businesses continued to deliver good financial results with total revenue increasing by 8.2% to HK\$4,533 million. Property rental income grew by 8.2% to HK\$4,267 million, as our shopping malls achieved an average of 12% favourable rental reversion in 2015. Our shopping malls and office space at Two International Finance Centre remained close to 100% let as at 31 December 2015. Our Hong Kong property management continued to grow as the number of residential units under management increased by 4,632 units to 96,066 units as at 31 December 2015. Revenue from Hong Kong property management increased by 8.6% to HK\$266 million, due to incremental income from new residential units under management. Expenses relating to our Hong Kong property rental and management businesses increased by 15.8% to HK\$865 million, mainly due to higher Government rent and rates as well as a one-off provision. The resulting operating profit from Hong Kong property rental and management businesses increased by 6.5% to HK\$3,668 million, while the operating margin decreased by 1.3 percentage points to 80.9%.

Our Mainland of China and international subsidiaries, comprising railway related and rail franchise operations in Australia, Sweden and the United Kingdom, as well as rail

Operating Margin

Operating margin further improved to 38.7%.

(Percentage)



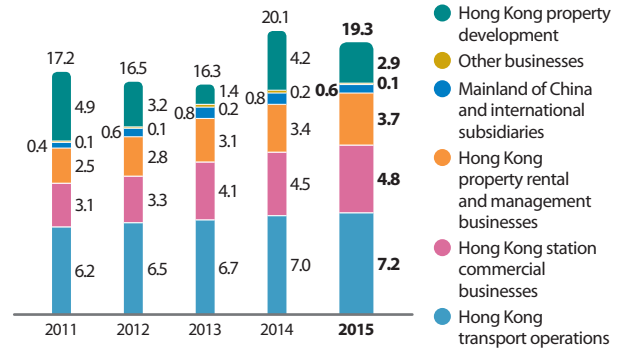
franchise operations and property related activities in the Mainland of China. Revenue and expenses were recorded at HK\$12,572 million and HK\$11,986 million, respectively. The resulting operating profit was HK\$586 million, a decrease of 27.3% from 2014. On a constant exchange rate basis and excluding the new start-up operations of MTRX, MTR Crossrail, MTS and JV-SMNW, the operating profit of our railway related subsidiaries outside of Hong Kong would have been 2.9% lower than in 2014. In Australia, the revenue and expenses of MTM were HK\$7,755 million and HK\$7,293 million, respectively, with the resulting operating profit decreasing by 20.3% to HK\$462 million in 2015. On a constant exchange rate basis, the resulting operating profit decreased by 4.8%, due to a lower level of project activities. In Sweden, MTRS reported revenue and expenses of HK\$2,714 million and HK\$2,603 million, respectively. The resulting operating profit was HK\$111 million, down from HK\$127 million in 2014. On a constant exchange rate basis, the resulting operating profit increased by 8.2%, benefited from continuous improvement in operational performance. In the Mainland of China, the revenue and expenses of the Shenzhen Metro Longhua Line were HK\$665 million and HK\$528 million, respectively. The resulting operating profit decreased by 6.2% to HK\$137 million, mainly due to increases in maintenance expenses and staff costs partly offset by higher revenue brought by a 12% increase in patronage. The operating profit of our property rental and management businesses in the Mainland of China was HK\$27 million, at the same level as in 2014.

Other businesses, including Ngong Ping 360, our consultancy business and project management services to the Government for the entrustment works regarding the Express Rail Link and Shatin to Central Link, recorded an overall operating profit of HK\$126 million, down 34.7% from 2014. The decrease was mainly due to lower operating profit from Ngong Ping 360 as a result of a decline in visitor numbers. This decline was mainly due to 28 fewer operating days in 2015 because of rope maintenance work, as well as the drop in

Operating Profit Contributions*

In 2015, the Group recorded reasonable profits from our recurrent businesses and moderate profits from our property development business.

(HK\$ billion)



* Excluding project study and business development expenses

inbound tourism to Hong Kong in 2015. Overall, the operating margin dropped by 3.5 percentage points to 5.5%.

Including project study and business development expenses amounting to HK\$304 million in 2015, operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment arising from recurrent businesses was HK\$16,260 million. Together with marketing expenses of HK\$140 million for the pre-sale of Tiara in Shenzhen as mentioned above, total operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment increased by 4.5% to HK\$16,120 million. The operating margin increased by 0.3 percentage point to 38.7%.

Hong Kong property development profit before tax in 2015 was HK\$2,891 million, mainly comprising of the booking of profits from Hemera and surplus from the sale of inventory units. This was HK\$1,325 million lower than 2014 when substantial property development profits were recognised from The Austin and Grand Austin.

Variable annual payment to KCRC on relevant revenue generated from the use of KCRC assets was HK\$1,649 million, an increase of 12.0% over 2014, as a larger portion of revenue was charged under the highest progressive rate of 35%. Depreciation and amortisation increased by 10.4% to HK\$3,849 million, mainly due to the additional depreciation charge relating to the operations of the Western extension of the Island Line in 2015. Net interest and finance charges were HK\$599 million, up HK\$54 million over 2014 due to lower interest income on reduced cash balances. Investment property revaluation gains amounted to HK\$2,100 million in 2015, down from HK\$4,035 million in 2014.

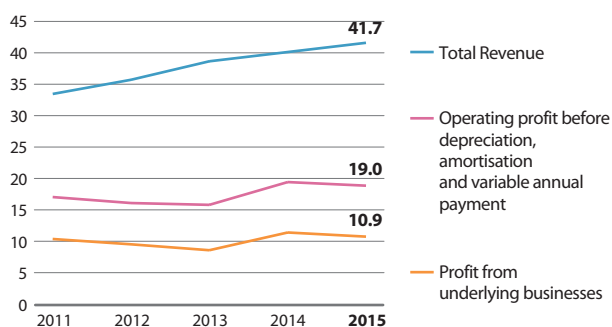
Our share of profits from associates increased from HK\$121 million in 2014 to HK\$361 million in 2015. Profit sharing from Octopus Holdings Limited increased by HK\$9 million to HK\$235 million. Our share of profit from BJMTR amounted to HK\$236 million in 2015, an increase of HK\$51 million from 2014, due to the impact of fare increase since December 2014.

Financial Review

Net Results from Underlying Businesses

In 2015, underlying business profit decreased to HK\$10.9 billion resulted from lower property development profits.

(HK\$ billion)



Our share of profit from LOROL and management fee income to the Group amounted to HK\$39 million and HK\$15 million, an increase from HK\$24 million and HK\$14 million in 2014, respectively. For HZMTR, our share of loss narrowed from HK\$315 million in 2014 to HK\$151 million in 2015, mainly due to higher fare revenue and fare subsidy and a number of one-off adjustments, partly offset by incremental interest expenses. Our share of profit from TBT increased by HK\$7 million to HK\$12 million in 2015 due to a decrease in operating expenses. Our share of profits from the other associates amounted to a loss of HK\$10 million in 2015, mainly owing to initial losses in respect of our new franchise in Australia.

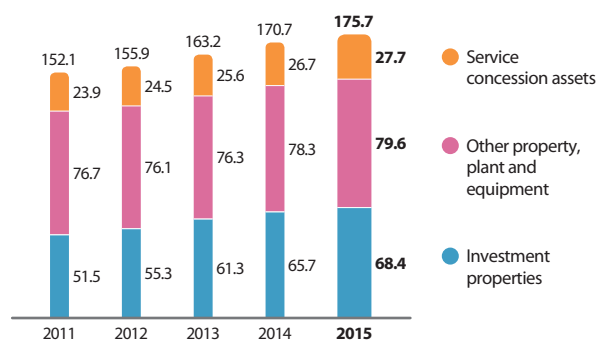
Net profit attributable to shareholders, after deducting income tax of HK\$2,237 million and profits shared by non-controlling interests of HK\$144 million, decreased from HK\$15,606 million in 2014 to HK\$12,994 million in 2015. Earnings per share therefore decreased from HK\$2.69 to HK\$2.22. Excluding investment property revaluation, the underlying profit attributable to equity shareholders was HK\$10,894 million, with earnings per share of HK\$1.87. Underlying profit from our recurrent businesses grew by 6.7% to HK\$8,565 million, while post-tax property development profits decreased from HK\$3,547 million in 2014 to HK\$2,329 million in 2015. Return on average equity attributable to equity shareholders arising from underlying businesses was 6.5% in 2015, compared to 7.3% in 2014.

In line with our progressive ordinary dividend policy, the Board has proposed a final ordinary dividend of HK\$0.81 per share, giving a full year ordinary dividend of HK\$1.06 per share, higher than the HK\$1.05 per share for 2014, with a scrip dividend option offered. In addition, with the approval of the Company's independent shareholders for the XRL Agreement obtained on 1 February 2016, and the approval of LegCo obtained on 11 March 2016 for Government's additional funding obligations under the XRL Agreement, the first tranche of the special dividend of HK\$2.20 per share will be paid to shareholders in the second half of 2016 and the second tranche, also of HK\$2.20 per share, will then be paid in the second half of 2017.

Fixed Assets Growth

Fixed assets at 2015 year-end further increased to HK\$175.7 billion due to asset additions for Hong Kong rail system and revaluation gains on investment properties.

(HK\$ billion)



Statement of Financial Position

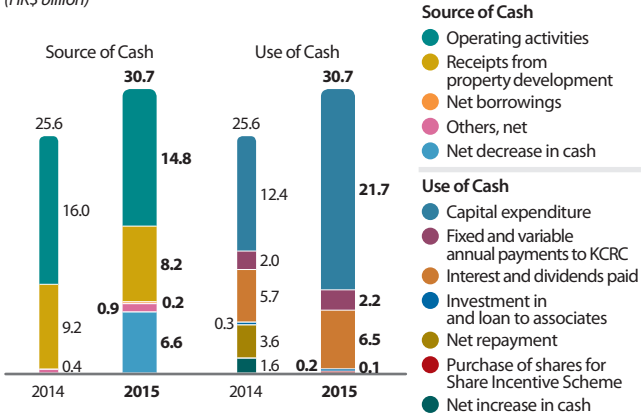
Our statement of financial position remains strong, with net assets increasing by 4.1% to HK\$170,171 million at the end of 2015, compared with the end of 2014.

Total assets increased by HK\$13,951 million during the year to HK\$241,103 million at 31 December 2015. Total fixed assets increased by HK\$5,063 million to HK\$175,719 million. The increase was mainly due to renewal and upgrade works for our existing Hong Kong railway network, revaluation gains on our investment properties and self-occupied properties, as well as the transfer of the construction costs of Sai Ying Pun Station on the Western extension of the Island Line from railway construction in progress upon its opening in March 2015. The increase was partly offset by depreciation, amortisation and disposals. Railway construction in progress increased by HK\$2,835 million to HK\$19,064 million, mainly as a result of further construction work for the South Island Line (East) and Kwun Tong Line Extension. Property development in progress increased by HK\$10,493 million to HK\$17,983 million, mainly due to cash contributions paid for the LOHAS Park Package 7 and Tai Wai Station property development projects. Interests in associates increased by HK\$115 million to HK\$5,912 million, mainly due to further equity injection into BJMTR and our share of profits from associates in 2015. Debtors, deposits and payments in advance increased by HK\$1,338 million to HK\$5,135 million, due to the increase in receivables from our property sales in Hong Kong. Amounts due from related parties amounted to HK\$1,636 million, an increase of HK\$563 million, mainly due to the increase in recoverable costs receivable from the Government for the advanced works of the Shatin to Central Link and a loan provided to our associate, Tianjin TJ-Metro MTR Construction Company Limited. Cash, bank balances and deposits decreased by HK\$6,575 million to HK\$12,318 million, mainly due to contributions paid for the LOHAS Park Package 7 and Tai Wai Station property development projects as well as capital expenditure for our Hong Kong existing railway networks and railway extension projects.

Cash Utilisation

In 2015, net decrease in cash was mainly due to higher cash outflow for capital expenditure on Hong Kong Property Development projects and Hong Kong rail system.

(HK\$ billion)



Total liabilities of the Group increased from HK\$63,670 million at the end of 2014 to HK\$70,932 million at the end of 2015, with total borrowing increasing by HK\$304 million to HK\$20,811 million. Creditors and accrued charges increased by HK\$6,439 million to HK\$22,860 million predominately due to sales proceeds received in advance in respect of Tiara in Shenzhen. Amounts due to related parties amounted to HK\$1,858 million, an increase of HK\$251 million, resulting from an increase in the variable annual payment due to KCRC. Current tax liabilities balance decreased by HK\$43 million to HK\$953 million, while deferred tax liabilities balances increased by HK\$232 million to HK\$11,209 million in 2015.

Share capital increased by HK\$1,037 million to HK\$46,317 million mainly as a result of new shares issued under the employee share option scheme. Together with the increase in retained profits, net of dividends paid, shares held for the Share Incentive Scheme, and an increase in fixed asset revaluation reserve and other reserves of HK\$5,693 million, total equity attributable to shareholders of the Company increased by HK\$6,730 million to HK\$170,055 million at 31 December 2015.

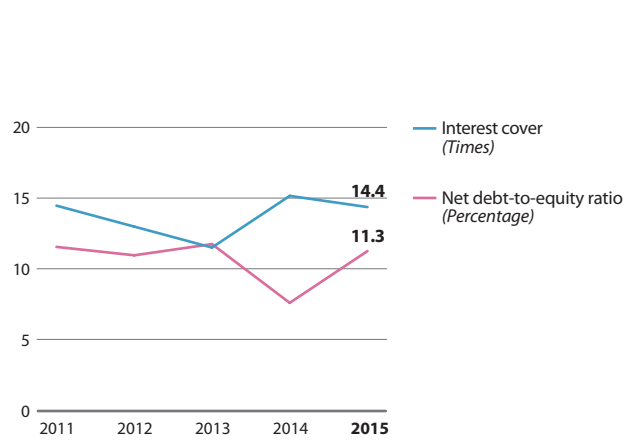
The net debt-to-equity ratio increased from 7.6% at 31 December 2014 to 9.1% at 30 June 2015 and 11.3% at 2015 year-end.

Cash Flow

Net cash generated from operating activities decreased by HK\$1,271 million to HK\$14,773 million in 2015. The decrease was mainly due to increased tax payments and lower working capital movements. Receipts from Hong Kong property developments of HK\$2,707 million, mainly relate to the surplus proceeds from Hemera and Grand Austin. Receipts from Shenzhen Longhua Line Depot property development were \$5,527 million, relating to the sales proceeds of Tiara. Including other cash receipts, such as dividends received from associates and proceeds from new shares issued under the employee share option scheme, totalling HK\$940 million, net cash receipts from operating and investing activities decreased from HK\$25,595 million in 2014 to HK\$23,947 million in 2015.

Debt Servicing Capability

Gearing ratio maintained at a healthy level of 11.3% in 2015.



For railway operations, total capital expenditure during the year was HK\$9,687 million, including HK\$4,216 million for the purchase of assets for our Hong Kong transport operations' existing railways and related operations, HK\$4,760 million for the construction of Hong Kong railway extension projects, HK\$553 million for Shenzhen Metro Longhua Line railway operations and HK\$158 million for other overseas transport operations. For property related businesses, total capital expenditure was HK\$11,983 million, including HK\$10,253 million for property development projects (mainly contributions paid in relation to the LOHAS Park Package 7 and Tai Wai Station property development projects) and HK\$609 million for investment properties in Hong Kong, as well as HK\$1,121 million for Tiara in Shenzhen. The Group paid fixed and variable annual payments to KCRC amounting to HK\$2,222 million and cash dividends to our equity shareholders amounting to HK\$5,748 million. After net interest payment of HK\$577 million, dividends to holders of non-controlling interests of HK\$157 million and other payments, net cash payments increased from HK\$20,349 million in 2014 to HK\$30,676 million in 2015.

Overall, net cash outflow before financing activities was HK\$6,729 million. After net loan drawdown of HK\$154 million, the Group's cash balance decreased from HK\$18,893 million at 31 December 2014 to HK\$12,318 million at 31 December 2015.

Financing Activities

Following the end of the asset purchase program by the U.S. Federal Reserve in 2014, long-term interest rates started to rise at the beginning of 2015, except for a brief period in January when the 30-year Treasury yield unexpectedly sank to an all-time low on disappointing GDP figures and reduced expectations of higher interest rates.

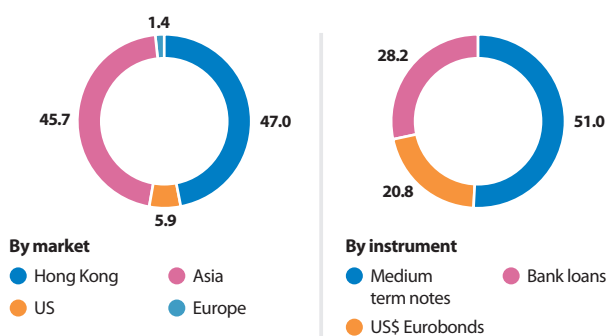
This rising trend was sustained by a steady recovery built around a strong employment market and improving consumer sentiment, but upside was capped by a lack of serious inflation, with the 10-year Treasury yield ending the year modestly higher at 2.27%, up from 2.17% at the end of 2014.

Financial Review

Sources of Borrowing

Although Hong Kong is our main market, our strategy is to diversify our funding sources and maintain ready access to other important international markets.

(Percentage) (As at 31 December 2015)



At the short end, the Fed decided to 'normalise' interest rates and implemented its first rate hike since 2006, increasing the Fed Funds Target Rate by 25 basis points in December to 0.25% - 0.50%. In anticipation of the well-publicised move, 3-month USD-LIBOR rose from 0.26% p.a. at the beginning of the year to 0.61% p.a. at the end of the year.

During the period, owing to ample liquidity and benign inflation in Hong Kong, the 10-year HK dollar swap rate declined from 2.25% p.a. to 1.92% p.a., whilst 3-month HKD-HIBOR rose slightly from 0.38% p.a. to 0.39% p.a..

During the year, the Group continued its dual financing strategy of arranging bilateral banking facilities to provide sufficient coverage for forward funding needs and to take advantage of low interest rates to lock into attractive fixed rate funding to further extend and diversify our debt maturity profile.

Based on this strategy, the Group has arranged additional bilateral banking facilities totalling HK\$4,800 million at more competitive fees and tighter credit margins. In January, the Group took advantage of the unexpected dip in long-term interest rates and issued its debut 40-year HKD fixed rate note at a very favourable level through private placement. Towards the latter part of the year, when long-term rates softened, the Group took advantage and issued a number of long-term fixed rate notes through private placement, including 30-year and 10-year HKD fixed rate notes, as well as a 15-year AUD fixed rate note, which was swapped to HKD. Totalling about HK\$1,200 million, these fixed rate notes helped further lengthen and diversify our debt maturity profile, whilst providing attractive, cost effective long-term funding.

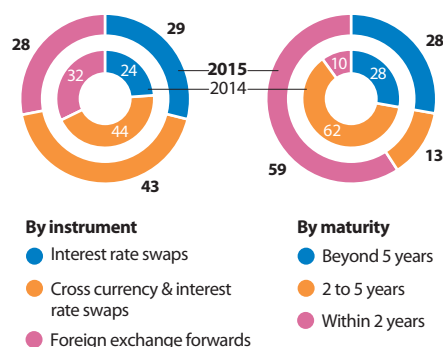
Cost of Borrowing

The Group's consolidated gross debt position increased from HK\$20,507 million at year-end 2014 to HK\$20,811 million at year-end 2015. The weighted average borrowing cost of the Group decreased slightly to 3.5% p.a. from 3.6% p.a. due to continuing low interest rates, as well as the reduction in

Use of Interest Rate and Currency Risk Hedging Products

The Company uses derivative financial instruments for hedging purposes, and has a strict policy of limiting their usage for hedging purposes only.

(Percentage*) (As at 31 December 2015)



* Calculated based on nominal value

benchmark lending rates by People's Bank of China, which helped lower borrowing costs for project loans in the Mainland of China.

Treasury Risk Management

The Board of Directors approved policies for overall treasury risk management covering areas of liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and the investment of excess liquidity.

The Group's Preferred Financing Model (the "Model") is well established as an integral part of our risk management policy. The Model specifies the preferred mix of fixed and floating rate debt, sources of funds from capital and loan markets and the debt maturity profile, as well as a permitted level of foreign currency debts and an adequate length of financing horizon for the coverage of forward funding requirements, against which financing related liquidity, interest rate and currency risks are monitored and controlled.

In accordance with Board policy, derivative financial instruments will only be used for controlling or hedging risk exposures, and not for speculation. Derivative instruments currently used by the Group are over-the-counter derivatives, and comprise exclusively of interest rate swaps, cross currency swaps and foreign exchange forward contracts.

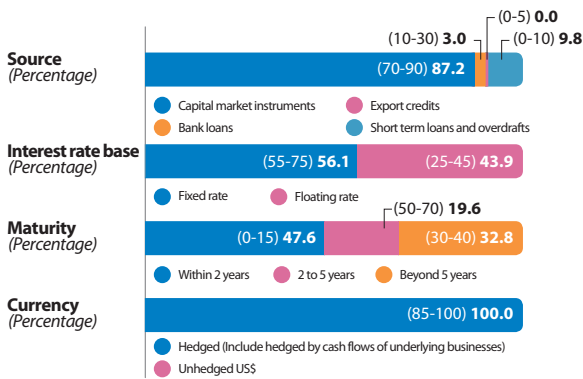
To control and diversify counterparty risks, the Group limits exposure to credit risk by placing deposits and transacting derivative instruments with financial institutions that have acceptable investment grade credit ratings.

In accordance with Board policy, all derivative instruments with counterparties are subject to a counterparty limit based on the counterparty's credit ratings. Credit exposure is estimated based on the estimated fair market value and largest potential loss arising from these instruments using a "value-at-risk" concept, and monitored and controlled against respective counterparty limits. In addition, the Group applies set-off and netting arrangements across different instruments with the same counterparty to further reduce risk.

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 31 December 2015



Deposits and short-term investments are subject to separate counterparty limits based on the counterparty's credit ratings, its note issuing bank status in Hong Kong, and the length of time that a deposit or short-term investment will be maintained with the counterparty.

The Group actively monitors the credit ratings and credit related changes of all its counterparties using additional information such as credit default swaps, and will, based on these changes, adjust the counterparty limits accordingly.

In managing liquidity risk, the Group will maintain sufficient cash balance and undrawn committed banking facilities to provide forward coverage of at least 12 to 24 months of projected cash requirements. The Group also conducts regular stress testing to identify and estimate any potential shortfall in future cash flow, and would arrange new financing or take other appropriate action as necessary to reduce the risk of a material liquidity shortfall.

Credit Rating

Through the year, the Company's credit ratings remained strong and on a par with the Hong Kong SAR Government.

The Company's issuer and senior unsecured debt ratings, as well as its short-term rating were affirmed in June 2015 by Moody's Investors Service at "Aa1" and "P-1" respectively with a stable outlook.

The Company's long-term corporate credit and short-term ratings were affirmed in September 2015 by Standard & Poor's at respectively "AAA" and "A-1+" with a stable outlook.

This was followed in October 2015 by affirmation from Rating & Investment Information Inc. of Japan of the Company's issuer and short-term credit ratings of "AA+" and "a-1+" respectively, with a stable outlook.

Following the Company's announcement regarding the XRL Agreement on 30 November 2015, credit rating agencies have confirmed that the Company's credit ratings remain unchanged.

Financing Capacity

The Group's capital expenditure programme consists of three parts – Hong Kong railway projects, Hong Kong property investment and development, and Mainland of China and overseas investments.

Capital expenditure for Hong Kong railway projects comprises investment in and expenditure relating to the new ownership projects of the South Island Line (East) and the Kwun Tong Line Extension, as well as outlays for maintaining and upgrading existing rail lines. The concession projects of the Express Rail Link (for the project cost of up to HK\$84.42 billion) and the Shatin to Central Link are generally funded by the Government, although for the latter the Company will share certain costs for the rolling stock and signalling systems attributable to the East Rail and Ma On Shan lines.

Capital expenditure for Hong Kong property investment and development comprises mainly of costs associated with work for property development, fitting-out and the renovation of shopping centres, and payments of portions of land premiums for certain property development projects. Expenditure for Mainland of China and overseas investments consists primarily of the equity contribution to BJMTR for the BJL14 project, remaining capital expenditure for Shenzhen Metro Longhua Line, and investment in the Longhua depot property development project.

Based on current programmes, total net capital expenditure for the next three years from 2016 to 2018 (inclusive) is estimated at HK\$27.3 billion for Hong Kong railway projects, HK\$5.2 billion for Hong Kong property investment and development, and HK\$7.5 billion for Mainland of China and overseas investments, giving a total of HK\$40.0 billion. Out of this total, it is estimated that HK\$20.4 billion will be incurred in 2016, HK\$10.3 billion in 2017, and HK\$9.3 billion in 2018.

In addition, with the approval of the Company's independent shareholders for the XRL Agreement obtained on 1 February 2016, and the approval of LegCo obtained on 11 March 2016 for Government's additional funding obligations under the XRL Agreement, the Company will have funding requirements of approximately HK\$12.88 billion in each of 2016 and 2017 to cover the aggregate special dividend of approximately HK\$25.76 billion (calculated based on the number of shares outstanding as at 31 October 2015).

The Group believes that based on its available cash balance and unused committed banking facilities, as well as its ready access to both the loan and debt capital markets, it will have sufficient financing capacity to fund the above capital expenditure projects and the special dividend.

Credit ratings	Short-term ratings*	Long-term ratings*
Standard & Poor's	A-1+/A-1+	AAA/AAA
Moody's	-/P-1	Aa1/Aa1
Rating & Investment Information, Inc. (R&I)	a-1+	AA+

* Ratings for Hong Kong dollar/foreign currency denominated debts respectively

Ten-Year Statistics

	2015	2014	2013	2012	2011	2010	2009	2008	2007#	2006
Financial										
Consolidated Profit and Loss Account <i>(HK\$ million)</i>										
Total Revenue	41,701	40,156	38,707	35,739	33,423	29,518	18,797	17,628	10,690	9,541
Operating profit before depreciation, amortisation and variable annual payment	19,011	19,639	15,795	16,133	17,058	14,951	13,069	14,009	14,229	11,032
Depreciation and amortisation	3,849	3,485	3,372	3,208	3,206	3,120	2,992	2,944	2,752	2,688
Interest and finance charges	599	545	732	879	921	1,237	1,504	1,998	1,316	1,398
Investment property revaluation gain/(loss)	2,100	4,035	4,425	3,757	5,088	4,074	2,798	(146)	8,011	2,178
Profit for the year	13,138	15,797	13,208	13,514	15,688	12,844	10,101	8,035	16,584	8,139
Profit attributable to equity shareholders arising from underlying businesses	10,894	11,571	8,600	9,618	10,468	8,657	7,303	8,185	8,571	5,962
Dividend proposed and declared	6,207	6,116	5,335	4,575	4,396	3,405	2,977	2,715	2,522	2,328
Earnings per share <i>(HK\$)</i>	2.22	2.69	2.25	2.31	2.69	2.21	1.77	1.43	2.98	1.48
Consolidated Statement of Financial Position <i>(HK\$ million)</i>										
Total assets	241,103	227,152	215,823	206,687	197,684	181,660	176,492	159,345	155,668	120,421
Loans, other obligations and bank overdrafts	20,811	20,507	24,511	23,577	23,168	21,057	23,868	31,289	34,050	28,152
Obligations under service concession	10,564	10,614	10,658	10,690	10,724	10,749	10,625	10,656	10,685	–
Deferred income	743	765	623	488	403	605	167	156	515	1,682
Total equity attributable to equity shareholders	170,055	163,325	152,557	142,904	131,907	121,914	110,479	101,431	94,889	79,242
Financial Ratios										
Operating margin (%)	38.7	38.4	37.2	36.1	36.3	37.0	50.6	53.0	55.4	54.7
Operating margin (excluding Mainland of China and international subsidiaries) (%)	53.3	53.1	53.4	53.6	55.6	55.1	53.8	53.2	55.9	55.3
Net debt-to-equity ratio (%)	11.3	7.6	11.8	11.0	11.6	12.3	24.9	40.6	46.5	35.1
Interest cover (<i>times</i>)	14.4	15.2	11.5	13.0	14.5	10.5	7.1	6.0	9.0	6.7
Employees										
Hong Kong										
Corporate management and support departments	1,792	1,756	1,676	1,600	1,486	1,362	1,319	1,235	1,530	823
Station commercial businesses	182	170	158	148	144	144	137	125	138	82
Operations	10,891	10,404	10,033	9,460	9,244	9,026	8,789	8,708	8,937	4,521
Projects	2,684	2,764	2,804	2,495	2,109	1,794	1,365	995	942	260
Property and other businesses	1,384	1,350	1,305	1,273	1,282	1,291	1,242	1,170	1,141	832
Mainland of China and international businesses	194	180	182	224	179	212	239	197	135	112
Outside of Hong Kong										
Offshore employees	8,157	7,530	7,078	6,955	6,851	6,672	7,059	1,646	1,311	733
Total	25,284	24,154	23,236	22,155	21,295	20,501	20,150	14,076	14,134	7,363

	2015	2014	2013	2012	2011	2010	2009	2008	2007 [#]	2006
Hong Kong Transport Operations										
Revenue car-km operated (<i>thousand</i>)										
Domestic and Cross-boundary services	284,487	273,771	269,141	260,890	254,407	253,067	247,930	245,856	128,041	115,784
Airport Express	23,242	23,232	23,216	23,134	19,603	19,833	19,643	19,891	19,956	20,077
Light Rail	11,034	10,728	10,554	10,453	10,166	9,586	8,950	8,984	755	–
Total number of passengers (<i>thousand</i>)										
Domestic Service	1,577,457	1,547,757	1,474,659	1,431,040	1,366,587	1,298,714	1,218,796	1,205,448	915,755	866,754
Cross-boundary Service	114,241	113,049	111,362	109,707	103,881	99,954	94,016	93,401	8,243	–
Airport Express	15,725	14,881	13,665	12,695	11,799	11,145	9,869	10,601	10,175	9,576
Light Rail	176,149	174,199	171,652	167,210	161,289	154,522	143,489	137,730	11,100	–
Bus	50,537	50,404	47,738	45,962	43,956	40,883	37,522	34,736	2,757	–
Intercity	4,080	4,348	4,324	4,028	3,787	3,244	2,921	3,220	285	–
Average number of passengers (<i>thousand</i>)										
Domestic Service – weekday average	4,577	4,490	4,297	4,148	3,968	3,770	3,544	3,514	2,662 [§]	2,523
Cross-boundary Service – daily average	313	310	305	300	285	274	258	255	– [®]	–
Airport Express – daily average	43	41	37	35	32	31	27	29	28	26
Light Rail – weekday average	493	487	482	466	451	433	402	385	– [®]	–
Bus – weekday average	145	144	137	131	126	118	107	99	– [®]	–
Intercity – daily average	11	12	12	11	10	9	8	9	– [®]	–
Average passenger km travelled										
Domestic and Cross-boundary services	11.0	11.0	11.0	10.9	10.9	10.9	10.7	10.4	7.9	7.7
Airport Express	28.4	28.6	29.0	29.0	29.4	29.4	29.5	29.4	29.5	29.7
Light Rail	2.7	2.7	2.8	2.8	2.8	2.8	2.9	3.0	3.0	–
Bus	4.5	4.5	4.5	4.5	4.5	4.5	4.6	4.6	4.6	–
Average car occupancy (number of passengers)										
Domestic and Cross-boundary services	65	67	65	65	63	60	57	55	58	58
Airport Express	19	18	17	16	18	17	15	16	15	14
Light Rail	44	45	45	45	45	45	46	46	45	–
Proportion of franchised public transport boardings (%)	48.5	48.1	46.9	46.4	45.4	44.3	42.6	42.0	26.7	25.0
HK\$ per car-km operated (Hong Kong Transport Operations)										
Total revenue	51.3	51.0	48.4	47.6	45.9	43.2	40.7	40.9	47.9	48.3
Operating costs	27.2	26.8	24.9	24.2	23.1	21.5	21.5	21.2	21.6	22.1
Operating profit	24.1	24.2	23.5	23.4	22.9	21.8	19.4	19.7	26.3	26.2
HK\$ per passenger carried (Hong Kong Transport Operations)										
Total revenue	8.73	8.52	8.31	8.20	7.99	7.86	7.74	7.82	7.55	7.48
Operating costs	4.63	4.47	4.27	4.18	4.02	3.91	4.08	4.07	3.40	3.43
Operating profit	4.10	4.05	4.04	4.02	3.97	3.94	3.67	3.76	4.15	4.05
Safety Performance										
Domestic Service, Cross-boundary Service and Airport Express										
Number of reportable events [^]	1,246	1,327	1,408	1,761	1,769	1,592	1,539	1,514	989	826
Reportable events per million passengers carried [^]	0.73	0.79	0.88	1.13	1.19	1.13	1.16	1.16	1.05	0.94
Number of staff and contractors' staff accidents ^Δ	64	57	67	58	44	46	60	42	26	23
Light Rail										
Number of reportable events [^]	157	122	118	151	164	165	146	136	6	–
Reportable events per million passengers carried [^]	0.89	0.70	0.69	0.90	1.02	1.07	1.02	0.99	0.54	–
Number of staff and contractors' staff accidents ^Δ	6	4	4	2	7	5	11	5	0	–

[#] After the Rail Merger on 2 December 2007, our Domestic Service comprises the Kwun Tong Line, Tsuen Wan Line, Island Line, Tung Chung Line, Tseung Kwan O Line, Disneyland Resort Line, as well as lines acquired through the Rail Merger, which are the East Rail Line excluding Cross-boundary Service, West Rail Line and Ma On Shan Line. After the Rail Merger, we also gained new passenger services including the Cross-boundary Service, Light Rail, Bus and Intercity.

[§] The figure includes one month's post-merger passenger numbers of East Rail Line excluding Cross-boundary service, West Rail Line and Ma On Shan Line. For the full year of 2007 including pre-merger operations, comparable combined passenger number for the Domestic Service (as adjusted for interchange passengers) would have been 3,364,000.

[®] No figure is shown as there were only 1 month's post-merger passenger numbers. For the full year of 2007 including pre-merger KCR operations, passenger numbers of the services were 252,000 for Cross-boundary Service, 377,000 for Light Rail, 92,000 for Bus and 9,000 for Intercity.

[^] Reportable events are occurrences affecting railway premises, plant and equipment, or directly affecting persons (with or without injuries), that are reportable to the Secretary for Transport and Housing, Government of the Hong Kong SAR under the Mass Transit Railway Regulations, ranging from suicides/attempted suicides, trespassing onto tracks, to accidents on escalators, lifts and moving paths.

^Δ Any accident connected with the operation of the railway or with the maintenance thereof, which is notifiable to Railway Branch, Electrical & Mechanical Services Department according to MTR Ordinance, as a result of which an employee of the Corporation or of a contractor with the Corporation is suffering 'fatal injury', 'serious injury', or unable to fully carry out his / her normal duties for a period exceeding 3 days immediately after the accident.

Investor Relations

Investor and MTR Corporation

The Company has maintained an active presence in the international capital markets. Our corporate governance and disclosure practices have made us a recognised leader in investor relations practices in Asia. We engage actively with our wide base of institutional and retail investors, with whom we maintain a positive relationship. This approach reflects our belief that shareholder value benefits from clearly communicating the Company's strategies, business development and future outlook.

General Meeting for the XRL Agreement and XRL Arrangements

A General Meeting was held on 1 February 2016 to vote on the Resolution relating to the terms of the XRL Agreement and the XRL Arrangements. Only shareholders independent of the Hong Kong Government were eligible to vote at the General Meeting. Those independent shareholders who voted, voted overwhelmingly by 99.83% in support of the Resolution.

Communications were enhanced during the period through different channels to provide transparent and comprehensive information on the XRL Arrangements to shareholders, research analysts and proxy advisors. In addition to the issuance of the Circular, a hotline, a website and public notices were also made available to our shareholders.

Communicating with Institutional Investors

Our engagement with the investment community has made MTR one of the most widely covered listed companies in Hong Kong. A significant number of local and international brokers provide coverage on the Company, many on a regular basis. We are also followed by a wide range of institutional investors.

Management makes every effort to maintain a dialogue with the investment community to ensure a thorough

understanding of the Company and its business strategies. To this end, we participate regularly in investor conferences and roadshows. During 2015, about 370 meetings were held with institutional investors and research analysts in Hong Kong and overseas.

Access to Information

To provide stakeholders with equal and timely access to important Company information, we make extensive use of the corporate website. The Investor Information section offers a level of information disclosure in readily accessible form. Financial reports, patronage figures, together with other Company news and stock exchange filings, are easily accessible on the website.

In addition to the shareholder services offered by Computershare, the Company's dedicated hotline answered 37,595 enquiries from individual shareholders in 2015.

Index and Recognition

The Company remains a constituent member of various highly regarded indexes world-wide, including the Dow Jones Sustainability Index Asia Pacific, the FTSE4Good Indexes, the Hang Seng Corporate Sustainability Index, Asia ex-Japan Carbon Disclosure Leadership Index from the CDP and MSCI Global Sustainability Indexes. During 2015, MTR achieved a "AAA" rating in the MSCI Global Sustainability Indexes, making it a global leader among road and rail transport companies.

For the 27th consecutive year, our Annual Report also achieved recognition in the "Hong Kong Management Association 2015 Best Annual Report Awards", with the 2014 report winning the "Silver Award" under the "General Category". The 2014 report also won the "Silver Award" in "Transportation & Leasing" under the "Traditional Annual Report Category" in the 2015 "International Annual Reports Awards" organised by MerComm, Inc. in New York.

Key Shareholder Information

Financial Calendar 2016

Announcement of 2015 annual results	11 March
Annual General Meeting	18 May
Last day to register for 2015 final dividend	23 May
Book closure period	24 May to 27 May
2015 final dividend payment date	On or about 13 July
Announcement of 2016 interim results	August
2016 interim dividend payment date	October
Financial year end	31 December

Principal Place of Business and Registered Office

MTR Corporation Limited, incorporated and domiciled in Hong Kong.
MTR Headquarters Building, Telford Plaza, Kowloon Bay, Kowloon,
Hong Kong

Telephone: (852) 2993 2111

Facsimile: (852) 2798 8822

Share Information

Listing

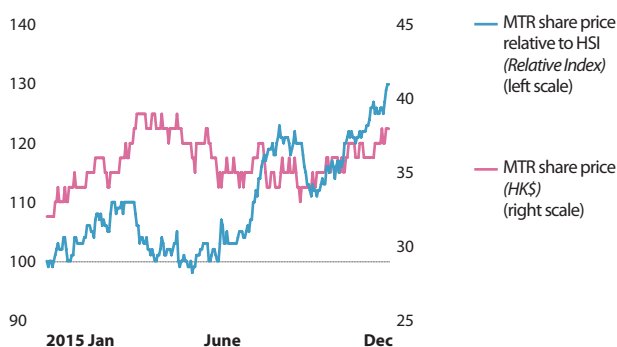
MTR Corporation Limited's shares are listed on the Stock Exchange of Hong Kong. In addition, shares are traded in United States through an American Depository Receipt ("ADR") Level 1 Programme sponsored by JPMorgan Chase Bank, N.A.

Ordinary Shares *(as at 31 December 2015)*

Shares outstanding	5,858,228,236 shares
Hong Kong SAR Government Shareholding	4,434,552,207 shares (75.7%)
Free float	1,423,676,029 shares (24.3%)

Market Capitalisation *(as at 31 December 2015)* HK\$224,956 million

Share Price Performance



Dividend Policy

Subject to the financial performance of the Company, the Company intends to follow a progressive dividend policy. We also expect to pay two dividends each financial year with interim and final dividends payable around October and July respectively.

Dividend per Share

	<i>(in HK\$)</i>
2014 Total Dividend	1.05
2015 Interim Dividend	0.25
2015 Final Dividend	0.81

ADR Level 1 Programme

ADR ratio to Ordinary share	1:10
Depository Bank	J.P. Morgan Chase & Co. P.O. Box 64504 St. Paul, MN 55164-0504 U.S.A.

Stock Codes

Ordinary Shares

The Stock Exchange of Hong Kong	66
Reuters	0066.HK
Bloomberg	66 HK

ADR Level 1 Programme

MTRJY

Annual Report 2015

Shareholders can obtain copies of our annual report by writing to:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong

If you are not a shareholder, please write to:

Corporate Affairs Division, MTR Corporation Limited
MTR Headquarters Building, Telford Plaza, Kowloon Bay,
Kowloon, Hong Kong

Our annual/interim reports and accounts are also available online at our corporate website at <http://www.mtr.com.hk>

Shareholder Services

Any matters relating to your shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

Computershare Hong Kong Investor Services Limited,
17M Floor, Hopewell Centre,
183 Queen's Road East, Wan Chai, Hong Kong

Telephone: (852) 2862 8628

Facsimile: (852) 2529 6087

Shareholder Enquiries

Shareholders are, at any time, welcome to raise questions and request information (to the extent it is publicly available) from the Board and management by writing to the Company Secretary, MTR Corporation Limited, MTR Headquarters Building, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong. Any such letter from the Shareholders should be marked "Shareholders' Communications" on the envelope.

Our enquiry hotline is operational during normal office hours:

Telephone: (852) 2881 8888

Investor Relations

For enquiries from institutional investors and securities analysts, please contact:

Investor Relations Department, MTR Corporation Limited,
MTR Headquarters Building, Telford Plaza, Kowloon Bay,
Kowloon, Hong Kong

Email: investor@mtr.com.hk

Cathy
MTR Volunteer





Creating a Sustainable Future

Corporate Responsibility

Our aim is to grow sustainably as a Company while contributing to the development of our communities. To achieve this, we aim to meet the needs of stakeholders today in a way that takes into account their future needs.

We strive to achieve this by ensuring our customers' needs are met, treating employees with respect, using natural resources efficiently, managing our impact on the environment and contributing to communities. We see our ability to create value not only for shareholders, but also for communities, as we connect and build communities with railway lines and property developments, provide employment opportunities, invest in communities through outreach programmes and foster a sustainable living environment. Underpinning our operations is our sustainable financial model, which aims to provide reasonable returns to capital providers while achieving our goals responsibly.

For the past 16 years, we have provided a detailed account of our approach and performance in these areas through our annual Sustainability Report. The report includes our disclosures related to the Stock Exchange of Hong Kong's requirements on environmental, social and governance topics.

Governance and Policies

MTR's Vision, Mission and Values ("VMV") embody our commitment to responsible corporate action, and are supported by a strong corporate governance framework.

All MTR entities are bound by clear policies and management directives, beginning with the Corporate General Instructions and its attendant Corporate Responsibility Policy and Corporate Sustainability Policy. The Board's Corporate Responsibility Committee oversees implementation, providing guidance and reporting on such issues to the Board of Directors. A Corporate Responsibility Steering Committee, which is chaired by the Legal Director and Secretary, cascades and champions responsible business practices across MTR. The Company's Code of Conduct was revised in 2015, among other things to incorporate sustainable practices.

We also implement a Supplier Code of Practice, which was launched in 2008. This provides a basic, compulsory behavioural framework for ethical standards, human and labour rights, and supply chain management. Full compliance with the code is a requirement of all procurement contracts. Suppliers are also responsible for ensuring that their own suppliers comply with the code.

How we Operate as a Business

Safety

Providing passengers with a safe and reliable service is the bedrock of our operations, and allows us to leverage our existing franchise into new areas of growth. Our Safety First culture covers care for customers, staff, contractors and anyone else who legitimately enters our facilities. We invest heavily in maintenance to ensure our assets contribute to enhanced safety conditions and conduct initiatives designed to address safety issues. Our efforts to ensure continuous improvement in safety saw a 6.1% reduction in reportable incidents on the Hong Kong heavy rail network in 2015 compared with 2014.

Escalator safety is a prime concern, with senior citizens and children especially at risk, together accounting for about half of all incidents involving escalators. We made this issue a particular focus in 2015, helping to reduce the reportable events involving escalators on the Hong Kong heavy rail network by about 6.5% over 2014. The project to standardise door chimes across the heavy rail network was completed early in 2015, helping to achieve a 22% reduction in door-related reportable events compared with 2014. Safety enhancement initiatives for Light Rail also made good progress.

Eight awards including two "Gold Awards" were received in the "14th Hong Kong Occupational Safety & Health Award" in recognition of our Safety-First culture and improvements in safety management standards.

In our construction projects, we continued to implement safety initiatives and programmes not only for staff but for contractors on site. In addition to meetings and our regular bi-monthly health campaigns, we made a HK\$1 million sponsorship for the purchase of light duty working platforms to help small and medium-sized contractors.

We have enhanced the corporate safety governance framework for MTR subsidiaries and affiliates based on a benchmarking study of international best practices. The resulting enhancements to the framework include extending safety assessments by headquarters to cover major changes in operations and enhancing the regular corporate safety governance review process. We are also conducting surveys at all levels on how to strengthen our safety culture across the Company.

Environment and Natural Resources

The Company aims to become one of the most resource-efficient and ecologically sustainable railways and property service providers in the world. An electrically-powered mass railway is widely seen as the most environmentally sustainable way to transport growing urban populations, offering relatively cleaner air, less congested roads and better use of land.

Our Climate Change Statement and Corporate Biodiversity policies commit us to managing environmental issues. The independently audited ISO 14001 environmental management system certification process fosters accountability among employees and partners, while our Green Procurement Policy encourages sustainability practices in our supply chain. We are also responding to climate change, guided by the latest recommendations from leading scientists, using adaptation and mitigation strategies.

Our approach to environmental issues begins with Environmental Impact Assessments at the start of major construction and operations activities. We also implement comprehensive environmental management and monitoring plans for impacts relating to noise, air and water quality, waste, energy and biodiversity and climate change.

Improving energy efficiency is an important objective and we continue to find ways to reduce energy consumption, with a target to reduce by 21% the electricity consumed per passenger-kilometre in our heavy rail network compared with 2008 levels by 2020. As at 31 December 2015, the Company had achieved a reduction of 16.1%.

In 2010 we became the first company involved in property development in Hong Kong to implement voluntary environmental standards in a systematic way with a commitment that a number of our new residential property developments would achieve as a minimum the Hong Kong BEAM Plus Gold certification.

We continued to implement the "MTR Malls Food Waste Reduction Pledge", which has encouraged our food and beverage tenants to minimise potential waste at source and promote food waste reduction practices.

We also take care to protect habitats and natural assets. During construction of the Western extension of the Island Line, we undertook measures to conserve the historic tree walls near Kennedy Town Station and are continuing to manage the ecologically sensitive wetlands around our Lok Ma Chau Spur Line and West Rail Line projects.

Our People

The dedication and commitment of our staff is at the heart of MTR's success. Guided by our VMV, we strive to inspire, engage and develop our staff so they can achieve excellence.

During 2015 we conducted 40 workshops and seminars to strengthen our corporate culture and held activities to raise awareness of the revised Code of Conduct. The Work Improvement Team ("WIT") programme has continued to encourage collective innovation, continuous improvement and staff engagement. To promote the WIT culture across our businesses worldwide, a 2015 Global WIT Conference was held in June 2015 with participants from our operations outside of Hong Kong.

Various manpower resourcing initiatives were implemented in support of both current operational needs and future business growth in Hong Kong, the Mainland of China and internationally. Recruitment campaigns including walk-in recruitment days, job fairs and graduate recruitment seminars were carried out and 1,806 new hires were taken on during 2015 in Hong Kong.

To strengthen our ability to mobilise staff across the Company's operations world-wide, a Global Resources Pool is in place. A Global Mobility Policy was also introduced to provide consistent relocation terms across MTR's global subsidiaries.

Our Customers

An average of 5.56 million passengers use our network in Hong Kong each weekday and our train services have a profound impact on the daily lives of many people in our city.

To understand their needs, we engage customers through various channels, from regular surveys to customer group meetings. A Customer Experience Management Model has been established to understand what matters most to customers and identify ways to enhance their end-to-end journey experience. Journey mapping exercises on different customer segments have led to enhancements such as trial schemes for time-to-next-train information in front of entry gate at concourse and better signage.

To maintain its high level of service, the Company invested over HK\$7 billion in 2015 on maintenance or enhancements, resulting in improvements ranging from more frequent rail services to more comfortable compartments and stations. In addition, we are now committed to spend in excess of HK\$9 billion over several years on new trains and signalling systems. We also offered approximately HK\$2.4 billion of ongoing fare concessions and promotions in 2015, with 2015/2016 seeing a further HK\$500 million.

Corporate Responsibility

How we Contribute to Society

Each year, through a variety of activities drawing upon the goodwill of our employees and on our assets, we continue to support initiatives targeting youth, the arts and communities.

Youth

MTR has a long-standing commitment in working with young people to reach their full potential.

In September 2015, the Company launched "Youth Connect", a new platform to house our existing and new youth development programmes. Youth Connect reflects our holistic approach to realising our goal of empowering young people so that they have the skills, motivation and perspectives to build and create a bright future for themselves and their communities.

Youth Connect initiatives leverage our strengths, namely our network, resources and expertise, to keep communities informed of issues that are impacting youth. It also allows us to engage with and understand young people better, and provide them with opportunities, skills and experiences. In July 2015, we formed our youth think tank, Youth Forum. The forum comprises 14 young people aged between 19 and 29, who provide us with feedback on early stage ideas on our services so that we can better understand our customer needs, particularly from a youth perspective. At the same time, they are offered to behind-the-scenes visits to our operating facilities and soft-skills training.

Other key initiatives under Youth Connect include our "Train' for Life's Journeys" and "Friend' for Life's Journeys" programmes. The sixth year of "Friend' for Life's Journeys" was launched in 2014/2015 with about 120 secondary school students participating. In summer 2015, the seventh year of "Train' for Life's Journeys" involved around 100 secondary school students.

In September 2015, in conjunction with The Hong Kong Council of Social Service and supported by Asian Charity Services we organised the "Cross-Sector Summit on Pathways to Employment", which brought together over 270 representatives from the business, NGO and education sectors to explore ways to build effective bridges for young people as they move from education to work. We will be launching an online Community Innovation Platform in 2016 to continue the collective brainstorming of solutions that builds effective pathways to employment for young people.

Arts

The "art in mtr" programme enriches the travelling environment of the MTR network through high quality works of art in stations and various art events.

In 2015, we organised various events to support aspiring local artists by showcasing their talent at the "arttube", our

"mini gallery" at Central Station. At other stations across our network, we host regular, temporary exhibitions of two - and three-dimensional artworks under the "art in mtr - roving art" programme. Among them, in August 2015 we showcased innovative household design solutions created by Hong Kong students to improve the daily lives of people with special needs.

The "art in station architecture" programme currently showcases 60 pieces of works by established local and international artists from Australia, the Mainland of China, Japan, New Zealand, South Korea, Taiwan and the US. There are also 55 community art galleries throughout the MTR network, providing venues for people to display their artistic talent.

Supporting our Communities

The year 2015 saw the tenth anniversary of the "More Time Reaching Community" scheme, with 255 community projects involving over 6,000 volunteers bringing assistance to thousands of people. In addition, approximately HK\$8.2 million was donated to charitable causes such as the Community Chest and we provided free advertising space to 50 non-profit organisations to support their work.

The annual event to support healthy living, MTR HONG KONG Race Walking 2015, took place on 13 September 2015. It raised a record HK\$1.42 million for the Hospital Authority's Health InfoWorld, to support its work on enhancing disease management skills and promoting healthy living. Co-organised by MTR Corporation and the Hong Kong Amateur Athletic Association, the event brought together people from all walks of life.

The MTR Gallery, an interactive exhibition corner at Kowloon Station, will be a new community outreach initiative to strengthen our ties with the community. We will also offer 12 shops along the West Rail Line to social enterprises.

Recognition for Corporate Responsibility

The Company increased its already high level of global recognition for corporate responsibility during 2015.

The Company remains a constituent member of relevant investor indexes, including the Dow Jones Sustainability Index Asia Pacific, the FTSE4Good Indexes, the Hang Seng Corporate Sustainability Index, Asia ex-Japan Carbon Disclosure Leadership Index from the CDP and MSCI Global Sustainability Indexes. During 2015, MTR achieved a "AAA" rating in the MSCI Global Sustainability Indexes, making MTR a global leader among road and rail transport companies.

More broadly, MTR was awarded the "10 Years Plus Caring Company Logo" by the Hong Kong Council of Social Service and was given a "Hong Kong Corporate Citizenship Award - Silver Award" in the Enterprise Category by the Hong Kong Productivity Council.

Risk Management

System Features

Business units across the Company embrace the Company's Enterprise Risk Management ("ERM") framework that underpins their day-to-day business activities. The framework provides a simple and effective management process to identify and review risks across all business units of the organisation, and prioritise resources to manage those risks that arise. It also gives management a clear view of the significant risks facing the Company and is used to support decision making and project execution, in turn helping to deliver better business performance.

The Board, on an ongoing basis and with the assistance of the Risk Committee, oversees the Company's ERM framework, reviews the Company's top risks and emerging risks and conducts an annual review of the effectiveness of the ERM system. The duties of the Risk Committee and work performed during the year are set out in the Risk Committee Report (pages 126 to 127) of this Annual Report.

The Enterprise Risk Committee ("ERC"), which is chaired by the Legal Director & Secretary and comprises management representatives from key business functions, has accountability for the ERM framework. The ERC steers the implementation and improvement of the framework, reviews the Company's top risks and key emerging risks every quarter, and also reports the key risks to the Executive Committee and the Risk Committee, on a quarterly basis, and to the Board on a six monthly basis.

Business units establish their own arrangements for implementing a risk management process consistent with the principles of the Company's ERM framework and capture identified risks in risk registers which are reviewed regularly. Each risk is evaluated by the likelihood of the identified risk and the consequence of the risk event taking into consideration the control measures in place. A risk matrix is used to determine risk ratings (E1 – E4), E1 being a very high risk and E4 being a low risk. The risk ratings reflect the required management attention and risk treatment effort.

The Company's risks are rigorously identified, assessed and managed. While risk taking is inevitable in the course of business, the Company's appetite for risk varies, but is particularly low in certain areas, such as in relation to safety and the provision of a reliable transport service.

All risks are ranked and their treatment is determined by a combination of likelihood and consequence according to a risk matrix, which takes account of risk appetite.

The highest category of risks, "E1", is subject to Board, Risk Committee and Executive oversight.

Management Process for Significant Risks

The Company takes proactive measures to identify, evaluate and manage significant risks arising from its recurrent and growth businesses and from the constantly changing business environment. Various risk management strategies have been established by the Board taking into account the advice of the Executive Committee to identify, assess and mitigate risks, including in the areas of construction, business operations, finance, treasury, safety, legal / regulatory, and political / reputational risks.

The Executive Committee also ensures that the Company has appropriate insurance coverage in place to transfer risks, where it is effective and cost efficient to do so.

When a new project or business venture is initiated, and as new and emerging issues are perceived to pose significant risks to the well-being of the existing business, the business units will conduct risk identification and devise corresponding mitigation measures. The ERM Team within the Legal & Procurement Division also maintains a list of running issues and risk drivers pertinent to the changing business environment and external environment, which assists the ERC to identify potential significant risks that may emerge.

The ERC, the Executive Committee and the Risk Committee review the enterprise risk profile and brainstorm emerging risks quarterly to ensure significant risks are captured. Identified significant risks are then evaluated using the risk matrix, and risk control owners are identified to follow through the implementation of risk controls.

Significant risks currently being managed include:

- **Corporate reputation and trust.** As a company which is subject to continuous public scrutiny, events such as programme delays and cost overruns on our new railway projects, train service disruptions and the enforcement of the Company's luggage size restriction all impact on the Company's reputation. An enhanced communication plan, including regular media briefings and community engagement, has been implemented to provide more timely and transparent information to stakeholders on key issues.
- **New railway projects programme and cost.** As the Company has made known to the public before, its major new railway projects in Hong Kong continue to face various challenges, including a shortage of workers and the close proximity of construction activities to the operational railway and urban developments. The programmes and costs to completion for each of the new railway projects were updated in 2015 with more certainty, other than the Shatin to Central Link, for which the review will be completed later in 2016.

Risk Management

- **Major railway service incidents.** In 2015, our heavy rail service experienced 13 incidents (seven incidents under the Company's control) which resulted in service disruptions of 31 minutes or more, compared to 12 such incidents in 2014 (nine incidents under the Company's control). The root causes of these delays were generally associated with isolated system issues. For individual incidents, investigations or technical studies were conducted to identify opportunities for continuous improvement.
- **System crowdedness.** The patronage on our heavy rail network has continued to grow over the years, resulting in system crowdedness. In 2015, heavy rail patronage was 1.9% higher than in 2014. Crowded trains and longer on-platform waiting times are being managed to enhance customer satisfaction. The Company has undertaken to upgrade the signaling system on many of its lines, which will allow more frequent train services to be run in the longer term. The Shatin to Central Link, when commissioned, will also help to increase capacity and to re-distribute the patronage in the network and ease the crowdedness.
- **Workforce transition and increased manpower needs.** After having operated for more than 35 years, a stream of our staff will reach retirement age in the following few years. At the same time, additional manpower will be required to prepare for the opening of the new extensions. To manage the workforce transition and tackle manpower shortages in specific scarce job disciplines, various measures, including proactive manpower sourcing, advanced succession planning, skill and competency enhancement and, where appropriate, deferred retirements will be considered.
- **System and staff safety.** The Company's continued efforts to improve safety resulted in a 6.1% reduction in reportable events on the Hong Kong heavy rail network in 2015. Escalator safety remains a focus area and promotion of passenger safe travel behaviours on escalators will continue. Our Light Rail system is susceptible to collisions with road vehicles, bicycles and pedestrians due to the sharing of the same right of way with other road users. In 2015, we had seen major improvement in the number of cases of Light Rail/road vehicle collisions compared to that in 2014. However, collisions with pedestrian in 2015 had increased. The Company has instituted different measures aiming to improve the safety performance of Light Rail, including defensive driving skills training for train and bus captains, development and implementation of more prominent signage or traffic signals at road junctions, and engineering and operational controls. Separately, the number of staff assault cases has increased over the past year and, for better staff safety protection, various measures, including wider use of body-worn video cameras, conflict management training and counselling services, have been implemented.
- **New railway projects interfacing with the operating railway.** As the major new railway projects progress, there will be more interfacing works with potential impact on the operating railway. This risk is being managed through strengthened collaboration between the Operations and the Projects teams, including the implementation of risk control measures, and surveillance and monitoring arrangements before commencement of the relevant work.
- **Asset Upgrade and Replacement.** The Company has previously announced the "Rail Gen 2.0" programme, in relation to which a number of major projects, including signaling system replacement, introduction of new trains and mixed fleet operation, will be implemented concurrently in the next ten years in order to transform the current operating railway. The Company recognises the potential aggregated risk of these major projects and has established a Works Management Office to oversee the integrated management and the combined risks of the works, with regular reports to the Board Capital Works Committee and the Board on forward-looking risks and mitigations.
- **Performance of subsidiaries and associates.** The Company has a number of subsidiaries and associates which operate independent businesses in Hong Kong, the Mainland of China and overseas. A management governance framework has been implemented to ensure an appropriate level of control and oversight as a shareholder of these subsidiaries and associates. The control and oversight is exercised in a number of forms, e.g. imposition of internal controls, requirements for consent or consultation, reporting requirements and assurance. Our financial return on investment outside of Hong Kong is also subject to exchange rate volatility.

Process of System Effectiveness Review

On behalf of the Executive Committee, the ERC evaluates the effectiveness of the ERM system at least annually. The Legal Director & Secretary, who chairs the ERC, presented the ERM system effectiveness review results for the year ended 31 December 2015 to the Executive Committee, which confirmed the review results on 4 February 2016, and to the Risk Committee on 26 February 2016.

For the year ended 31 December 2015, the Risk Committee, with delegated authority from the Board, evaluated the effectiveness and adequacy of the Company's ERM system and concluded that it was effective and adequate, based on the following considerations:

- Changes in the nature and extent of significant risks and responsiveness to changes in business / external environment;
- Scope/quality of management's ongoing monitoring of risks, including "deep-dive" reviews and other presentations on selected risk areas by the relevant Members of the Executive Committee and managers;
- Extent and frequency of communication of risk monitoring results to the Risk Committee and the Board;
- Results of annual internal certification of risk management effectiveness within the Departments and Business Units;
- Results from the internal audit report on the ERM framework;
- Results of the in-house ERM 2015 survey;
- Implementation of risk management in subsidiaries and associates; and
- Benchmarking / roundtable / peer group ideas exchange.

Continuous Process Improvement

The ERC conducted a thorough review of the ERM framework in mid-2014 and identified a number of enhancement initiatives. The majority of these initiatives have been implemented in 2015, for example, the computer-based ERM training programme has been rolled out to all newly promoted or recruited managers, and a series of ERM workshops were attended by over 110 department heads and senior managers, at which the participants discussed risks relating

to the Company's businesses and shared ideas in raising risk awareness. In October 2015, the Company launched its "Risk Awareness Week" for the second year to continue to promote risk awareness across all levels of the organisation. In November 2015, the ERC launched an internal ERM survey to review the general awareness and acceptance of risk management practices among 260 managers and senior supervisors and the overall results were positive, showing a high level of risk awareness and risk management acceptance.

We also keep ourselves abreast of the latest developments in risk management through reviews with users, cross-industry benchmarking and experience sharing. As part of the "Risk Awareness Week", external risk experts were invited to share best practices on risk management with executives, senior managers, members of the ERC and divisional risk coordinators.

Key activities undertaken in 2015 include:

- Sharing and learning of best practice in ERM implementation through the eighth UK ERM Roundtable and the seventh HK ERM Roundtable meetings;
- Cross-learning among risk managers from different business units, including subsidiaries and associates in the Mainland of China and overseas, through the in-house "Audit & Risk Forum" held in Hong Kong in June 2015 and periodic teleconference meetings; and
- Conducting regular meetings with our insurance consultant for risk analysis.

Corporate Governance Report

Corporate Governance Practices

Corporate governance is the collective responsibility of Members of the Board and the Board firmly believes that good corporate governance is fundamental in ensuring the proper management of the Company in the interests of all of its stakeholders. The Board continues to seek to identify and formalise best practices for adoption by the Company.

This Report describes the corporate governance best practices that the Company has adopted and specifically highlights how the Company has applied the principles of the Code Provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules.

Corporate Governance Code Compliance

During the year ended 31 December 2015, the Company has complied with the Code.

The Company has taken positive steps to enhance its corporate governance framework to prepare for compliance with the new requirements introduced by HKSE in the Code following its consultation conclusions regarding risk management and internal control, which have come into effect for accounting periods beginning on or after 1 January 2016.

The Board of Directors

Overall Management

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

Board Composition

The Company currently has 13 Independent Non-executive Directors out of the 19 Members on the Board. The Chief Executive Officer of the Company ("CEO") is the only executive Director on the Board.

Chairman and Chief Executive Officer

The posts of the Chairman and the CEO are distinct and separate.

The non-executive Chairman is responsible for chairing and managing the operations of the Board, as well as monitoring the performance of the CEO and other Members of the Executive Directorate. Apart from making sure that adequate information about the Company's business is provided to the Board on a timely basis, the Chairman provides leadership for the Board, and ensures views on all issues are exchanged by all Directors (including non-executive Directors of the Company (the "NEDs")) in a timely manner, by encouraging them to make a full and effective contribution to the discussion.

On 7 July 2015 and pursuant to Article 117 of the Articles of Association, The Financial Secretary Incorporated appointed Professor Frederick Ma Si-hang, a Member of the Board, as the Chairman of the Company with effect from 1 January 2016. On 30 November 2015, Professor Ma was re-designated as a NED from an Independent Non-executive Director of the Company ("INED"). Dr Raymond Ch'ien Kuo-fung retired from the position of the Chairman and as a Member of the Board, the Chairman and a member of the Corporate Responsibility Committee, as well as a Member of the Nominations Committee of the Company when his tenure ended on 31 December 2015.

Mr Lincoln Leong Kwok-kuen, formerly the Acting CEO, was appointed as the CEO for a term of three years commencing from 16 March 2015, and continues to be a member of the Executive Directorate of the Company. He was also appointed as a Member of the Board and a Member of the Corporate Responsibility Committee of the Company with effect from the same date.

As head of the Executive Directorate and chairman of the Executive Committee (which comprises nine other Members of the Executive Directorate and Deputy Director – Operating), the CEO is responsible to the Board for managing the business of the Company, as well as performing a bridging function between the Board and the Executive Directorate.

Having assessed the responsibilities of the Members of the Executive Directorate and in light of the increasing demand for stakeholder engagement and external communications, a new Corporate Affairs Division (expanded from the Corporate Relations Department) headed by Ms Linda So Ka-pik, Corporate Affairs Director (appointed with effect from 16 September 2015) was established in the second half of 2015, and a new Engineering Division headed by Dr Peter Ronald Ewen, Engineering Director (appointed with effect from 22 February 2016) was established in early 2016 to drive excellence in the engineering functions of the Company and to strengthen its control and check and balance processes.

Independent Non-executive Directors

As mentioned earlier, the Company has 13 INEDs out of the 19-member Board and the INEDs now comprise more than two-thirds of the Company's Board. This ratio well exceeds the Listing Rules requirement to have independent non-executive directors representing at least one-third of a board.

During 2015, changes in INEDs were as follows:

1. Dr Eddy Fong Ching was appointed as an INED with effect from 13 January 2015 and was elected at the Company's 2015 Annual General Meeting held on 20 May 2015 ("2015 AGM");
2. Mr Lau Ping-cheung, Kaizer and Dr Allan Wong Chi-yun were appointed as INEDs with effect from 11 August 2015;
3. Mr T. Brian Stevenson retired as an INED with effect from the conclusion of the 2015 AGM; and
4. Ms Christine Fang Meng-sang resigned as an INED with effect from 11 August 2015.

Government's Representatives

Government, through The Financial Secretary Incorporated, holds approximately 75.70% of the issued shares of the Company as at 31 December 2015, and is a substantial shareholder of the Company. The Chief Executive of the HKSAR, in the exercise of his right under Section 8 of the MTR Ordinance, has appointed three persons as "additional directors" of the Company (the "Additional Directors"). The Additional Directors are:

1. The office of the Secretary for Transport and Housing ("S for T&H", held by Professor Anthony Cheung Bing-leung);
2. The office of the Permanent Secretary for Development (Works) ("PS for D (Works)", held by Mr Hon Chi-keung (since 7 April 2015) and Mr Wai Chi-sing (up to 6 April 2015)); and
3. The office of the Commissioner for Transport ("C for T", held by Mrs Ingrid Yeung Ho Poi-yan).

The Additional Directors are treated for all purposes in the same way as other Directors and are, therefore, subject to the usual common law duties of directors, including to act in the best interests of the Company.

Another NED, Professor Chan Ka-keung, Ceajer, is Secretary for Financial Services & Treasury ("S for FS&T"). Like other Members of the Board, Professor Chan is subject to the requirement of retirement by rotation in accordance with the Articles of Association.

During 2015, changes in Government's representatives were as follows:

1. Mr Hon Chi-keung was appointed to the post of the PS for D (Works) with effect from 7 April 2015, and by virtue of his appointment, became a NED on the same date; and
2. Mr Wai Chi-sing retired from the post of PS for D (Works) with effect from 7 April 2015, and as a result, ceased to be a NED on the same date.

Appointment, Re-election and Removal of Members of the Board

A person may be appointed as a Member of the Board at any time either by the shareholders in general meeting or by the Board upon the recommendation of the Nominations Committee of the Company. For appointment to be made by the Company's shareholders, please refer to the "Appointment Procedure for Members of the Board of the Company", which is available on the website of the Company (www.mtr.com.hk). Directors who are appointed by the Board must retire at the first annual general meeting after their appointment. A Director who retires in this way is eligible for election at that annual general meeting. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment.

Excluding the Additional Directors, the Directors to retire by rotation at each annual general meeting of the Company are those Directors who were last elected or re-elected at the annual general meeting which was held in the third calendar year prior to the annual general meeting in question.

The Additional Directors may not be removed from office except by the Chief Executive of the HKSAR and are not subject to any requirement to retire by rotation.

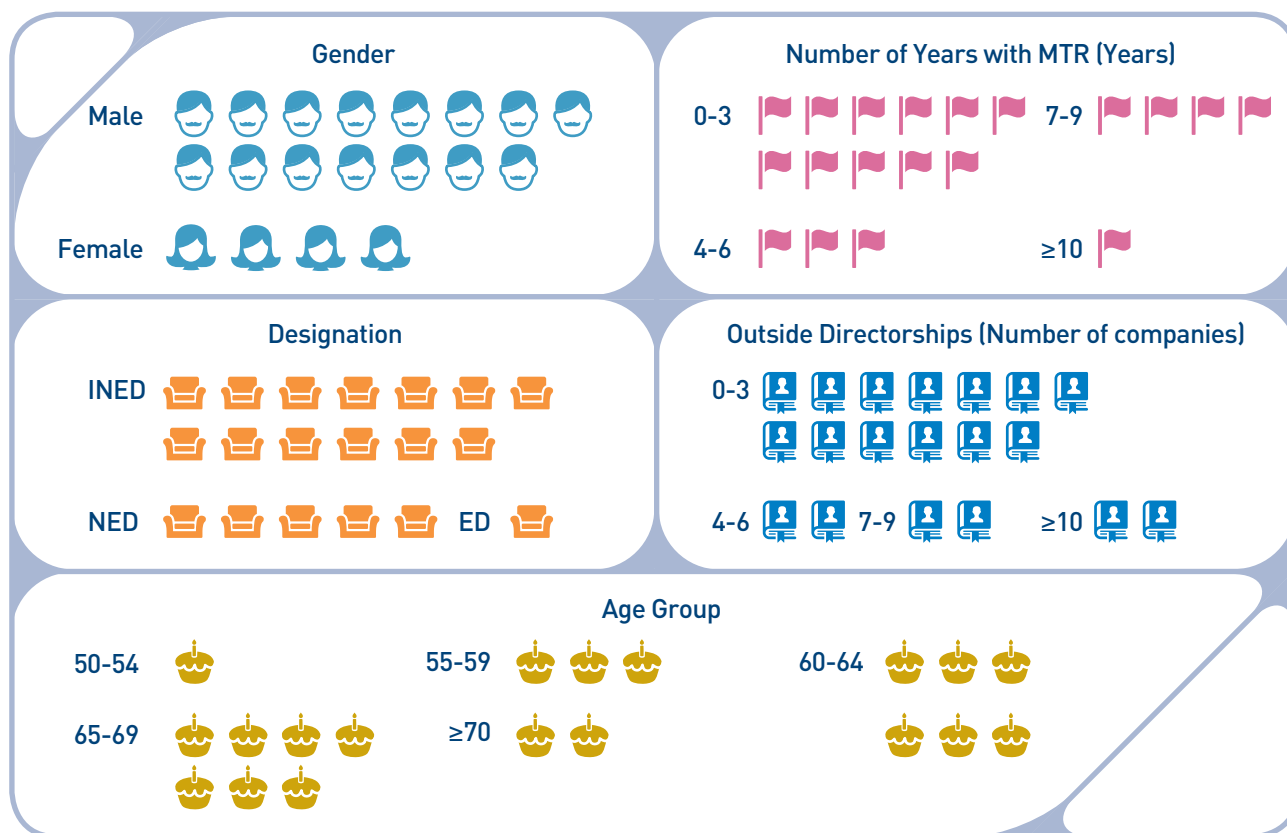
The Company has a service contract with each of the NEDs, with the exception of the three Additional Directors, specifying the terms of his/her continuous appointment as a NED and a Member of the relevant Board Committees, for a period not exceeding three years.

At the 2015 AGM, Dr Raymond Ch'ien Kuo-fung, Professor Chan Ka-keung, Ceajer, Dr Eddy Fong Ching, Mr James Kwan Yuk-choi, Mr Lincoln Leong Kwok-kuen, Mrs Lucia Li Li Ka-lai and Mr Benjamin Tang Kwok-bun retired from office pursuant to Articles 91 and 92 of the Articles of Association, and were re-elected/elected as Members of the Board at the 2015 AGM.

For details of the Members of the Board who will retire from office at the 2016 annual general meeting (the "2016 AGM") pursuant to the Articles of Association, please refer to the 2016 AGM Circular dated 14 April 2016 to the Company's shareholders – Proposed General Mandates to Issue and Buy Back Shares, Proposed Re-election/election of Retiring Directors, Proposed Election of a New INED and Notice of Annual General Meeting.

Corporate Governance Report

Board Diversity



The Company has a Board Diversity Policy (the “Policy”) which has been posted on the Company’s website (www.mtr.com.hk). The Policy sets out a clear objective and provides that the Company should endeavour to ensure that its Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective.

The Nominations Committee (the “Committee”) is required to give consideration to the Policy when identifying suitably qualified candidates to become Members of the Board, although Board appointments will continue to be made on a merit basis. The Committee, which already has an obligation to review the size, structure and composition of the Board on annual basis (the “Annual Review”), was delegated by the Board to be responsible for compliance with this Code provision, and the Board will review the Policy on a regular basis to ensure its continued effectiveness.

In March 2015, the Committee conducted:

- (i) the Annual Review;
- (ii) a review of the achievement of objectives pursuant to the Policy; and
- (iii) a review of a list of desirable skills/experience/perspectives for the Board (the “List”).

At the meeting, the Committee endorsed:

- (i) the effectiveness of the Policy;
- (ii) the List; and
- (iii) that the current size, structure and composition of the Board was appropriate with reference to the Company’s corporate strategy and business needs, the Policy and the List.

The Policy was taken into account by the Committee and the Board in the appointments of Mr Lau Ping-cheung, Kaizer and Dr Allan Wong Chi-yun as the Company’s new INEDs in August 2015. The appointments of Mr Lau and Dr Wong have added to the spectrum of skills, experience and diversity of perspectives in the Board (in particular, in the areas of capital works, construction, real estate and infrastructure projects), thereby enhancing the effectiveness of the Board.

Coming from diverse business and professional backgrounds, the NEDs actively bring their valuable experience to the Board for promoting the best interests of the Company and its shareholders. On the other hand, the INEDs contribute to ensuring that the interests of all shareholders of the Company are taken into account by the Board and that relevant issues are subject to objective and dispassionate consideration by the Board.

A list of Members of the Board and the Executive Directorate and their roles and functions is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange. Biographical details of each of the Members of the Board and the Executive Directorate are set out in the “Board and Executive Directorate” section (pages 132 to 139) of this Annual Report.

Statutory Confirmations

For the year ended 31 December 2015, the Company has received confirmation from each INED about his/her independence under the Listing Rules. As part of its duties set out in its Terms of Reference, the Nominations Committee has reviewed these confirmations and assessed the independence of the INEDs, and continues to consider each of them to be independent.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Company and make contribution to the development of the Company’s strategy and policies through independent, constructive and informed comments. In light of the Code provision on directors’ time commitments, the Chairman held a private Board meeting (without the presence of the CEO and other Members of Executive Directorate) in March 2015 to review the contribution required from a director to perform his/her responsibilities to the Company, and whether he/she is spending sufficient time in performing them.

Regarding disclosure of the number and nature of offices held by Members of the Board in public companies or organisations and other significant commitments as well as their identity and the time involved (the “Commitments”) to the issuer, all Members of the Board have disclosed their Commitments to the Company in a timely manner. The Company proactively forwards to each Board Member a set of “Declaration of Other Directorships, Major Appointments and Interests” (the “Declaration”) for review before each regular Board meeting to facilitate them in declaring any possible conflict of interest at the meetings. The Declaration of each Alternate Director will also be sent to him/her for update on a quarterly basis. In addition, each Member of the Board and each Alternate Director has confirmed his/her other directorships, major appointments and interests to the Company twice a year.

Apart from the three Additional Directors and Professor Chan Ka-keung, Ceajer (S for FS&T), Mrs Pamela Chan Wong Shui, Mr Vincent Cheng Hoi-chuen, Mr Lau Ping-cheung, Kaizer, Mrs Lucia Li Ka-lai, Mr Alasdair George Morrison and Mr Benjamin Tang Kwok-bun also sit on various government advisory committees.

Save as disclosed in this Annual Report, none of the Members of the Board and the Executive Directorate has any relationship

(including financial, business, family or other material or relevant relationships) between each other.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules (the “Model Code”). After having made specific enquiry, the Company confirms that the Members of the Board and the Executive Directorate had complied throughout the year with the Model Code. Senior managers, other nominated managers and staff who, because of their office in the Company, are likely to be in possession of Inside Information (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (“SFO”)), have also been requested to comply with the provisions of the Model Code.

Directors’ Insurance

As permitted under the Articles of Association, it has been the practice of the Company to arrange Directors’ and Officers’ (“D&O”) Liability Insurance for which Members of the Board and officers of the Company do not have to bear any excess. To ensure sufficient cover is provided, the Company undertakes an annual review of the Company’s D&O insurance policy in light of recent trends in the insurance market and other relevant factors. The review benchmarks the amount of cover against other similar companies and considers whether separate cover will be required for Members of the Executive Directorate or Members of the Board. The conclusion of the review in year 2015 was that the level of cover was adequate and, given this, together with the indemnity provided by the Company to Members of the Board, the broad policy wording and the financial strength of the insurance panel, no additional cover was required.

Corporate Governance Functions Review

In March 2015, the Board conducted an annual review of its Corporate Governance duties in accordance with its Terms of Reference on Corporate Governance Functions, and considered that the Company’s (i) policies and practices on corporate governance; (ii) approach to the continuous professional development of Directors and senior management; (iii) policies and practices on compliance with legal and regulatory requirements; and (iv) Code of Conduct and Directors’ Manual, are adequate and appropriate for the Company in light of its current corporate strategy. They will be kept under review in light of the changing legal and regulatory environment and any changes to the Company’s business.

The Terms of Reference on the Corporate Governance Functions are available on the websites of the Company (www.mtr.com.hk) and the Stock Exchange.

Corporate Governance Report

Board Proceedings

The Board meets in person regularly, and all Members of the Board have full and timely access to relevant information and may take independent professional advice at the Company's expense, if necessary, in accordance with the approved procedures.

The draft agenda for regular Board meetings is prepared by Legal Director and Secretary ("LD&S") and approved by the Chairman of the Company. Members of the Board are advised to inform the Chairman or LD&S not less than one week before the relevant Board meeting if they wish to include a matter in the agenda of the meeting. The agenda together with Board Papers are usually sent at least three days before the intended date of the Board meeting.

The Board meeting dates for the following year are usually fixed by LD&S with agreement of the Chairman, before communicating with other Members of the Board in the third quarter of each year.

At regular Board meetings, Members of the Executive Directorate together with senior managers report to the Board on their respective areas of business, including the railway operations, station commercial and retail related business, progress of projects, property and other businesses, financial performance, legal issues, safety governance, risk management and internal control systems, corporate governance, human resources, sustainability, corporate responsibility and outlook. The CEO Executive Summary was provided to the Board on a monthly basis, including a specific section on the overall progress status of the five new railway projects and their respective cost, with traffic light indicators, in addition to the overall strategies, principal issues and key events of the Company. These reports, together with the discussions at Board meetings, ensure that Members of the Board have a general understanding of the Company's business and provide information to enable them to make informed decisions for the benefit of the Company.

All Members of the Board have access to the advice and services of LD&S, who is responsible for ensuring that the correct Board procedures are followed and advising the Board on all corporate governance matters. Members of the Board also have full access to Members of the Executive Directorate as and when they consider necessary.

Material Interests and Voting

All Directors are required to comply with their common law duty to act in the best interests of the Company and have particular regard to the interest of the Company's shareholders as a whole. Amongst others, all Directors are required to declare the nature and extent of their interests, if any, in any

transaction, arrangement or other proposal to be considered by the Board at Board meetings.

Unless specifically permitted by the Articles of Association, a Director cannot cast a vote on any contract, transaction, arrangement or any other kind of proposal in which he/she has an interest and which he/she knows is material. For this purpose, interests of a person who is connected with a Director (including any of his/her associates) are treated as the interests of the Director himself/herself. Interests purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. A Director may not be included in the quorum for such part of a meeting that relates to a resolution he is not allowed to vote on but he shall be included in the quorum for all other parts of that meeting. This reduces potential conflicts which might otherwise arise between the Company's business and an individual Director's other interests or appointments.

If a conflict arises between the interests of the Company and those of Government, each Government-nominated Director is not included in the quorum for that part of the meeting which relates to the transaction, arrangement or other proposal being considered by the Board and in relation to which the conflict exists and is not allowed to vote on the related resolution.

There are a number of contractual arrangements that have been entered into between the Company and Government (and its related entities), some of which are continuing in nature. As Government is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The sections headed "Connected Transactions" and "Continuing Connected Transactions" (pages 149 to 166) of this Annual Report explains how, in accordance with the Listing Rules, these transactions are treated.

Matters to be decided at Board meetings are decided by a majority of votes from Directors allowed to vote, although the usual practice is that decisions reflect the consensus of the Board.

Board and Board Committee Meetings

The Board held 21 meetings in 2015 (including eight regular Board meetings, nine Special Board meetings and four Private Board meetings), well exceeding the requirement of the Code which requires every listed issuer to hold board meetings at least four times a year.

Regular Board Meetings

The Board held eight regular meetings in 2015. At each of these regular meetings, the Board reviewed and discussed matters relating to the Company's different businesses and

financial performance. In addition, other key matters discussed at these Board meetings included:

- Shareholder Analysis and Investors' Feedback;
- Directors' Manual Update;
- Changes of Board Members and changes in the composition of Board Committees;
- Annual Review of size, structure and composition of the Board;
- Annual Review of Corporate Governance Functions;
- Report on Internal Control System for the year ended 31 December 2014;
- Contract Awards relating to railway projects and property work;
- Property Development tender strategy;
- Tender for Advertising Sales Services;
- Tender Submission for overseas projects;
- Express Rail Link Update;
- South Island Line (East), Kwun Tong Line Extension and Shatin to Central Link Enabling Works Updates;
- Update of Programme and Funding Position of New Railway Projects;
- 2015 International Business Update and Business Development;
- Investment Project in the Mainland China;
- Review of various operations' capital asset refurbishment projects;
- 2014 Operational Performance Review and Service Reliability Initiatives;
- Principles for Revising MTR Fares under Fare Adjustment Mechanism in 2015;
- Fare Increase for Guangdong Line Through Train;
- 2016 Budget and Longer-Term Forecast;
- 2015 AGM;
- Election/Re-election of Directors at the 2015 AGM;
- 2015 Annual Pay Review;
- 2014 Annual Report and Accounts;
- 2015 Interim Report and Accounts;
- Sustainability Report 2014;
- Corporate Safety Governance Annual Report 2014;
- Enterprise Risk Management Annual Report 2014;
- Enterprise Risk Management Half Yearly Report;
- Octopus Business Review;
- Ngong Ping 360 Limited 2014 Annual Result;

- Competition Ordinance Update;
- Review of Code of Conduct;
- Changes to the Terms of Reference of the Corporate Responsibility Committee; and
- Proceedings of Audit Committee, Corporate Responsibility Committee, Capital Works Committee and Risk Committee.

The minutes of Board meetings are prepared by LD&S or her delegate with details of the matters considered by the Board and decisions reached, including any concerns raised by Members of the Board or dissenting views expressed. The draft minutes are circulated to all Members of the Board for their comment within a reasonable time after the meeting. The approval procedure is that the Board formally adopts the draft minutes at the subsequent meeting. If Members of the Board have any comments on the draft minutes, they will discuss it at that meeting, followed by a report on what has been agreed in the minutes of that meeting. Minutes of Board meetings are kept by LD&S and are open for inspection by all Members of the Board at the Company's registered office.

Members of the Board approved by circulation the award of a property development tender (the "Tender Transaction"), in relation to which a briefing of the transaction was provided to all Members of the Board. The Tender Transaction involved, among other things, the Company accepting the offer from Government of the terms of the lease modification for the relevant piece of land (the "Land Transaction"). Professor Chan Ka-keung, Ceajer (S for FS&T), S for T&H (Professor Anthony Cheung Bing-leung), PS for D (Works) (Mr Hon Chi-keung) and C for T (Mrs Ingrid Yeung Ho Poi-yan), who are all Government officials, had abstained from passing the relevant resolutions in writing to the extent relating to the Land Transaction. Subject as aforesaid, neither the substantial shareholder nor a Member of the Board has any interest in the Tender Transaction.

Special Board Meetings

The Chairman held nine Special Board meetings during the year, and a number of matters were covered, including property development tenders, a property investment proposal, the Express Rail Link project and a circular to shareholders in relation to the Express Rail Link project.

Private Board Meetings

The Chairman held four private Board meetings during the year. At these meetings, the Board discussed appointments and the performance of Members of the Executive Directorate, and Board Member succession.

The attendance record of each Member of the Board (and relevant Members of the Executive Directorate) during the year is set out on pages 110 to 111 of this Annual Report.

Corporate Governance Report

Meetings Held in 2015

	Regular Board	Special Board	Private Board	Audit Committee	Nominations Committee	Remuneration Committee	Capital Works Committee	Risk Committee	Corporate Responsibility Committee	Annual General Meeting
Number of Meetings	8	9	4	4	3	2	6	4	2	1
Members of the Board										
Non-executive Directors										
Professor Frederick Ma Si-hang (Chairman since 1 January 2016)	8/8 (Note 1)	8/9 (Note 1)	4/4 (Note 1)	4/4 (Note 1)	3/3 (Note 1)	(Note 1)			(Note 1)	1/1
Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)	6/8 (Note 2)	2/9 (Note 2)	4/4		3/3	0/2 (Note 2)				0/1 (Note 2)
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)	8/8	3/9 (Note 3)	4/4		3/3	2/2				0/1
Permanent Secretary for Development (Works) (Hon Chi-keung) (since 7 April 2015)	5/6 (Note 4)	2/7 (Note 4)	3/3				5/5 (Note 4)	0/3 (Note 4)		0/1
Commissioner for Transport (Ingrid Yeung Ho Poi-yan)	7/8 (Note 5)	5/9 (Note 5)	3/4 (Note 5)	4/4				4/4		0/1
Dr Raymond Ch'ien Kuo-fung (Chairman and a Member of the Board up to 31 December 2015)	8/8	9/9 (Note 6)	4/4		3/3 (Note 6)				2/2 (Note 6)	1/1
Permanent Secretary for Development (Works) (Wai Chi-sing) (up to 6 April 2015)	2/2	2/2	1/1				1/1 (Note 7)	1/1 (Note 7)		
Independent Non-executive Directors										
Pamela Chan Wong Shui	8/8	9/9	4/4		3/3				2/2	1/1
Dr Dorothy Chan Yuen Tak-fai	8/8	5/9	4/4			2/2	5/6			1/1
Vincent Cheng Hoi-chuen	7/8 (Note 8)	7/9 (Note 8)	4/4 (Note 8)			2/2 (Note 8)			1/2 (Note 8)	0/1
Dr Eddy Fong Ching (since 13 January 2015)	7/8	7/9	3/4	4/4 (Note 9)	(Note 9)					1/1
Edward Ho Sing-tin	6/8	6/9	3/4			2/2	6/6			1/1
James Kwan Yuk-choi	8/8	8/9	4/4				6/6	4/4		1/1
Lau Ping-cheung, Kaizer (since 11 August 2015)	3/3	1/2					2/2 (Note 10)		1/1 (Note 10)	
Lucia Li Li Ka-lai	8/8	6/9	4/4	4/4				4/4		1/1
Alasdair George Morrison	8/8	9/9 (Note 11)	4/4	3/4				4/4		1/1
Ng Leung-sing	7/8	8/9	2/4		2/3			4/4		1/1
Abraham Shek Lai-him	8/8	9/9 (Note 12)	3/4		(Note 12)		4/6		1/2 (Note 12)	1/1
Benjamin Tang Kwok-bun	8/8	8/9	4/4			(Note 13)	6/6 (Note 13)	4/4		1/1
Dr Allan Wong Chi-yun (since 11 August 2015)	3/3	1/2		1/1 (Note 14)			2/2 (Note 14)			
Christine Fang Meng-sang (up to 10 August 2015)	4/4	4/7	3/3		2/3 (Note 15)				1/1 (Note 15)	0/1
T. Brian Stevenson (up to conclusion of the 2015 AGM on 20 May 2015)	3/3	1/4 (Note 16)	2/2	2/2 (Note 16)		1/1 (Note 16)				1/1
Executive Director										
Lincoln Leong Kwok-kuen (CEO and a Member of the Board since 16 March 2015)	6/6	7/7 (Note 17)	2/2						2/2	1/1
Members of the Executive Directorate										
Gillian Elizabeth Meller (LD&S)									2/2 (Note 18)	
Morris Cheung Siu-wa (European Business Director)									2/2 (Note 19)	
Linda So Ka-pik (Corporate Affairs Director) (since 16 September 2015)									(Note 20)	

Notes:

- 1 Professor Frederick Ma Si-hang attended one Regular Board meeting, three Special Board meetings and one Private Board meeting by teleconference. Professor Ma ceased to be a member and the chairman of the Nominations Committee with effect from 30 November 2015. Professor Ma (i) was appointed as a member and the chairman of the Corporate Responsibility Committee and a member of each of the Nominations Committee and the Remuneration Committee; and (ii) ceased to be a member of the Audit Committee, all with effect from 1 January 2016.
- 2 The alternate director of Professor Chan Ka-keung, Ceajer attended two Regular Board meetings, three Special Board meetings, two Remuneration Committee meetings and the 2015 AGM. Professor Chan had not attended the Special Board meetings held on 26 and 30 June and 30 November 2015 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.
- 3 The alternate directors of Professor Anthony Cheung Bing-leung attended three Special Board meetings. Professor Cheung had not attended the Special Board meetings held on 26 and 30 June and 30 November 2015 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.
- 4 Mr Hon Chi-keung was appointed as a member of each of the Capital Works Committee and the Risk Committee, both with effect from 7 April 2015. The alternate director of Mr Hon attended one Regular Board meeting, one Special Board meeting and two Risk Committee meetings. Mr Hon had not attended the Special Board meetings held on 26 and 30 June and 30 November 2015 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.
- 5 The alternate director of Mrs Ingrid Yeung Ho Poi-yan attended one Regular Board meeting, one Special Board meeting and one Private Board meeting. Mrs Yeung had not attended the Special Board meetings held on 26 and 30 June and 30 November 2015 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.
- 6 Dr Raymond Ch'ien Kuo-fung attended four Special Board meetings by teleconference. Dr Ch'ien ceased to be a member and the chairman of the Corporate Responsibility Committee and a member of the Nominations Committee, all with effect from 1 January 2016.
- 7 Mr Wai Chi-sing ceased to be a member of each of the Capital Works Committee and the Risk Committee, both with effect from 7 April 2015.
- 8 Mr Vincent Cheng Hoi-chuen attended three Regular Board meetings, three Special Board meetings, one Private Board meeting, one Corporate Responsibility Committee meeting and one Remuneration Committee meeting by teleconference.
- 9 Dr Eddy Fong Ching was appointed as a member of the Audit Committee with effect from 13 January 2015, and became the chairman of the Audit Committee with effect from the conclusion of the 2015 AGM on 20 May 2015. He was also appointed as a member of the Nominations Committee with effect from 11 August 2015.
- 10 Mr Lau Ping-cheung, Kaizer was appointed as a member of each of the Capital Works Committee and the Corporate Responsibility Committee, both with effect from 11 August 2015.
- 11 Mr Alasdair George Morrison attended two Special Board meetings by teleconference.
- 12 Mr Abraham Shek Lai-him attended one Special Board meeting and one Corporate Responsibility Committee meeting by teleconference. Mr Shek was appointed as a member and the chairman of the Nominations Committee with effect from 30 November 2015 and ceased to be a member of the Corporate Responsibility Committee with effect from 1 January 2016.
- 13 Mr Benjamin Tang Kwok-bun was appointed as a member of the Remuneration Committee and ceased to be a member of the Capital Works Committee, both with effect from 1 January 2016.
- 14 Dr Allan Wong Chi-yun was appointed as a member of each of the Audit Committee and the Capital Works Committee, both with effect from 11 August 2015.
- 15 Ms Christine Fang Meng-sang ceased to be a member of each of the Nominations Committee and the Corporate Responsibility Committee, both with effect from 11 August 2015.
- 16 Mr T. Brian Stevenson attended one Special Board meeting by teleconference. He ceased to be a member and the chairman of the Audit Committee and a member of the Remuneration Committee, all with effect from conclusion of the 2015 AGM held on 20 May 2015.
- 17 Mr Lincoln Leong Kwok-kuen was appointed as CEO and a Member of the Board with effect from 16 March 2015. One Private Board meeting that he did not attend was held by the Chairman with non-executive Directors only.
- 18 Ms Gillian Elizabeth Meller ceased to be a member of the Corporate Responsibility Committee with effect from 1 January 2016.
- 19 Mr Morris Cheung Siu-wa ceased to be a member of the Corporate Responsibility Committee with effect from 1 January 2016.
- 20 Ms Linda So Ka-pik was appointed as a member of the Corporate Responsibility Committee with effect from 1 January 2016.

Corporate Governance Report

Board Committee Meetings

Two meetings of the Board committee, with a quorum of two, were held on 16 March and 13 August 2015 respectively to:

- consider the final dividend for the year ended 31 December 2014 and the 2014 Annual Report and Accounts and recommend the same for shareholders' approval at the 2015 AGM, and approve the Preliminary Announcement of Results; and
- approve the interim dividend for the six months ended 30 June 2015, the 2015 Interim Report and Accounts, and the Preliminary Announcement of Unaudited Results.

Induction Programme and Other Training

Induction Programme

On appointment to the Board, each Member of the Board (including Government nominated Directors) as well as each Alternate Director is given a comprehensive, formal and tailored induction programme on key areas of business operations and practices of the Company, as well as the general and specific duties of directors under general law (common law and legislation) and the Listing Rules. Each Member of the Executive Directorate, on appointment, is also given the same induction programme.

A tailor-made training programme covering the roles of a director from the strategic, planning and management perspective, as well as the essence of corporate governance and the trends in these areas, was therefore arranged for the new Members of the Board (Dr Eddy Fong Ching, Mr Lau Ping-cheung, Kaizer, Dr Allan Wong Chi-yun and the PS for D (Works) (Mr Hon Chi-keung)), and Ms Linda So Ka-pik (Corporate Affairs Director), all of whom were appointed in 2015.

A Familiarization Programme to understand key areas of the Company's business operations was also provided to the above new Board Members and Corporate Affairs Director.

The above training programme and Familiarization Programme have also been arranged for Dr Peter Ronald Ewen, who was appointed as Engineering Director and a Member of the Executive Directorate of the Company with effect from 22 February 2016.

All Members of the Board (including their Alternate Directors) are also given a Directors' Manual on their appointment which

sets out, amongst other things, directors' duties, and the Terms of Reference of the Board on its Corporate Governance Functions and of its Board Committees. The Directors' Manual is updated from time to time to reflect developments in those areas, following a report on the same at relevant Board meeting(s). The latest update to the Directors' Manual was approved on 12 January 2016.

Training and Continuous Professional Development – Members of the Board and the Executive Directorate

To assist Members of the Board and the Executive Directorate in continuing their professional development, LD&S recommends them to attend relevant seminars and courses. The costs for such training are borne by the Company.

In May 2015, a site visit to the Company's first property development project in Mainland China, namely Tiara, was arranged for Members of the Board to provide first-hand information on progress of the development and the sales arrangements. In addition, a site visit to different construction sites of the Express Rail Link project was arranged for Members of the Capital Works Committee to allow them to acquire a better understanding of the site conditions and construction progress. In addition, a Light Rail train ride and a visit to a Light Rail stop to gain better understanding of the physical operational environment was arranged for Members of the Risk Committee during the year.

The Company's external legal advisor gave a briefing to Members of the Board and Members of the Executive Directorate on the topics covered in the annual updates to the Directors' Manual at the 13 January 2015 and 12 January 2016 Board Meetings, as well as an update on the Competition Ordinance in November 2015.

Save for the above, materials on the subject of corporate governance are also provided to Members of the Board, their Alternate Directors and Members of the Executive Directorate from time to time to keep them abreast of latest developments on this front.

Each Member of the Board and the Executive Directorate has also provided to the Company a record of training he/she received during the year.

In 2015, the Members of the Board and the Executive Directorate received training in the following areas:

Directors	Induction Training*	Board Briefings on Company's Businesses / Site Visits	Reading Regulatory Updates and / or attending relevant training sessions
Members of the Board			
Non-executive Directors			
Professor Frederick Ma Si-hang (appointed as Chairman since 1 January 2016)	N/A	√	√
Professor Chan Ka-keung, Ceajer (S for FS&T)	N/A	√	√
S for T&H (Professor Anthony Cheung Bing-leung)	N/A	√	√
PS for D (Works) (Hon Chi-keung) (since 7 April 2015)	√	√	√
C for T (Ingrid Yeung Ho Poi-yan)	N/A	√	√
Dr Raymond Ch'ien Kuo-fung (Chairman and a Member of the Board up to 31 December 2015)	N/A	√	√
PS for D (Works) (Wai Chi-sing) (up to 6 April 2015)	N/A	√	√
Independent Non-executive Directors			
Pamela Chan Wong Shui	N/A	√	√
Dr Dorothy Chan Yuen Tak-fai	N/A	√	√
Vincent Cheng Hoi-chuen	N/A	√	√
Dr Eddy Fong Ching (since 13 January 2015)	√	√	√
Edward Ho Sing-tin	N/A	√	√
James Kwan Yuk-choi	N/A	√	√
Lau Ping-cheung, Kaizer (since 11 August 2015)	√	√	√
Lucia Li Li Ka-lai	N/A	√	√
Alasdair George Morrison	N/A	√	√
Ng Leung-sing	N/A	√	√
Abraham Shek Lai-him	N/A	√	√
Benjamin Tang Kwok-bun	N/A	√	√
Dr Allan Wong Chi-yun (since 11 August 2015)	√	√	√
Christine Fang Meng-sang (up to 10 August 2015)	N/A	√	√
T. Brian Stevenson (up to conclusion of the 2015 AGM on 20 May 2015)	N/A	√	√
Executive Director			
Lincoln Leong Kwok-kuen (since 16 March 2015)	N/A	√	√
Members of the Executive Directorate			
Lincoln Leong Kwok-kuen (appointed as CEO since 16 March 2015)	N/A	√	√
Morris Cheung Siu-wa (European Business Director)	N/A	√	√
Jacob Kam Chak-pui (Operations Director)	N/A	√	√
Stephen Law Cheuk-kin (Finance Director)	N/A	√	√
Gillian Elizabeth Meller (Legal Director and Secretary)	N/A	√	√
Linda So Ka-pik (Corporate Affairs Director) (since 16 September 2015)	√	√	√
David Tang Chi-fai (Property Director)	N/A	√	√
Philco Wong Nai-keung (Projects Director)	N/A	√	√
Jeny Yeung Mei-chun (Commercial Director)	N/A	√	√

* Applicable to new Directors who were appointed in 2015.

Corporate Governance Report

Training and Continuous Professional Development – Senior Executives

A comprehensive and tailored training programme is developed for Senior Executives of the Company. This programme consists of a series of workshops, seminars and benchmarking visits which are organised on an on-going basis.

This training programme serves to further enhance the business acumen, leadership and management skills of the Senior Executives.

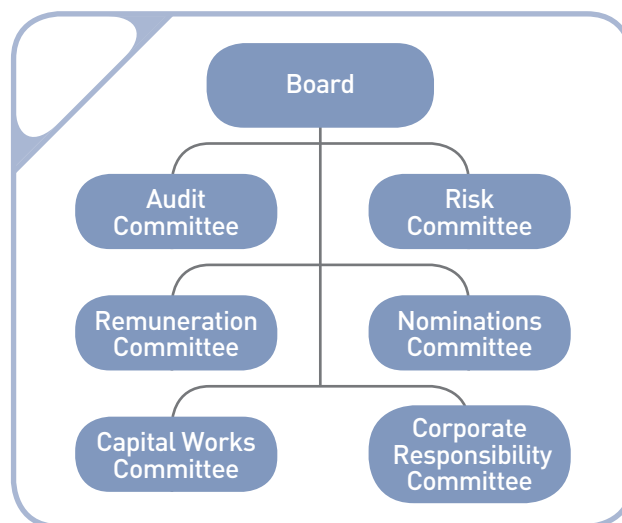
To support the enhancement of the business acumen of senior executives, professors from business schools of renowned universities are engaged to share cutting-edge knowledge across business topics. For learning from other leading businesses in Hong Kong, senior executives from leading companies in different industries are invited to share their success stories, management practices, personal wisdom and insights in the Company's in-house seminars. Besides, the Executive Excellence Consortium, which was established with five other founding organisations, provides Senior Executives with a platform for cross-organisational learning and benchmarking of best business practices. Senior Executives has actively participated in the in-house seminars and the Executive Excellence Consortium.

Accountability

The Members of the Board are responsible for the consolidated accounts of the Group. The consolidated accounts are prepared on a going concern basis and give a true and fair view of the financial position of the Group as at 31 December 2015, and of the Group's financial performance and cash flows for the year then ended. In preparing the accounts for the year ended 31 December 2015, the Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the accounts for the year ended 31 December 2015, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the External Auditor are set out on page 121 of this Annual Report.

In support of the above, the accounts presented to the Board have been reviewed by the Members of the Executive Directorate. For both the annual and interim reports and accounts, the Finance Division is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new and amended accounting standards and requirements, as well as changes in accounting policies adopted by the Group, have been discussed and approved at the Audit Committee before adoption by the Group.

Board Committees



As an integral part of good corporate governance, the Board has established a total of six Board Committees to oversee particular aspects of the Company's affairs. Each of these Committees is governed by its respective Terms of Reference which are available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange.

All Committees are provided with sufficient resources to discharge their duties and can seek independent professional advice, at the Company's expense, to perform their responsibilities.

The attendance record of each Member of the Board Committees in 2015 is shown on pages 110 to 111 of this Annual Report.

Audit Committee

Details of the Audit Committee, including its duties and work performed during the year are set out in the Audit Committee Report (pages 124 to 125) of this Annual Report.

Risk Committee

Details of the Risk Committee, including its duties and work performed during the year are set out in the Risk Committee Report (pages 126 to 127) of this Annual Report.

Remuneration Committee

Members of the Remuneration Committee:

INEDs

Dr Dorothy Chan Yuen Tak-fai (Chairman)

Mr Vincent Cheng Hoi-chuen

Mr Edward Ho Sing-tin

Mr Benjamin Tang Kwok-bun (since 1 January 2016)

Mr T. Brian Stevenson
(up to conclusion of the 2015 AGM held on 20 May 2015)

NEDs

Professor Frederick Ma Si-hang (since 1 January 2016)
Professor Chan Ka-keung, Ceajer (S for FS&T)
Secretary for T&H (Professor Anthony Cheung Bing-leung)

Duties of Remuneration Committee

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

This model which the Committee has adopted is set out in its Terms of Reference and is consistent with the Code.

Work Performed by Remuneration Committee

In 2015, the Remuneration Committee held two meetings. In accordance with its Terms of Reference, the Remuneration Committee performed the following work during the year:

- Approved the 2014 Remuneration Report as incorporated in the 2014 Annual Report;
- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2014 performance period;
- Reviewed and approved restricted share and/or performance share awards for eligible employees under the 2014 Share Incentive Scheme;
- Conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2015;
- Determined and approved the arrangement with regard to Mr Stephen Law Cheuk-kin's completion of contract as Finance Director ("FD") on 1 July 2016;
- Determined and approved the remuneration packages for the following Members of the Executive Directorate:
 - Mr Lincoln Leong Kwok-kuen as CEO (from 16 March 2015);
 - Ms Linda So Ka-pik as Corporate Affairs Director (from 16 September 2015); and
 - Dr Peter Ronald Ewen as Engineering Director (from 22 February 2016).

Nominations Committee

Members of the Nominations Committee:

INEDs

Mr Abraham Shek Lai-him (member and Chairman, since 30 November 2015)
Mrs Pamela Chan Wong Shui
Dr Eddy Fong Ching (since 11 August 2015)
Mr Ng Leung-sing
Ms Christine Fang Meng-sang (up to 10 August 2015)
Professor Frederick Ma Si-hang (member and Chairman, up to 29 November 2015)

NEDs

Professor Frederick Ma Si-hang (since 1 January 2016)
Professor Chan Ka-keung, Ceajer (S for FS&T)
S for T&H (Professor Anthony Cheung Bing-leung)
Dr Raymond Ch'ien Kuo-fung (up to 31 December 2015)

Duties of Nominations Committee

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

The Committee will give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become Members of the Board, although Board appointments will continue to be made on a merit basis.

As mandated by the Board, the Committee reviews the size, structure, and composition of the Board on an annual basis.

Work Performed by Nominations Committee

In 2015, the Nominations Committee held three meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Recommendation to the Board on:
 - Effectiveness of the Board Diversity Policy;
 - Re-appointment of Board Members retiring at the 2015 AGM and offering themselves for re-election/election, and endorsement of the independence confirmation of each INED;
 - Nomination of new INEDs; and
- Annual review of the size, structure and composition of the Board and reporting of the review results to the Board.

Corporate Governance Report

Capital Works Committee

Members of the Capital Works Committee:

INEDs

Mr Edward Ho Sing-tin (Chairman)
Dr Dorothy Chan Yuen Tak-fai
Mr James Kwan Yuk-choi
Mr Lau Ping-cheung, Kaizer (since 11 August 2015)
Mr Abraham Shek Lai-him
Dr Allan Wong Chi-yun (since 11 August 2015)
Mr Benjamin Tang Kwok-bun (up to 31 December 2015)

NED

PS for D (Works) (Mr Hon Chi-keung, since 7 April 2015 and Mr Wai Chi-sing, up to 6 April 2015)

Duties of Capital Works Committee

The principal duties of the Capital Works Committee are to oversee any new works project (including railway and property projects in Hong Kong and overseas) involving design and/or construction with a capital value in excess of a value as assessed by the Board and to report to the Board on the progress of the relevant projects, from both a programme and cost perspective.

Work Performed by Capital Works Committee

In 2015, the Capital Works Committee held six meetings. In accordance with its Terms of Reference, the Committee performed the following work:

- Review progress against approved project programmes for the five major railway extension projects in Hong Kong, i.e. West Island Line, Kwun Tong Line Extension, South Island Line (East), Express Rail Link and Shatin to Central Link (the "Major Railway Extension Projects");
- Review on expenditure against approved budgets for the Major Railway Extension Projects, including cost control systems in place;
- Overview on Property Projects in Hong Kong and Mainland of China with respect to programme and cost;
- Overview on railway projects being undertaken overseas with respect to programme and cost; and
- Review of Internal Audit programme and results of projects-related audits.

Corporate Responsibility Committee

Members of the Corporate Responsibility Committee:

NEDs

Professor Frederick Ma Si-hang (member and Chairman, since 1 January 2016)
Dr Raymond Ch'ien Kuo-fung (member and Chairman, up to 31 December 2015)

INEDs

Mrs Pamela Chan Wong Shui
Mr Vincent Cheng Hoi-chuen
Mr Lau Ping-cheung, Kaizer (since 11 August 2015)
Ms Christine Fang Meng-sang (up to 10 August 2015)
Mr Abraham Shek Lai-him (up to 31 December 2015)

Members of the Executive Directorate

Mr Lincoln Leong Kwok-kuen (CEO, since 16 March 2015)
Ms Linda So Ka-pik (Corporate Affairs Director, since 1 January 2016)
Human Resources Director (since 1 January 2016)
Mr Morris Cheung Siu-wa (European Business Director, up to 31 December 2015)
Ms Gillian Elizabeth Meller (LD&S, up to 31 December 2015)

Duties of Corporate Responsibility Committee

In accordance with the revised Terms of Reference effective from 1 January 2016, the duties of the Corporate Responsibility Committee are to oversee the Company's stakeholder engagement and external communications strategies; recommend to the Board for approval of the Corporate Responsibility Policy; monitor and oversee the implementation of the Company's corporate responsibility policy and initiatives; identify emerging corporate responsibility issues arising from external trends; review the Company's annual Sustainability Report and recommend endorsement by the Board; review the Company's environmental and social performance and provide updates to the Board on matters falling within the Committee's remit as required. Please also refer to the "Corporate Responsibility" section (pages 96 to 100) of this Annual Report.

Work Performed by Corporate Responsibility Committee

In 2015, two Corporate Responsibility Committee meetings were held. The major work performed by the Committee in 2015 included:

- Reviewed the implementation of the Company's community and staff engagement programme around youth development, e.g. Youth Forum and Youth Talks;
- Reviewed the Company's sponsorship and donations for the first nine months and the focus of the Company's in-kind and financial contributions to the community;
- Reviewed the feedback on the 2014 Sustainability Report and the planned approach to the 2015 Sustainability Report;
- Reviewed the direction of the Company's corporate responsibility activities;
- Reviewed and recommended the Board to approve the 2014 Sustainability Report; and
- Reviewed the Company's Art in Station programme.

Company Secretary

Ms Gillian Elizabeth Meller, LD&S and a Member of the Executive Directorate, reports to the CEO. All Members of the Board have access to the advice and services of LD&S, who is responsible for ensuring that the correct Board procedures are followed and advises the Board on all corporate governance matters. On appointment to the Board, LD&S has arranged for each of the Directors (including Alternate Directors) to receive a comprehensive, formal and tailored induction programme on key areas of business operations and practices of the Company, as well as the general and specific duties of directors under general law (common law and legislation) and the Listing Rules. To assist Directors' continuing professional development, LD&S recommends Directors to attend relevant seminars and courses and arranges for training on relevant new or amended legislation or other regulations to be provided at Board meetings. The costs for such training are borne by the Company. During 2015, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

Risk Management and Internal Control Systems

The Board is responsible for the internal control system and the risk management system (the "ERM" system) of the Company and its subsidiaries, setting appropriate policies and reviewing the effectiveness of the internal control system and the ERM system. The internal control system and the ERM system with processes put in place by the Board, Management and other personnel, are designed to manage (as opposed to eliminate) the risk of failure and provide reasonable assurance, and not absolute assurance, against material misstatement or loss, regarding the achievement of objectives in the following areas:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Effectiveness of risk management

The Executive Committee is responsible for implementing the Board's policies on risk management and internal controls. In fulfilling its responsibilities, the Executive Committee identifies and evaluates the risks faced by the Company for consideration by the Board, and designs, operates and monitors a suitable internal control system and an ERM system which implement the policies adopted by the Board. The Executive Committee is accountable to the Board for monitoring the internal control system and the ERM system, and providing assurance to the Board that it has done so, together with a confirmation that these systems are effective and adequate. In addition, all employees have responsibility for internal controls and risk management within their areas of accountability.

Systems Overview

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

Supported by members of the Executive Committee, the CEO, who chairs the Executive Committee, is responsible to the Board for the conduct of the business of the Company.

A number of committees have been established to assist the Executive Committee in the management and control of the Company's various core businesses and functions. Key committees include:

- Operations Executive Management Committee
- Property Executive Management Committee
- Project Control Group
- Investment Committee
- International Business Executive Committee
- China Business Executive Committee
- Information Technology Executive Management Committee
- Financial Planning Committee
- Corporate Safety Management Committee
- Enterprise Risk Committee
- Executive Tender Panel/Tender Board
- Corporate Responsibility Steering Committee
- Crisis Management Team
- Corporate Information Security Management Committee
- Cost Control Committee (Projects)
- Executive Cost Control Committee (Projects)

The ERM system is an essential and integral part of the Company's corporate governance framework and helps to sustain business success and create value for stakeholders. It involves a corporate-wide systematic risk management process which aims to assist the Executive Committee and individual business unit managers to manage the key risks facing the Company and supports the Board in discharging its corporate governance.

More details of the features of the ERM system, the process used to identify, evaluate and manage significant risks, the significant risks being managed, and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section (pages 101 to 103) of this Annual Report.

The Board, assisted by the Risk Committee, oversees the Company's ERM system on an ongoing basis. The duties of the

Corporate Governance Report

Risk Committee and work performed in 2015 are set out in the Risk Committee Report (pages 126 to 127) of this Annual Report.

In addition, the Board, assisted by the Audit Committee, oversees the Company's internal control system on an ongoing basis, and reviews the effectiveness of the internal control system at least annually.

Control Activities and Processes

To ensure the efficient and effective operation of business units and functions, and safety of the operating railway and construction works in railway projects, Corporate General Instructions ("CGIs"), divisional/departmental procedures and manuals, committees, working groups and quality assurance units are established to achieve, monitor and enforce internal controls and evaluate their effectiveness.

CGIs and various departmental procedures and manuals are established for preventing or detecting unauthorised expenditures/payments, safeguarding the Company's assets, ensuring the accuracy and completeness of accounting records and timely preparation of reliable financial information.

All Department Heads, including General Managers/Project Managers for overseas subsidiaries/projects, are responsible for ensuring compliance with the statutes and regulations applicable to their own functional units. They are required to identify any new or updated statutes, to assess their impact on the Company's operations, and to review at least once a year that the relevant statutes/regulations have been complied with. Potential and actual non-compliances are also reported to and followed up by Department Heads and significant cases are reported to the respective Divisional Directors and the Executive Committee. Issues relating to compliance with statutes and regulations, including potential and actual non-compliances, and the status of rectification and actions taken to prevent recurrence are reported annually to the Executive Committee and Audit Committee.

Divisional Directors, Department Heads, including General Managers/Project Managers for overseas subsidiaries/projects, are required to conduct annual assessments and certification on the effectiveness of internal controls and risk management systems within their areas of responsibility.

A whistle-blowing policy has been put in place to deal with concerns related to fraudulent or unethical acts or non-compliances with laws and the Company's policies that have or could have significant adverse financial, legal or reputational impacts on the Company. The policy applies to all staff, parties who deal with the Company as well as the general public. Every half year, a summary of all whistle-blowing cases handled by the Whistle Blowing Panel, plus staff complaints handled by the Human Resources Management Department

and management initiated investigations are reported to the Executive and the Audit Committee.

The Company has developed a system with established policies, processes and procedures across all relevant Division(s) and Department(s) for complying with the handling and dissemination of Inside Information. The system covers the following:

- Issuance of a set of guidelines setting out:
 - (i) the processes for identifying, assessing and escalating potential Inside Information to the Executive Committee and the Board; and
 - (ii) the responsibilities of officers in preserving the confidentiality of Inside Information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff;
- Providing training sessions to all Members of the Board and the Executive Directorate and the Officers who are likely to be in possession of Inside Information. On-going training sessions on the latest developments/requirements of the Securities and Futures Ordinance ("SFO") will also be arranged when appropriate;
- Sending regular reminders to the Company's Officers on the continuing obligations of the Company under the SFO with a copy of the Guidelines and the web link of the training session videos;
- Updating the Company's Code of Conduct to take account of the SFO; and
- Conducting an annual review of compliance with the SFO by the Executive Committee, with a report to the Board.

In addition, every employee is bound by the Code of Conduct issued by the Company, amongst other things, to keep Inside Information in strict confidence.

The Board considers that the Company's existing system and measures are effective and appropriate compliance mechanisms to safeguard the Company and its Officers in discharging their disclosure obligations in respect of Inside Information.

The Internal Audit Department plays a major role, independent of the Company's management, in assessing and monitoring the risk management and internal control systems of the Company. The Head of Internal Audit reports to the CEO and has direct access to the Audit Committee. The Department has unrestricted access to information that allows it to review all aspects of the Company's risk management, control and governance processes. On a regular basis, it conducts audits on financial, operational and compliance controls, and the risk management functions of the Company and its subsidiaries. Relevant members of the management

team are responsible for ensuring that control deficiencies highlighted in internal audits are rectified within a reasonable period. The Department produces an annual internal audit plan for the Audit Committee's approval. The audits are selected based on a risk assessment to ensure that business activities with higher risk are covered. On a half-yearly basis, the Head of Internal Audit reports to the Audit Committee his opinion on the adequacy and effectiveness of the Company's internal control system.

Evaluation of the Effectiveness of the Risk Management System

For the year ended 31 December 2015, the Risk Committee, with delegated authority from the Board, had evaluated and concluded the effectiveness of ERM system of the Company. The details are set out in the "Process of System Effectiveness Review" of the Risk Management section (page 103) of this Annual Report.

Evaluation of the Effectiveness of the Internal Control System

For the year ended 31 December 2015, the Audit Committee, with delegated authority from the Board, had evaluated and concluded the effectiveness of internal control system of the Company and its subsidiaries based on the following:

- Regular interviews with members of the Executive Committee in relation to key business operations, internal control and compliance issues, both financial and non-financial;
- Review of significant issues arising from internal audit reports and the external audit report;
- Private sessions with internal and external auditors;
- Review of annual assessment and certification of internal controls from members of the Executive Committee, management of overseas subsidiaries and Department Heads in their areas of responsibility;
- Review of papers submitted/prepared by the Executive Committee and Internal Audit Department ("IAD") covering periodic Financial Reports and Accounts; preview of Annual Accounting and Financial Reporting issues; Annual Internal Audit Plan; IAD's Half-yearly Reports; Whistle-blowing Reports; Report on the Company's Risk Management and Internal Control System; Report on Evaluation of Effectiveness of IAD; and Reporting of Outstanding Litigation and Compliance Issues; and
- The results from internal audits performed during the year on the effectiveness of internal control system of the Company and its subsidiaries.

Evaluation of the Adequacy of Resources of the Company's Accounting, Financial Reporting and Internal Audit Functions

For the year ended 31 December 2015, the annual assessment performed by Finance Division and IAD concluded that there were adequate resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions.

The Company is committed to recruit, train and develop a team of qualified and competent accountants in order to oversee the Group's financial reporting and other accounting-related matters. A process to capture and update relevant laws, rules and regulations applicable to the reporting and accounting function is in place. Designated officers will ensure relevant standards and ordinances including Hong Kong Financial Reporting Standards, the Listing Rules and the Companies Ordinance under their responsibility are complied with. Resources and provisions required to deliver the accounting and financial reporting function are critically reviewed during the annual budgeting exercise. Company-wide recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. Adherence to the process is confirmed on an annual basis by the designated officers to the FD who will conduct a formal annual review and report the review results to the Audit Committee. Based on the above, the Audit Committee considered the resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget were adequate.

In terms of internal audit, the Company is also committed to recruit, train and develop a team of qualified and competent internal auditors to provide independent and objective assurance and consulting services designed to add value and improve the Company's operations. A process to capture updated standards and best practices relating to internal audit is in place. Proper recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. The Head of Internal Audit conducts a formal annual review on the adequacy of staff resources, qualifications and experience of the internal audit function and reports the review results to the Audit Committee. Based on the above, the Audit Committee considered the resources, qualifications and experience of staff of the Company's internal audit function, and its training programmes and budget were adequate.

Corporate Governance Report

Board's Annual Review

The Board has, through the Risk Committee and the Audit Committee, overseen the Company's risk management and internal control systems on an ongoing basis. The Board has conducted its annual review of the Company's and its subsidiaries' risk management and internal control systems for the year ended 31 December 2015, and considers that such systems are effective and adequate. There were no significant control failings, weaknesses or significant areas of concern identified during the year.

The Board has conducted a review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions for the year ended 31 December 2015, and considers the above resource components to be adequate.

Crisis Management

To uphold the reputation of being one of the world's leading railway operators and in order to help ensure that the Company will respond to and recover from crises in an organised and highly effective manner, including timely communication with principal stakeholders such as Government departments and shareholders, the Company has an established mechanism since 1995 to activate the formation of the Crisis Management Team in the event of a crisis. The Crisis Management Team comprises relevant Members of the Executive Directorate and Executive Managers, and its operation is governed by a Crisis Management Plan which, among other things, sets out the duties of respective members. The Crisis Management Plan is kept in line with world-class standards and up-to-date through regular reviews. The operation of the Crisis Management Team is aided by an information system to keep track of the latest crisis situation, issues and strategic actions and to disseminate crisis related information. The Crisis Management Team conducts regular exercises to validate the crisis management organisation and arrangements and to provide practices for members. An exercise for the Crisis Management Team was conducted in July 2015. Exercises for the shadow team of the Crisis Management Team were conducted in November 2015.

Governance of Subsidiaries and Associates

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

appropriate level of control and oversight as a shareholder of these subsidiaries and associates.

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

The Executive Committee reviews the Governance Framework and compliance by the subsidiaries and associates on an annual basis. The progress made in the implementation of the Governance Framework is reported to the Audit Committee annually.

Business Ethics

Practising integrity and responsible business ethics is paramount to the Company's continued success. The Company's Code of Conduct lays down the requirements of the Company in terms of ethical practices and obliges staff to enhance transparency and operate under the highest principles of fairness, impartiality and integrity in all of the places where the Company does business.

The Code of Conduct is reviewed and updated periodically to ensure appropriateness and compliance with the law. A comprehensive review of the Code of Conduct was carried out in 2014 and the revised version was released to staff in June 2015. Promotional events and education programmes are in place to raise staff awareness. Staff members are also encouraged to report existing or perceived violations and malpractices. Proper procedures have already been put in place pursuant to the Whistle-blowing policy of the Company, under which staff members can raise their concerns in a safe environment and in complete confidence if they have genuine suspicions about wrongdoings.

To enable new recruits to embrace the Company's values and ethical commitments, they will be briefed on the Code of Conduct as part of the staff induction programmes. In addition, the Code of Conduct is also uploaded onto the Company's website (www.mtr.com.hk).

This Code also serves as a guideline to promote a comparable ethical culture in our subsidiary and associates in Hong Kong, the Mainland of China and overseas.

External Auditor

The Company engages KPMG as its External Auditor. In order to maintain KPMG's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its Terms of Reference, pre-approves all audit services to be provided by KPMG and discusses with KPMG the nature and scope of their audit and reporting obligations before the audit commences.

The Audit Committee also reviews and pre-approves the engagement of KPMG to provide any non-audit services for complying with relevant legal requirements and seeks to balance the maintenance of objectivity with value for money.

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of KPMG nationally or internationally) are set out in note 9D to the accounts on page 189 of this Annual Report.

For maintaining integrity and objectivity as the External Auditor of the Company, KPMG implements policies

and procedures to comply with professional ethics and independence policies and requirements applicable to the work it performs. In addition, KPMG requires its audit partner serving the Group to rotate off the audit engagement with the Group at least once every seven years.

Communication with Shareholders

Annual General Meeting (the "AGM")

The Company's AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to communicate face to face with the Directors about the Company's performance and operations. It has been the practice for the Chairman of the Company, the chairmen of each Board Committee, all Members of the Executive Committee and the External Auditor of the Company to attend AGMs to answer shareholders' questions.

The 2015 AGM was held on 20 May 2015 at Rotunda 3 (6/F), Kowloonbay International Trade & Exhibition Centre, Kowloon Bay, Hong Kong. To facilitate the Company's shareholders who did not attend the AGM, the whole proceeding was webcast and posted on the Company's website in the same evening.

The 2016 AGM has been scheduled for 18 May 2016 and it is planned to continue providing simultaneous interpretation to facilitate smooth and direct communication between the shareholders of the Company and the Company's Directors and Management.



2015 AGM

Corporate Governance Report

Resolutions passed at the 2015 AGM

The Chairman proposed separate resolutions for each substantially separate issue at that 2015 AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the 2015 AGM under Article 71 of the Articles of Association to call a poll on all resolutions conducted by electronic means.

A total of 13 resolutions were passed at the 2015 AGM (with resolution no. 3 comprising seven separate resolutions), each by over 93% of the votes cast at the 2015 AGM. The full text of the resolutions is set out in the 2015 AGM Circular (which comprised Notice of the 2015 AGM) to the Company's shareholders dated 16 April 2015. For the benefit of those shareholders who did not attend the 2015 AGM, below is a succinct summary of the resolutions passed:

- (1) Adoption of the audited Statement of Accounts and the Reports of the Directors and the Auditors of the Company for the year ended 31 December 2014;
- (2) Declaration of a final dividend of HK\$0.80 per share for the year ended 31 December 2014;
- (3)
 - (a) Re-election of Dr Raymond Ch'ien Kuo-fung as a Member of the Board of Directors of the Company;
 - (b) Re-election of Professor Chan Ka-keung, Ceajer as a Member of the Board of Directors of the Company;
 - (c) Election of Dr Eddy Fong Ching as a Member of the Board of Directors of the Company;
 - (d) Election of Mr James Kwan Yuk-choi as a Member of the Board of Directors of the Company;
 - (e) Election of Mr Lincoln Leong Kwok-kuen as a Member of the Board of Directors of the Company;
 - (f) Election of Mrs Lucia Li Li Ka-lai as a Member of the Board of Directors of the Company; and
 - (g) Election of Mr Benjamin Tang Kwok-bun as a Member of the Board of Directors of the Company;
- (4) Re-appointment of KPMG as Auditors of the Company and authorisation of the Board of Directors to determine their remuneration;
- (5) Grant of a general mandate to the Board of Directors to allot, issue, grant, distribute and otherwise deal with additional shares in the Company, not exceeding ten per cent. of the aggregate number of shares in issue at the date of this resolution*;
- (6) Grant of a general mandate to the Board of Directors to purchase shares in the Company, not exceeding ten per cent. of the aggregate number of shares in issue at the date of this resolution*; and
- (7) Conditional on the passing of resolutions 5 and 6, to extend the mandate of the Board of Directors to exercise the powers to allot, issue, grant, distribute and otherwise deal with additional shares in the Company under resolution 5 by the addition thereto of a number of shares in the Company representing the aggregate number of shares in the Company purchased by the Company*.

* (The full text of the resolution is set out in the Notice of the 2015 AGM.)

The poll results were posted on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange on the same day after the AGM.

The Company may also communicate with its shareholders through other general meetings if and when appropriate.

Calling General Meetings

Directors of the Company may call a general meeting of the Company.

If shareholders want to call a general meeting of the Company, those shareholders may request the Directors of the Company to do so, provided that the Company has received such requests from shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings. Any such request must state the general nature of the business to be dealt with, and may include the text of a resolution that may properly be moved and is intended to be moved at the general meeting. The requests may consist of several documents in like form; and the request may be sent to the Company in hard copy form or in electronic form; and must be authenticated by the person or persons making it. The Directors of the Company are required to call the general meeting within 21 days after the date on which the Company receives such requests, and the general meeting must be held on a date not more than 28 days after the date of the notice convening the general meeting. If the requests identify a resolution that may properly be moved and is intended to be moved at the general meeting, the notice of the general meeting must include notice of the resolution. The business that may be dealt with at the general meeting includes a resolution of which notice has been accordingly included in the notice of the general meeting. If the resolution is to be proposed as a special resolution, the Directors of the Company are to be regarded as not having duly called the meeting unless the notice of the general meeting includes the text of the resolution and specifies the intention to propose the resolution as a special resolution.

If, within 21 days after the date on which the Company receives the required requests, the Directors of the Company do not proceed duly to call a general meeting, the shareholders who requested the general meeting, or any of them representing more than one-half of the total voting rights of all of them, may themselves call a general meeting, provided that the general meeting must be called for a date not more than 3 months after the date on which the Company receives the required requests.

General Meeting

The Company convened a general meeting on 1 February 2016 (the "General Meeting") at Rotunda 3 (6/F), Kowloonbay International Trade & Exhibition Centre, Kowloon Bay, Hong Kong for the purpose of obtaining the approval of the Company's independent shareholders in passing the following resolution as an ordinary resolution (the "Ordinary Resolution"):

"That for the purposes of implementing the XRL Arrangements, the XRL Agreement be and is hereby approved, confirmed and ratified; the Special Dividend be and is hereby declared and shall be payable, following satisfaction of the conditions contained in the XRL Agreement, in the manner and on the dates determined by the Board; and that the Chief Executive Officer of the Company or any two members of the Board or any two members of the Executive Directorate of the Company be and is/are hereby authorised to do all such further acts and things, agree such amendments or modifications and execute such further documents and deeds (and if necessary apply the common seal of the Company thereto) and take all steps which in his/her opinion may be necessary, desirable and expedient to implement and/or give effect to the terms of the XRL Agreement and the XRL Arrangements and the transactions contemplated thereunder."

Before the Ordinary Resolution was considered, the Chairman exercised his right as the Chairman of the General Meeting under Article 71 of the Articles of Association to call a poll on the Ordinary Resolution conducted by electronic means. The Ordinary Resolution was passed at the General Meeting by over 98% of the votes cast at the General Meeting.

To facilitate the Company's shareholders who did not attend the General Meeting, the whole proceeding was webcast and posted on the Company's website in the same evening.

The poll results of the General Meeting were posted on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange on the same day after the General Meeting.

Procedures for Shareholders Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting according to the Companies Ordinance and the Articles of Association.

As regards proposing a person for election as a director, please refer to the "Appointment Procedure for Members of the Board of the Company" which is available on the website of the Company (www.mtr.com.hk).

Enquiries from Shareholders

The Company has a Shareholders' Communication Policy (available on the website of the Company (www.mtr.com.hk)) to provide shareholders with information about the Company to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner.

The Company's Shareholders Communication Policy has set out, amongst other things, a channel for shareholders' access to the Board and Management by writing to the Company Secretary of the Company.

Please also refer to the Investor Relations section (pages 94 to 95) of this Annual Report on other means of communication with shareholders.

Constitutional Document

The Company's Articles of Association (in both English and Chinese) is available on both the websites of the Company (www.mtr.com.hk) and the Stock Exchange. During the year ended 31 December 2015, there was no change to the Articles of Association.

For and on behalf of the Board

Gillian Elizabeth Meller
Secretary to the Board
Hong Kong, 11 March 2016

Audit Committee Report

As at the date of this Report, the Audit Committee of the Company (referred to as the “Committee” in this report) consists of five non-executive Directors, four of whom are Independent Non-executive Directors of the Company (“INEDs”).

Members of the Committee during the year

INEDs

Dr Eddy Fong Ching¹ (member since 13 January 2015 and chairman since 20 May 2015)
Mrs Lucia Li Li Ka-lai
Mr Alasdair George Morrison
Dr Allan Wong Chi-yun (since 11 August 2015)
Mr T. Brian Stevenson² (member and chairman up to 20 May 2015)
Professor Frederick Ma Si-hang³

Non-executive Director

Commissioner for Transport (Mrs Ingrid Yeung Ho Poi-yan)

Notes:

- ¹ Dr Eddy Fong Ching, an INED, was appointed as a member of the Committee with effect from 13 January 2015, and became chairman of the Committee with effect from the conclusion of the Company's 2015 Annual General Meeting held on 20 May 2015 (the “2015 AGM”).
- ² Mr T. Brian Stevenson retired as an INED, and ceased to be the chairman and a member of the Committee and a member of the Remuneration Committee of the Company with effect from the conclusion of the 2015 AGM.
- ³ Professor Frederick Ma Si-hang ceased to be a member of the Committee with effect from 1 January 2016.

None of the Committee Members is a partner or former partner of KPMG, the Company's external auditor. The Finance Director (the “FD”), the Head of Internal Audit (the “Head of IA”) and representatives of the external auditor are expected to attend meetings of the Committee. At the discretion of the Committee, others may also be invited to attend meetings. The Committee meets regularly, and the external auditor or the FD may request a meeting if they consider it necessary.

Duties of the Committee

Under the Committee's Terms of Reference (available on the respective websites of the Company (www.mtr.com.hk) and The Stock Exchange of Hong Kong Limited), the duties of the Committee include the financial and efficiency aspects of the Company's business, as described below. Amongst other things, the Committee is required to oversee the relationship with the external auditor, to review the financial information of the Company, and to oversee the Company's financial reporting system and internal control procedures.

The Committee discusses with the external auditor the nature and scope of audit and reporting obligations before the audit commences. Apart from giving pre-approval of all audit services, the Committee also pre-approves any non-audit services and ensures that the external auditor's provision of non-audit services does not impair its independence or objectivity. The Committee is primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor, and approving the remuneration and terms of such engagement.

With respect to the financial information of the Company, the Committee monitors the integrity of financial statements, interim and annual reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public. In dealing with the financial information, the Committee liaises with the Board and the Executive Directorate, and the chairman of the Committee further meets on an ad hoc basis with the Head of IA, representatives of the external auditor, and Management, as and when required. Apart from considering issues arising from audits, the Committee discusses any matters that the Head of IA or external auditor may wish to raise, either privately or together with Members of the Executive Directorate and any other person.

The Committee assists the Board in overseeing the Company's financial controls and internal control systems on an ongoing basis. The Committee reviews, at least annually, the effectiveness of the Company's financial controls and internal control systems and reports to the Board that such a review has been carried out. These controls and systems allow the Board to monitor the Company's overall financial position and to protect its assets. As mentioned in last year's report, the duty to review the effectiveness of the Company's risk management system has been fully vested with the Company's Risk Committee. Further details of the mechanism of the above are set out in the “Risk Management and Internal Control Systems” section of the Corporate Governance Report on pages 117 to 120 of this Annual Report. The Committee's review also covers its role in overseeing the Management's review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Committee reviews and approves the annual Internal Audit Plan which includes audits on the efficiency of chosen activities or operations of the Company. In addition, the Committee reviews periodic reports from the Head of IA and the follow-up of major action plans recommended, and puts forward recommendations to the Board, where appropriate. The Committee reviews the annual assessment conducted by the Head of IA on the adequacy of resources, qualifications and experience of staff of the Company's internal audit function, and its training programmes and budget.

During 2015 and in addition to the abovementioned duties, the Committee also reviewed the financial impact on the Company's 2014 Annual Accounts and 2015 Interim Accounts in light of the development of the Express Rail Link project and the Company's other new railway projects.

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom by a report to the Board after each Committee meeting.

The minutes of the Committee meetings are prepared by the secretary of the meetings with details of the matters considered by the Committee Members and decisions reached, including any concerns raised by the Committee

Members and dissenting views expressed. The draft minutes are circulated to Committee Members for comments within a reasonable time after the meeting. The Committee formally adopts the draft minutes at the next subsequent meeting, after taking into account any comments that the Committee Members may have on the draft minutes. Minutes of the Committee meetings are open for inspection by Committee Members at the Company's registered office.

In January each year, the secretary of the meetings pre-agrees key agenda items for the year with the chairman of the Committee who makes a final determination on the agenda for the regular Committee meetings. A total of four meetings have been scheduled to be held on a quarterly basis in February, May, August and November 2016.

Work Performed by the Committee in 2015

In 2015, the Committee held four meetings. Of the four meetings, two were allocated to the review of the Company's annual results for the year ended 31 December 2014. In addition, the first meeting concentrated on business operations in Hong Kong, internal control and internal audit related items, while the second meeting focused on accounting and financial reporting matters, business operations outside of Hong Kong as well as outstanding litigation and compliance issues.

The major work performed by the Committee in 2015 included:

Financial

- Review of the draft 2014 Annual Report and Accounts and 2015 Interim Report and Accounts, in particular, the financial impact in light of the development of the Express Rail Link project and the Company's other new railway projects, and recommendation of the same for the Board's approval;
- Review and recommendation for presentation to the Remuneration Committee of the paper headed "2014 payout under "2008 Variable Incentive Scheme" - confirmation of the financial figures"; and
- Preview of 2015 annual accounting and financial reporting issues.

Internal Audit

- Approval of the 2016 Internal Audit Plan;
- Review of two Half-yearly Reports prepared by Internal Audit Department for July to December 2014 and for January to June 2015 respectively;
- Review of the Report on the Company's Internal Control system for the year ended 31 December 2014;
- Review of two Half-yearly Reports on Whistle-blowing prepared by Internal Audit Department for July to December 2014 and for January to June 2015 respectively;
- Review of the Report on Evaluation of Effectiveness of Internal Audit Department for 2014; and
- Holding of private sessions with Head of IA without the presence of Management.

External Auditors - KPMG

- Review of KPMG's Audit Plan;
- Pre-approval of audit and non-audit services provided by KPMG;
- Review of tax issues, compliance and salient features of 2014 Annual Accounts and 2015 Interim Accounts prepared by KPMG;
- Review of KPMG's fees proposal for the 2015 audit;
- Review of KPMG internal controls and clearance processes on independence; and
- Holding of private sessions with representatives of KPMG without the presence of Management.

Others

- Review of outstanding litigation, and compliance with statutes and regulations, Operating Agreement and Rail Merger Related Agreements;
- Review of an Update on the Management Governance Framework which is set out on page 120 of this Annual Report under the Corporate Governance Report;
- Review of the Audit/Governance Committees Minutes of MTR's subsidiaries; and
- Presentation on the early adoption of the revised Corporate Governance Code.

The attendance record of each Committee Member is shown on pages 110 to 111 of this Annual Report under the "Board and Board Committee Meetings" section of the Corporate Governance Report.

Representatives of the external auditor, the FD and the Head of IA attended all four meetings for reporting and answering questions about their work.

Further to that and by invitation, the Chief Executive Officer (formerly the Acting Chief Executive Officer), the Operations Director, the Commercial Director, the Projects Director, the Property Director and the Legal Director and Secretary (or their representatives) had respectively provided an overview of the Company's business development and expansion outside of Hong Kong, railway operations, non-fare businesses, latest cost position and progress of new railway projects, property business as well as outstanding litigation and compliance matters to the Members at the meetings.

Re-appointment of External Auditor

The Committee was satisfied with KPMG's work, its independence and objectivity, and therefore recommended the re-appointment of KPMG (which has indicated its willingness to continue in office) as the Group's external auditor for 2016 for approval by the Company's Shareholders at the 2016 Annual General Meeting.

Dr Eddy Fong Ching
Audit Committee Chairman
Hong Kong, 11 March 2016

The Audit Committee Report has been reviewed and endorsed by the Committee.

Risk Committee Report

As at the date of this Report, the Risk Committee of the Company (referred to as the “Committee” in this report) consists of seven non-executive Directors, five of whom are Independent Non-executive Directors of the Company (“INEDs”).

Members of the Committee during the year

INEDs

Mr Alasdair George Morrison (Chairman)

Mr James Kwan Yuk-choi

Mrs Lucia Li Li Ka-lai

Mr Ng Leung-sing

Mr Benjamin Tang Kwok-bun

Non-executive Directors

Permanent Secretary for Development (Works) (Mr Wai Chi-sing)
(up to 6 April 2015)

Permanent Secretary for Development (Works) (Mr Hon Chi-keung)
(since 7 April 2015)

Commissioner for Transport (Mrs Ingrid Yeung Ho Poi-yan)

Duties of the Committee

The Committee’s Terms of Reference are available on the respective websites of the Company (www.mtr.com.hk) and The Stock Exchange of Hong Kong Limited.

The principal duties of the Committee include reviewing the Company’s Enterprise Risk Management (“ERM”) framework, guidelines, policy and procedures for risk assessment and risk management; reviewing the Company’s top risks and key emerging risks and the controls in place to mitigate such risks; monitoring the Company’s risk profile; conducting “deep dive” reviews on selected key risk areas; reviewing the effectiveness of the ERM function; and reviewing the Company’s crisis management arrangements.

The Committee assists the Board in overseeing the Company’s ERM system on an ongoing basis. The Committee reviews the effectiveness of the Company’s ERM system annually, and reports to the Board in relation to such review. More details of the features of the ERM system and process, the significant risks being managed, and the process used to review the effectiveness of the ERM system are set out in the “Risk Management” section on pages 101 to 103 of this Annual Report. Each year, the Committee agrees on a list of reviews and presentations in respect of selected key risk areas to be

considered for that year, taking into account the ongoing activities of the Company at the material time; and invites relevant management to present on the subjects and conduct interactive discussions. The Committee provides observations and, where applicable, recommendations to management, based on their reviews and discussions.

The secretary of the meetings draws up agendas for each meeting in consultation with the chairman of the Committee, making reference to the list of reviews and presentations determined by the Committee, as well as topical matters at the relevant time.

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom by a report to the Board after each Committee meeting.

The minutes of the Committee meetings are prepared by the secretary of the meetings with details of the matters considered by the Committee Members, including recommendations and any observations raised by the Committee Members. Draft minutes are circulated to the Committee Members before adoption. The Committee formally adopts the draft minutes at its next subsequent meeting, after taking into account any comments that the Committee Members may have on the draft minutes.

A total of four meetings have been scheduled to be held on a quarterly basis in February, May, July and November 2016.

Work Performed by the Committee in 2015

In 2015, the Committee held four meetings. During the year, the Committee reviewed the Company’s ERM annual report and the effectiveness of the Company’s ERM system for the year ended 31 December 2014. A review of the Company’s ERM annual report and ERM system effectiveness for the year ended 31 December 2015 was conducted by the Committee on 26 February 2016.

The Committee reviewed the Company’s risk profile, top risks and key emerging risks at each of its meetings. At its first meeting, the Committee agreed on a list of “deep dive” reviews and presentations on selected key risk areas for the year, which reviews and presentations took place as planned. Relevant Members of the Executive Directorate and managers were invited to present on the “deep dive” reviews or presentations to the Committee, with comments and recommendations provided by the Committee for appropriate actions by management.

The Committee, in particular, reviewed the Company's position in handling risks as part of its business operations, with findings submitted to the Board which have, in turn, been endorsed.

The Legal Director & Secretary, the General Manager – Governance & Risk Management and the Senior Manager – Enterprise Risk, representing the ERM function, attended all four meetings in 2015 to report and answer questions on ERM related matters.

The major work performed by the Committee in 2015 included:

“Deep dive” reviews

- Safety risk due to over-emphasis on train service reliability and punctuality;
- Preparation for addressing the pandemics threat;
- Managerial organisation and workforce transition challenges;
- Light Rail platform crowdedness and safety risks;
- Energy cost optimisation;
- Cyber threats and operations systems security; and
- Communication of safety issues to the Government and passengers.

Other reviews

- Governance on ERM implementation in subsidiaries / affiliated companies;
- Crisis management system and implementation;
- Insurance portfolio, insured sums, annual premiums and loss ratios;
- Risk of driving over cracked rails;
- Early adoption of the new Corporate Governance Code provisions in relation to risk management; and
- The Company's risk appetite.

Site visit

- Light Rail train ride and visit to a Light Rail stop to gain better understanding of the physical operational environment.

The attendance record of each Committee meeting is shown on pages 110 to 111 of this Annual Report under the “Board and Board Committee Meetings” section of the Corporate Governance Report.

Alasdair George Morrison
Risk Committee Chairman
Hong Kong, 11 March 2016

The Risk Committee Report has been reviewed and endorsed by the Committee.

Remuneration Report

Introduction

The Remuneration Committee has been delegated the authority to consider and recommend to the Board the Company's remuneration policy and the remuneration packages of the non-executive Directors, as well as to review and determine the remuneration packages for the Chief Executive Officer and other Members of the Executive Directorate.

Throughout the year, the Committee met regularly to discuss and approve remuneration issues pertaining to the Company's variable incentive scheme, long-term incentive scheme, and also the remuneration packages of the Chief Executive Officer and other Members of the Executive Directorate in the light of the Company's remuneration policy, and to consider and make recommendations to the Board on the remuneration packages of the non-executive Directors. In determining the remuneration of the Chief Executive Officer, the Committee consults with the Chairman and in the case of other Members of the Executive Directorate, the Committee consults with both the Chairman and the Chief Executive Officer in respect of their recommendations.

Currently, the Committee has seven non-executive Directors, four of whom are independent non-executive Directors. The Chairman of the Remuneration Committee is an independent non-executive Director. As necessary and with the agreement of the Chairman, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues. No individual Director or any of his associates is involved in deciding his own remuneration.

A summary of the work performed by the Remuneration Committee during 2015 is set out in the "Corporate Governance Report" on pages 114 to 115.

This Remuneration Report has been reviewed and authorised by the Remuneration Committee of the Company.

Remuneration policy

It is the Company's policy to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. To achieve this, the Company has taken into consideration a number of relevant factors such as salaries paid by comparable companies, job responsibilities, duties and scope, employment conditions elsewhere in the Company and its subsidiaries, market practices, financial and non-financial performance, and desirability of performance-based remuneration.

The Company is committed to effective corporate governance and employing and motivating top quality personnel. The Company also recognises the importance of a formal and transparent remuneration policy covering its Board and Executive Directorate.

Remuneration for Non-Executive Directors

The Remuneration Committee makes recommendations to the Board from time to time on the remuneration of the Members of the Board who are non-executive Directors. The remuneration of non-executive Directors is in the form of annual director's fees.

To ensure that non-executive Directors are appropriately remunerated for their time and responsibilities devoted to the Company, the Committee undertakes periodic reviews and considers the following factors as they put forward recommendations to the Board:

- Fees paid by comparable companies;
- Time commitment;
- Responsibilities of the non-executive Directors; and
- Employment conditions elsewhere in the Company.

Details of remuneration for non-executive Directors are set out in note 10 to the accounts.

Remuneration for Employees

The Company's remuneration structure for its employees, including the Chief Executive Officer and other Members of the Executive Directorate, comprises:

- Fixed compensation – base salary, allowances and benefits-in-kind (e.g. medical);
- Variable incentives – discretionary award; performance-based payment and other business-specific cash incentive plans;
- Long-term incentives – e.g. restricted shares and performance shares; and
- Retirement schemes.

The specifics of these components are described below.

Fixed Compensation

Base salary and allowances are set and reviewed annually. The annual review process takes into consideration the Company's remuneration policy, competitive market positioning, market practice, as well as the Company's and individuals' performance. Benefits-in-kind are reviewed as and when appropriate taking into consideration market practices.

Variable Incentives

The Chief Executive Officer, other Members of the Executive Directorate and selected management of the Company are eligible to receive an annual cash incentive under the Company's Variable Incentive Scheme, the rules of which are regularly reviewed by the Remuneration Committee.

Under the current scheme rules, the payouts are based on the performance of the Company and individual performance. The Company's performance is measured by both financial and non-financial factors including:

- Return on fixed assets;
- Rolling three-year operating profit;
- Fulfillment of the Customer Service Pledges; and
- Fulfillment of Performance Requirements in relation to "Train Service Delivery", "Passenger Journeys on Time" and "Train Punctuality" as defined in Schedule 2, Part 1 of the Operating Agreement.

Payouts will be automatically reduced if the Company does not achieve any one or more of the Performance Requirements. They will also be adjusted subject to the Company's achievement of all the Customer Service Pledges.

Following the end of each year, the Company engages an independent expert to conduct a review and audit of its performance versus the Performance Requirements and Customer Service Pledges. The results of this audit are shared with the Remuneration Committee to determine if adjustments to the payouts under the scheme are appropriate.

Individual performance ratings are part of the thorough annual performance assessment process that is applied throughout the Company. The performance ratings and assessments reflect the full range of factors over which the individual has accountability, including operational, other non-financial and financial factors. Individual performance ratings for the Members of the Executive Directorate are determined by the Chief Executive Officer, and the performance for the Chief Executive Officer is assessed by the Chairman.

A portion of the target incentive levels under the scheme was originally funded by participants by foregoing their 13th month pay and portions of their fixed allowances. If performance exceeds pre-defined threshold standards, then payouts under the scheme are made annually. Target incentive levels for the Chief Executive Officer and other Members of the Executive Directorate represent approximately 15-30% of total cash compensation.

In addition, the Company operates other business-related incentive schemes to motivate the staff concerned to reach specific business targets of the Company.

Discretionary Awards

In 2015, special discretionary awards were provided to staff, including the Members of the Executive Directorate, with competent or above performance, as a recognition of their contribution to the Company's good performance and achievements in the past year and to motivate staff to strive for continuous business growth.

Long-Term Incentives

During 2015, the Company maintained the 2007 Share Option Scheme and the 2014 Share Incentive Scheme.

Remuneration Report

(i) 2007 Share Option Scheme

The 2007 Share Option Scheme (the “2007 Scheme”) was approved and adopted by shareholders at the Company’s Annual General Meeting on 7 June 2007. The 2007 Scheme is intended to provide employees of the Company and its subsidiaries the opportunity to participate in the growth and success of the Company. Under the terms of the 2007 Scheme, no new grant of options could be made after 5:00 p.m. on 6 June 2014. The Scheme includes a provision which specifies that options cannot be exercised under the Scheme unless the Company has satisfied each of the three Key Performance Requirements included in the Operating Agreement in order for any options to be exercised.

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2015 under the 2007 Scheme are set out under the paragraph “Directors’ Interests in Shares and Underlying Shares of the Company” of the Report of the Members of the Board.

Details of the 2007 Scheme and options granted to Members of the Executive Directorate and selected employees of the Company under the Schemes are set out in notes 10 & 47 to the accounts.

(ii) 2014 Share Incentive Scheme

On 15 August 2014, the Board approved the adoption of the 2014 Share Incentive Scheme (the “2014 Scheme”), following the expiry of the 2007 Scheme on 6 June 2014. The Scheme took effect on 1 January 2015 for a term of 10 years (unless terminated earlier by the Company).

The purposes of the 2014 Scheme are to retain management and key employees, to align participants’ interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the 2014 Scheme as award holders in accordance with the rules of the 2014 Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares. Awards under the 2014 Scheme were granted to selected employees of the Company, including Members of the Executive Directorate, in 2015.

Restricted Shares are awarded on the basis of the individual performance of the relevant eligible employee. Performance Shares are awarded which vest subject to the performance of the Company, assessed by reference to such Board-approved performance metric and in respect of such performance period, and any other performance conditions, as determined by the Remuneration Committee from time to time.

In general, the Company will pay to the third party trustee (the “Trustee”) monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from shares held as part of the funds of the trust to acquire existing shares from the market. Such shares will be held on trust by the Trustee for the relevant award holder. The Trustee shall not exercise any voting rights in respect of any shares held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested award shares. An award holder shall have no right to any dividend held under the trust.

Details of the 2014 Scheme and shares granted to Members of the Executive Directorate and selected employees of the Company under the 2014 Scheme are set out in notes 10 & 47 to the accounts.

Retirement Schemes

In Hong Kong, the Company operates four retirement schemes under trust, the MTR Corporation Limited Retirement Scheme (the “MTR Retirement Scheme”), the MTR Corporation Limited Provident Fund Scheme (the “MTR Provident Fund Scheme”) and two Mandatory Provident Fund Schemes (the “MTR MPF Scheme” and the “KCRC MPF Scheme”) with details as follows:

(a) MTR Retirement Scheme

The MTR Retirement Scheme is a registered scheme under the Occupational Retirement Schemes Ordinance (Cap. 426) (the “ORSO”) and has been granted an MPF Exemption by the Mandatory Provident Fund Schemes Authority (the “MPFA”).

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions

with investment returns. Members' contributions to the MTR Retirement Scheme are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

(b) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a registered scheme under the ORSO and has been granted an MPF Exemption by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

(c) MTR MPF Scheme

The MTR MPF Scheme, which has been registered with the MPFA, covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance ("the MPF Ordinance"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

(d) KCRC MPF Scheme

The KCRC MPF Scheme, which has been registered with the MPFA, covers those former KCRC employees who were previously members of the KCRC MPF scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPF Ordinance.

The executive Directors who were hired by the Company before 1 April 1999 are eligible to join the MTR Retirement Scheme. Other executive Directors are eligible to join either the MTR Provident Fund Scheme or the MTR MPF Scheme.

Mr. Lincoln Leong, the Company's Chief Executive Officer effective from 16 March 2015, participates in the MTR Provident Fund Scheme.

For subsidiary companies in Hong Kong, the Mainland of China, United Kingdom, Sweden and Australia, the Group operates retirement schemes established in accordance with, in the case of subsidiaries in Hong Kong, the MPF Ordinance and, in the case of subsidiaries in the Mainland of China and overseas, their respective local regulations.

Remuneration of Non-Executive and Executive Directors

The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 10 to the accounts.

in HK\$ million	2015	2014
Fees	7.1	5.7
Base salaries, allowances and other benefits-in-kind	41.2	44.0
Variable remuneration related to performance	15.4	10.8
Retirement scheme contributions	6.0	5.2
	69.7	65.7

Please refer to note 10 to the accounts for information relating to the five highest paid employees of the Company for the year ended 31 December 2015.

Dr Dorothy Chan Yuen Tak-fai
Remuneration Committee Chairman
Hong Kong, 29 February 2016

Board and Executive Directorate



From left to right: (1st row) Professor Frederick Ma Si-hang (Chairman), Lincoln Leong Kwok-kuen (Chief Executive Officer), Pamela Chan Wong Shui, Dr Dorothy Chan Yuen Tak-fai, Vincent Cheng Hoi-chuen; (2nd row) Alasdair George Morrison, Ng Leung-sing, Abraham Shek Lai-him, Benjamin Tang Kwok-bun, Dr Allan Wong Chi-yun

Members of the Board

Professor Frederick Ma Si-hang, 64, was appointed as Non-executive Chairman since 1 January 2016. He joined the Board as an Independent Non-executive Director in July 2013 and was re-designated as a Non-executive Director on 30 November 2015. Professor Ma has extensive experience in banking and financial sector. He is currently an independent non-executive director and the chairman of the audit committee of Agricultural Bank of China Limited, an independent non-executive director of FWD Group, a director of Husky Energy Inc., and a non-executive director of COFCO Corporation. Professor Ma was a non-executive director of China Mobile Communications Corporation (until 2 February 2016), an independent non-executive director and the chairman of the audit committee of Aluminum Corporation of China Limited (until 29 December 2015) and an independent non-executive director of Hutchison Port Holdings Management Pte. Limited (until 1 December 2015). He was previously the Secretary for Financial Services and the Treasury of the HKSAR Government and a Non-executive Director of the Company from 2002 to 2007. Professor Ma held the position of the Secretary for Commerce and Economic Development of the HKSAR Government from 2007 to July 2008. He is a member of the International Advisory Council of China Investment Corporation and the Global Advisory Council of the Bank of America. Professor Ma is currently an Honorary Professor of the School of Economics and Finance at The University of Hong Kong, a Professor of Finance Practice of the Institute of Advanced Executive Education at The Hong Kong Polytechnic University, and an Honorary Professor of Business Administration at The Chinese University of Hong Kong. He holds a Bachelor of Arts (Honours) degree majoring in economics and history from The University of Hong Kong. Professor Ma was conferred the Honorary Doctor of Social Sciences by Lingnan University in October 2014. He was awarded the Gold Bauhinia Star medal in 2009 and was appointed a Justice of the Peace in 2010.

Dr Raymond Ch'ien Kuo-fung, 64, was Non-executive Chairman of the Company from July 2003 to December 2015. He joined the Board in 1998 and retired from the Board on 1 January 2016 after 17 years of service.

Lincoln Leong Kwok-kuen, 55, has been the Chief Executive Officer ('CEO') and a Member of the Board of Directors since March 2015 and a Member of the Executive Directorate since 2002. Mr Leong joined the Company in February 2002 as the Finance Director, and was re-titled as the Finance & Business Development Director in May 2008. He was appointed as the Deputy CEO in July 2012 and the Acting CEO in August 2014. As the CEO, Mr Leong is responsible for the Company's overall performance in and outside of Hong Kong. Prior to joining the Company, he worked in the accountancy and investment banking industries in London, Vancouver and Hong Kong. Mr Leong is a non-executive director of Mandarin Oriental International Limited, chairman of the Quality Assurance Council of the University Grants Committee, vice-chairman of The Hong Kong Housing Society, a member of the Board of Governors of The Chinese International School Foundation Limited, and a vice-patron and a member of the Board of Directors of The Community Chest of Hong Kong. He was an independent non-executive director of Hong Kong Aircraft Engineering Company Limited and a member of the Executive Committee of The Community Chest of Hong Kong. Mr Leong obtained a Bachelor of Arts (subsequently a Master of Arts) from the University of Cambridge in 1982 and later qualified as a chartered accountant in England in 1985 and Canada in 1986. He is also a director of some of the members of the Company's group.

Pamela Chan Wong Shui, 69, joined the Board as an Independent Non-executive Director since July 2013. Mrs Chan is chairman of Hong Kong Deposit Protection Board, deputy chairman of the Hong Kong Baptist University Council, the vice-chairman of The Boys' and Girls' Clubs Association of



From left to right: (1st row) Dr Eddy Fong Ching, Edward Ho Sing-tin, James Kwan Yuk-choi, Lau Ping-cheung, Kaizer, Lucia Li Li Ka-lai; (2nd row) Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury), Professor Anthony Cheung Bing-leung (Secretary for Transport and Housing), Hon Chi-keung (Permanent Secretary for Development (Works)), Ingrid Yeung Ho Poi-yan (Commissioner for Transport)

Hong Kong and an independent director of the Travel Industry Council of Hong Kong. She had served on the board of The Community Chest of Hong Kong for many years, and is currently its vice-patron. Mrs Chan is also currently patron of Consumers International. She was a member of the Law Reform Commission of Hong Kong and the HKSAR Government Scholarship Fund Steering Committee. Mrs Chan is a graduate and an Honorary Fellow of The Chinese University of Hong Kong. She holds an LLB degree from Peking University.

Dr Dorothy Chan Yuen Tak-fai, 66, joined the Board as an Independent Non-executive Director since July 2013. Dr Chan is currently the Deputy Director (Administration and Resources), Head of Centre for Logistics & Transport, and advisor of International College of HKU School of Professional and Continuing Education. She is an independent non-executive director of AMS Public Transport Holdings Limited, a board member and the Chair of the Finance and Administration Committee of the Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies Limited, and a member of the Board of Governors of the Hong Kong Institute for Public Administration. Dr Chan is also an Honorary Fellow of the Chartered Institute of Logistics and Transport ('CILT') (from 14 September 2015) and CILT's Global Advisor for Women in Logistics and Transport (from 13 September 2015). She was an advisor to the Serco Group (HK) Limited (until 31 December 2015), a member of the Social Welfare Advisory Committee and the Advisory Council on Environment of the HKSAR Government, and the International President of CILT. Dr Chan was previously the Deputy Commissioner for Transport of Government from 1995 to 2002. From 2000 to 2002, she was the Alternate Director to the office of the Commissioner for Transport, a Non-executive Director of the Company. Dr Chan holds a Bachelor of Social Sciences degree, a Master of Social Sciences degree in Public Administration and a Doctor of Philosophy degree from The University of Hong Kong.

Vincent Cheng Hoi-chuen, 67, joined the Board as an Independent Non-executive Director since July 2009. Mr Cheng is an independent non-executive director of CLP Holdings Limited, Great Eagle Holdings Limited, Hui Xian Asset Management Limited, China Minsheng Banking Corp., Ltd., Shanghai Industrial Holdings Limited, Wing Tai Properties Limited, Hutchison Whampoa Limited, and CK Hutchison Holdings Limited. He was an executive director of HSBC Holdings plc and the Advisor to its Group Chief Executive, and a non-executive director of Swire Properties Limited. In public service, Mr Cheng was vice chairman of the China Banking Association, and is a member of the Advisory Committee on Post-service Employment of Civil Servants. He was chairman of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR, and a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. In 2008, Mr Cheng was appointed a member of the National Committee of the 11th Chinese People's Political Consultative Conference (the 'CPPCC') and a senior adviser to the 11th Beijing Municipal Committee of the CPPCC. In 2005, Mr Cheng was conferred the degree of Doctor of Social Science, *honoris causa*, by The Chinese University of Hong Kong and the degree of Doctor of Business Administration, *honoris causa*, by The Open University of Hong Kong. He was also awarded the Gold Bauhinia Star medal in 2005. Mr Cheng holds a Bachelor of Social Science degree in Economics from The Chinese University of Hong Kong and a Master of Philosophy degree in Economics from The University of Auckland.

Dr Eddy Fong Ching, 69, joined the Board as an Independent Non-executive Director since January 2015. He is currently the chairman of the Council of The Open University of Hong Kong and the Process Review Panel in relation to the Regulation of Mandatory Provident Fund Intermediaries, and an independent non-executive director of Standard Chartered Bank (Hong

Board and Executive Directorate

Kong) Limited and Standard Chartered Bank (China) Limited. Dr Fong was the non-executive chairman of the Securities and Futures Commission from 2006 to 2012. His past public duties included director of The Hong Kong Mortgage Corporation Limited, the Mandatory Provident Fund Schemes Authority and the Exchange Fund Investment Limited, and member of The Hong Kong Housing Authority, the Greater Pearl River Delta Business Council and the council of The Hong Kong Academy for Performing Arts. Dr Fong was also a senior audit partner with PricewaterhouseCoopers specializing in capital markets work in Hong Kong and the Mainland until his retirement in 2003. He is a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. Dr Fong graduated from the University of Kent in United Kingdom with a Bachelor degree in Social Science and was awarded an Honorary Doctor of Civil Law by University of Kent. He was appointed as a Justice of the Peace in 1996 and was awarded Gold Bauhinia Star medal in 2008.

Edward Ho Sing-tin, 77, is an Independent Non-executive Director and has been a Member of the Board since 1991. He is an architect. Mr Ho was the Group Chairman of Wong Tung Group of companies (until 31 December 2015) and an elected member of the Legislative Council of Hong Kong, representing the architectural, surveying and planning functional constituency. He was president of The Hong Kong Institute of Architects, and chairman of The Hong Kong Industrial Estates Corporation, the Antiquities Advisory Board, and the Hong Kong Philharmonic Society. Mr Ho was also a member of The Hong Kong Housing Authority, the Town Planning Board, and the Hospital Authority respectively.

James Kwan Yuk-choi, 64, joined the Board as an Independent Non-executive Director since October 2014. Mr Kwan is currently an independent non-executive director of Towngas China Company Limited. He was a senior adviser, an executive director and the chief operating officer of The Hong Kong and China Gas Company Limited, and a director of Shenzhen Gas Corporation Limited. Mr Kwan was the President of The Institution of Gas Engineers (currently known as The Institution of Gas Engineers & Managers) ('IGEM') in the United Kingdom in 2000/2001 and The Hong Kong Institution of Engineers ('HKIE') in 2004/2005. He was also a former member of the Construction Industry Council, the Transport Advisory Committee, the Vocational Training Council, and the Standing Committee on Disciplined Services Salaries and Conditions of Service of the Government of the HKSAR. Mr Kwan is a graduate of The University of Hong Kong and holds a Bachelor degree of Science in Engineering, and also a graduate of The Chinese University of Hong Kong and holds a Master degree in Business Administration. He was awarded an Honorary Fellowship by The Hong Kong University of Science and Technology in 2011 and is a Registered Professional Engineer (Gas), a Chartered Engineer, Honorary Fellow of the HKIE, Fellow of the Institution of Mechanical Engineers, Fellow of the IGEM, Fellow of the Energy Institute and Fellow of the Chartered Institution of Building Services Engineers of the United Kingdom.

Lau Ping-cheung, Kaizer, 64, joined the Board as an Independent Non-executive Director on 11 August 2015. He

is a chartered surveyor and has substantial experience and involvements in construction, real estate and infrastructure projects both in Hong Kong and Mainland China. He is currently a Project Director at SOCAM Asset Management (HK) Limited of the Shui On group of companies. Mr Lau is an independent non-executive director of Kingboard Laminates Holdings Limited, as well as the chairman of its nomination committee and a member of each of its audit committee and remuneration committee. He is one of the Founders of Hong Kong Coalition of Professional Services and has been the Chairman since June 2012. Mr Lau is a member of the Lantau Development Advisory Committee cum Deputy Chairperson of the Planning and Conservation Subcommittee, a member of the Economic Development Commission cum Convenor of the Working Group on Professional Services and a member of the Council of The Hong Kong Polytechnic University. He is also a member of the Chinese People's Political Consultative Conference of Shanghai and a fellow of The Hong Kong Institute of Surveyors. Mr Lau was a former president of The Hong Kong Institute of Surveyors, a former chairman of the Royal Institution of Chartered Surveyors (HK Branch) and a former member of the HKSAR Legislative Council. He was also a former member of the Council of the City University of Hong Kong, a former non-executive director of the Urban Renewal Authority and a former member of the Long Term Housing Strategy Steering Committee. Mr Lau was educated at the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) with a Higher Diploma in Quantity Surveying and holds a Master degree in Construction Project Management from The University of Hong Kong.

Lucia Li Li Ka-lai, 61, joined the Board as an Independent Non-executive Director since October 2014. Mrs Li is a retired civil servant. She was Director of Accounting Services of the Government of HKSAR from October 2003 to January 2009. Mrs Li has been a member of the Public Service Commission since February 2012, a member of the Communications Authority since April 2012 and a member of a task force formed by the Commissioner for Innovation and Technology to follow up the Director of Audit's Report No. 61 with regard to the Small Entrepreneur Research Assistance Programme since 15 July 2014. She was formerly a board member and treasurer of Chung Ying Theatre Company (HK) Limited. Mrs Li is a Fellow member of the Hong Kong Institute of Certified Public Accountants. She holds a Master degree of Arts from The Chinese University of Hong Kong. Mrs Li was awarded the Silver Bauhinia Star medal in 2009.

Alasdair George Morrison, 67, joined the Board as an Independent Non-executive Director since July 2010. Mr Morrison is also an independent non-executive director of Pacific Basin Shipping Limited. He was Senior Advisor of Citigroup Asia Pacific, a member of the Financial Services Development Council of the HKSAR Government, and a member of the Board of Grosvenor Group Limited in the United Kingdom, the Operations Review Committee of the Independent Commission Against Corruption, and the Hong Kong/European Union Business Cooperation Committee. From 1971 to 2000, he worked for the Jardine Matheson Group, where he was Group Managing Director from 1994 to 2000. Subsequently, Mr Morrison was Chairman

of Morgan Stanley Asia, based in Hong Kong, until April 2007, and he was also a member of Morgan Stanley's Management Committee and Chief Executive Officer of Morgan Stanley Asia. He is a graduate of Eton College and obtained a Bachelor of Arts (subsequently Master of Arts) from the University of Cambridge in 1971. Mr Morrison also attended the Program for Management Development at Harvard Business School in 1983.

Ng Leung-sing, 66, joined the Board as an Independent Non-executive Director since December 2007. Mr Ng is vice chairman of Chiyu Banking Corporation, chairman of Bank of China (Hong Kong) Trustees Limited, a director of the BOCHK Charitable Foundation and a director of The Hong Kong Mortgage Corporation Limited. He is also an independent non-executive director of SmarTone Telecommunications Holdings Limited, Nine Dragons Paper (Holdings) Limited and Hanhua Financial Holding Co., Ltd.. Mr Ng was a member of the Court of Lingnan University and general manager, Bank-wide Operation Department of Bank of China (Hong Kong) Limited. He is also a Hong Kong Deputy to the 10th, 11th and 12th National People's Congress, People's Republic of China, and a member of the Legislative Council of the HKSAR. Mr Ng is a graduate of University of East Asia, Graduate College, Macau and holds a diploma in Chinese Law.

Abraham Shek Lai-him, 70, joined the Board as an Independent Non-executive Director since December 2007. Mr Shek is an independent non-executive director and an audit committee member of each of Midas International Holdings Limited, Paliburg Holdings Limited, Lifestyle International Holdings Limited, Chuang's Consortium International Limited, NWS Holdings Limited, Regal Portfolio Management Limited, Eagle Asset Management (CP) Limited, ITC Corporation Limited, Country Garden Holdings Company Limited, SJM Holdings Limited, China Resources Cement Holdings Limited and Cosmopolitan International Holdings Limited. He is also an independent non-executive director of Hop Hing Group Holdings Limited, Lai Fung Holdings Limited, and TUS International Limited (formerly Jinheng Automotive Safety Technology Holdings Limited). Mr Shek is chairman and an independent non-executive director of Chuang's China Investments Limited. He is also vice chairman, an independent non-executive director and a member of the audit committee of ITC Properties Group Limited, a director of The Hong Kong Mortgage Corporation Limited, and a non-executive director of the Mandatory Provident Fund Schemes Authority. Mr Shek was vice chairman of the Independent Police Complaints Council. He was appointed as Justice of the Peace in 1995 and was awarded the Gold Bauhinia Star medal in 2013. Mr Shek is a graduate of The University of Sydney and holds a Bachelor of Arts degree and a Diploma in Education.

Benjamin Tang Kwok-bun, 64, joined the Board as an Independent Non-executive Director since October 2014. Mr Tang joined the Hong Kong Civil Service in 1974. From the late 1990s to early 2000s, he served as Government Printer and the Commissioner of Insurance. Mr Tang was appointed by the Central Government of the People's Republic of China as the Director of Audit of the HKSAR in December 2003. He retired from this post in July 2012 and was awarded the Gold Bauhinia Star

medal by the Chief Executive of the HKSAR. He was appointed a Commissioner of the Commission of Inquiry Into the Collision of Vessels Near Lamma Island in 2012 and the Commission's report was presented to the Chief Executive in April 2013. Mr Tang's current public services include member of the Centennial College Council and The University of Hong Kong's Audit Committee. He is also a member of the Operations Review Committee of the Independent Commission Against Corruption and Audit Committee of the Croucher Foundation. He is an independent non-executive director of Principal Insurance Company (Hong Kong) Limited and BE Reinsurance Limited. Mr Tang graduated from The University of Hong Kong in Economics and Sociology. He also studied at the University of Oxford, London Business School and Toronto International Leadership Centre for Financial Sector Supervision.

Dr Allan Wong Chi-yun, 65, joined the Board as an Independent Non-executive Director on 11 August 2015. He is the chairman and group chief executive officer of VTech Holdings Limited, as well as the chairman of its risk management and sustainability committee and a member of its nomination committee. He is the deputy chairman and an independent non-executive director of The Bank of East Asia, Limited, as well as the chairman of its remuneration committee and a member of each of its audit committee and nomination committee, an independent non-executive director of China-Hongkong Photo Products Holdings Limited, as well as the chairman of its nomination committee and a member of each of its audit committee and remuneration committee, an independent non-executive director of Li & Fung Limited, as well as the chairman of its remuneration committee, and a member of each of its audit committee and risk management and sustainability committee. Dr Wong was appointed as a Justice of the Peace in 1995, and awarded a member of the Most Excellent Order of the British Empire in 1997. He was awarded the Silver Bauhinia Star medal and the Gold Bauhinia Star medal in 2003 and 2008 respectively. Dr Wong holds a Bachelor of Science degree in Electrical Engineering from The University of Hong Kong, a Master of Science degree in Electrical and Computer Engineering from the University of Wisconsin and an Honorary Doctorate of Technology from The Hong Kong Polytechnic University.

Professor Chan Ka-keung, Ceajer, 59, joined the Board as a Non-executive Director since July 2007 after his appointment as the Secretary for Financial Services and the Treasury of the Government of the HKSAR with effect from 1 July 2007. He received his Bachelor's degree in economics from Wesleyan University in the US and both his M.B.A. and Ph.D. in finance from The University of Chicago. Professor Chan sits on the boards of several public bodies including the Airport Authority Hong Kong, Mandatory Provident Fund Schemes Authority, The Hong Kong Mortgage Corporation Limited and West Kowloon Cultural District Authority, and is the Chairman of the Kowloon-Canton Railway Corporation, and an ex-official member of the Financial Services Development Council in his official capacity. Professor Chan is also, in his official capacity, a director of Hongkong International Theme Parks Limited. Before joining Government, Professor Chan was Dean of Business and Management of The Hong Kong University of Science and Technology from 1 July 2002.

Board and Executive Directorate

Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung, 63, joined the Board as a Non-executive Director appointed by the Chief Executive of the HKSAR pursuant to the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) on 1 July 2012. Professor Cheung is also the Chairman of The Hong Kong Housing Authority, Board Member of Airport Authority Hong Kong and a director of The Hong Kong Mortgage Corporation Limited. Before joining the Government of the HKSAR, Professor Cheung held a number of public service positions including non-official member of the Executive Council, Chairman of the Consumer Council, member of The Hong Kong Housing Authority and Chairman of its Subsidised Housing Committee, member of the Greater Pearl River Delta Business Council and member of the Disaster Relief Fund Advisory Committee. He was also the President of The Hong Kong Institute of Education and Chair Professor of Public Administration until June 2012. Prior to 2008, he was a Professor at the Department of Public and Social Administration of the City University of Hong Kong, and was a member of the Legislative Council from 1995 to 1997. Professor Cheung is a graduate of The University of Hong Kong and holds a Bachelor degree in Social Sciences. He was further awarded a Master of Science degree in Public Sector Management by the University of Aston, the United Kingdom and a Doctor of Philosophy degree in Government by the London School of Economics and Political Science of the University of London, the United Kingdom.)

Permanent Secretary for Development (Works) (Hon Chi-keung, 57, joined the Board as a Non-executive Director appointed by the Chief Executive of the HKSAR pursuant to the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) on 7 April 2015. Mr Hon joined the Hong Kong Government in August 1983 and has been Director of Civil Engineering and Development since January 2011. He is a fellow of The Hong Kong Institution of Engineers, a fellow of the Chartered Institute of Arbitrators, United Kingdom and a fellow of the Institution of Civil Engineers, United Kingdom. Mr Hon is a graduate of The University of Hong Kong and holds a Bachelor degree of Science in Engineering and a Master degree in Public Administration.)

Commissioner for Transport (Ingrid Yeung Ho Poi-yan, 51, joined the Board as a Non-executive Director appointed by the Chief Executive of the HKSAR pursuant to the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) on 8 October 2012. She joined the Hong Kong Government in June 1986 and has served in various bureaux and departments. Before joining the Transport Department, she was the Deputy Secretary for the Civil Service. As Commissioner for Transport, Mrs Yeung is also a director of several transport-related companies including The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, New World First Bus Services Limited, New Lantao Bus Company (1973) Limited, Citybus Limited, The "Star" Ferry Company, Limited, New Hong Kong Tunnel Company Limited, Western Harbour Tunnel Company Limited, Tate's Cairn Tunnel Company Limited and Route 3 (CPS) Company Limited. She is a graduate of The University of Hong Kong and holds a

Bachelor of Arts degree. She was further awarded a Doctor of Philosophy degree by The University of Hong Kong.)

Members of the Executive Directorate

Lincoln Leong Kwok-kuen, his biographical details are set out on page 132.

Morris Cheung Siu-wa, 54, has been the European Business Director since June 2015 and a Member of the Executive Directorate since 2012. He joined the Company in November 1983 as a Graduate Engineer, and has progressed over the years to senior and responsible positions in Operations and Projects Divisions. Mr Cheung was seconded to Ngong Ping 360 Limited as its Managing Director from 2007 to 2009. In July 2009, he was appointed Chief of Operating and in January 2011, he took up the position of Chief of Operations Engineering. Mr Cheung was appointed as Human Resources Director – Designate in October 2011 and became the Human Resources Director in July 2012. He has a wide range of management experience and deep knowledge of the Company. Mr Cheung graduated from The University of Hong Kong with a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering. He was further awarded a Master of Business Administration degree by the City Polytechnic of Hong Kong (now called City University of Hong Kong) and a Master of Science degree in Financial Analysis by The Hong Kong University of Science and Technology. Mr Cheung also completed the Advanced Management Programme at the Harvard Business School. He is a Fellow of The Hong Kong Institution of Engineers, The Institution of Engineering and Technology and The Chartered Institute of Logistics & Transport in Hong Kong, and the Chairman of the Asia Pacific Division of the International Association of Public Transport (UITP). Mr Cheung is also a director of some of the members of the Company's group.

Dr Peter Ronald Ewen, 56, has been the Engineering Director and a Member of the Executive Directorate since 22 February 2016. Dr Ewen started his career in the Royal Air Force of the United Kingdom in 1976 and attained the rank of Air Vice-Marshal. He served in different capacities, including Chief of Staff Support, Executive Officer and Chief Engineer (Air). In his last role as Director Air Support, Dr Ewen was responsible for the procurement, in-service support and airworthiness of the fleets of large aircraft of the Royal Air Force, including Strategic and Tactical Airlift, Air-to-Air Refuelling, Maritime Patrol, and Air Intelligence Surveillance Target Acquisition and Reconnaissance capabilities. Before joining the Company, he was a Procurement Advisor for Rail Franchising in the Department for Transport – Rail, United Kingdom and the Head of Air for Airbus Defence and Space, United Kingdom respectively. Dr Ewen obtained a Bachelor of Science (First Class Honours) degree in Engineering Management from the University of Lincoln, United Kingdom, in 2004 and a Doctor of Philosophy degree from International Management Centres Association, United Kingdom, in 2008. He completed the Major Projects Leadership Academy Programme offered by University of Oxford's Said Business School, United Kingdom, in

2015. Dr Ewen is a Chartered Engineer and a Fellow of the Royal Aeronautical Society. He was awarded Companion of the Most Honourable Order of the Bath in 2015.

Dr Jacob Kam Chak-pui, 54, has been the Operations Director and a Member of the Executive Directorate since January 2011. Dr Kam joined the Company in 1995. During his service, he gained both technical and business experience through taking up different managerial positions in Operations, Projects and China & International Business Divisions. Dr Kam is a member of Vocational Training Council. He holds a Bachelor of Science degree in Civil Engineering from the University of Southampton, and a doctoral degree in Mechanical Engineering from the University of London (University College London), both in United Kingdom. Dr Kam also attended the Wharton Advanced Management Programme at the University of Pennsylvania, U.S.A. in 2005. He qualified as a chartered engineer in the United Kingdom in 1989. Dr Kam is a member of both the Institution of Mechanical Engineers, United Kingdom, and The Hong Kong Institution of Engineers. He is also a chartered fellow of The Institution of Occupational Safety and Health, United Kingdom, and of The Chartered Institute of Logistics and Transport in Hong Kong. Dr Kam is also a director of some of the members of the Company's group.

Stephen Law Cheuk-kin, 53, has been the Finance Director and a Member of the Executive Directorate since July 2013. Mr Law is responsible for the financial management of all of the Company's affairs, including financial planning and control, budgeting, accounting and reporting, and the treasury function. He also leads the Company's information technology, investor relations as well as materials & stores functions. Prior to joining the Company, Mr Law was the chief financial officer of the Guoco Group Limited, Hong Kong. Prior to that, he also held various senior positions in TPG Growth Capital (Asia) Limited, the Morningside Group and the Wheelock Group. Mr Law was previously, until 30 September 2012, a non-executive director of China NT Pharma Group Company Limited and an alternate director in MIE Holdings Corporation. He is currently a council member and a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. Mr Law holds a Bachelor degree in Science (Civil Engineering) from the University of Birmingham, the United Kingdom and also received a Master degree in Business Administration from the University of Hull, the United Kingdom. He is also a director of some of the members of the Company's group.

Gillian Elizabeth Meller, 43, has been the Legal Director & Secretary and a Member of the Executive Directorate since September 2011. She joined the Company in August 2004 as Legal Adviser and was appointed Deputy Legal Director in December 2010. Ms Meller is responsible for the provision of commercial legal support and advice to all aspects of the Company's rail and property operations in Hong Kong, the Mainland of China and overseas, the Company's new rail and property projects in Hong Kong and its international growth business. She is also responsible for the strategic management of the Company's insurance programmes, its governance and

risk management function, and for overseeing the Company's procurement and contracts department. Before joining the Company, Ms Meller was Director of Legal Services for Metronet Rail SSL Limited in London, the United Kingdom, and a solicitor at CMS Cameron McKenna in London, the United Kingdom. She graduated from Hertford College, University of Oxford in the United Kingdom and holds a Master of Arts degree in Geography. Ms Meller then obtained her postgraduate qualifications in law from The College of Law in Guildford, the United Kingdom. She also completed the Senior Executive Programme in Asia offered by the University of Michigan, United States of America, in 2009 and the Stanford Executive Programme at Stanford University, United States of America, in 2010. Ms Meller is qualified to practise as a solicitor in Hong Kong and England and Wales. She is also a director of some of the members of the Company's group.

Linda So Ka-pik, 48, has been the Corporate Affairs Director and a Member of the Executive Directorate since 16 September 2015. She is responsible for overseeing stakeholder engagement, external communications and corporate responsibility. Ms So has extensive administrative and public relations experience. She worked in the Hong Kong Government from 1989 to 2013 in various policy bureaux and departments including the Eastern District Office, Constitutional Affairs Branch, Transport Branch, Security Bureau and the Office of Government Chief Information Officer. She has also served as the Press Secretary to the Chief Secretary for Administration and the Financial Secretary from 1999 to 2001 and acted as the Spokesman and Coordinator of the HKSAR Government team sent to Thailand in 2004 to assist Hong Kong residents affected by the tsunami. Before she left the Administrative Service, Ms So was the Deputy Secretary of Commerce and Economic Development (Commerce & Industry) from 2009 to 2011. After taking up a contract position as Director of Marketing and Business Development in the Heritage and Museums Division of the Leisure and Cultural Services Department from 2012 to 2013, Ms So took up the role of the Director General of the Federation of Hong Kong Industries. Ms So obtained a Bachelor of Arts in Economics (subsequently a Master of Arts) from the University of Cambridge in 1989.

David Tang Chi-fai, 51, has been the Property Director and a Member of the Executive Directorate since October 2011. Mr Tang joined the Company in August 2004 as Contracts & Commercial Manager – China Business and was appointed Deputy Property Director in July 2011. He is responsible for all of the property development projects of the Company in Hong Kong from layout planning, scheme design through to project construction completion, as well as asset and leasing management of investment properties (including shopping malls and offices) and property management of office buildings and residential units. During his service with the Company, he held senior management positions in the Legal and Procurement Division, and the China and International Business Division before he was transferred to Property Division in 2009. Before joining the Company, Mr Tang was Commercial Manager – Hong Kong & China Region, and Deputy General Manager – Hong Kong & China Region for Acciona, S.A. He had almost 20 years' working experience

Board and Executive Directorate



From left to right:

Dr Peter Ronald Ewen, Dr Jacob Kam Chak-pui, David Tang Chi-fai, Linda So Ka-pik, Adi Lau Ting-shing, Stephen Law Cheuk-kin, Lincoln Leong Kwok-kuen, Dr Philco Wong Nai-keung, Gillian Elizabeth Meller, Jeny Yeung Mei-chun, Morris Cheung Siu-wa, Daniel Shim Ming-yi

in contract administration, project management and quantity surveying in the United Kingdom and Hong Kong after starting his career as a Group Trainee of George Wimpey Plc. Mr Tang graduated from the University of the West of England (formerly Bristol Polytechnic) in the United Kingdom and holds a Bachelor of Science (Honours) degree in Quantity Surveying. He also completed the International Executive Programme at INSEAD (an executive business school), France in 2006. Mr Tang is a Chartered Surveyor and a member of the Royal Institution of Chartered Surveyors and The Hong Kong Institute of Surveyors. He is a non-executive director of the Urban Renewal Authority of the HKSAR Government, and also a director of some of the members of the Company's group and an alternate director of two members of the Company's group.

Dr Philco Wong Nai-keung, 61, has been the Projects Director and a Member of the Executive Directorate since October

2014. He joined the Company in November 2011 as General Manager – Shatin to Central Link and was appointed as Projects Director – Designate in August 2014. Dr Wong has over 35 years of experience in business management, implementation and delivery of large-scale infrastructure projects in Hong Kong, the Mainland of China and overseas. He is the chairman of Engineering Discipline, Construction Collaborative Degree Programmes, Advisory Committee of Vocational Training Council, the vice president of The Hong Kong Institution of Engineers ('HKIE') and a member of its Engineers Registration Board, and a member of the Committee on Procurement and Subcontracting of Construction Industry Council. Dr Wong is an Adjunct Professor of each of the School of Civil Engineering of Tsinghua University, Beijing, and the Department of Civil and Environmental Engineering of The Hong Kong Polytechnic University, and an External Academic Advisor of City University of Hong Kong for the Bachelor of Engineering programme



in Building Engineering (Construction Engineering and Management). He is also the chairman of the Benevolent Fund Committee of The Lighthouse Club. Dr Wong was formerly a member of the Occupational Deafness Compensation Board. He holds a Bachelor of Science degree in Civil Engineering from the University of Manitoba, Canada and a Master of Engineering degree in Construction Management and Engineering from the University of Toronto, Canada. Dr Wong was awarded a Doctor of Business Administration degree by Curtin University, Australia. He is a fellow member of HKIE and the Institution of Civil Engineers in the United Kingdom. Dr Wong is also a director of some of the members of the Company's group.

Jeny Yeung Mei-chun, 51, has been the Commercial Director and a Member of the Executive Directorate since September 2011. She joined the Company in November 1999 as the Marketing Manager and was then appointed as General Manager – Marketing & Station Commercial until August 2011.

Ms Yeung has been a member of the Company's Executive Committee since 2004. She is responsible for the marketing of the Company's railway services as well as managing and enhancing the MTR Brand. Ms Yeung is also responsible for customer service development and the management of various non-fare businesses. Before joining the Company, she held various marketing and business development positions in Standard Chartered Bank (Hong Kong) Limited and Citibank in Hong Kong. Ms Yeung graduated from The University of Hong Kong and holds a Bachelor of Social Sciences degree majoring in Management Studies. In 2005, she completed the Oxford / HKU Senior Executive Programme in Corporate Leadership, the Proteus Executive Education programme offered by London Business School, United Kingdom and the Senior Executive Programme in Asia offered by the University of Michigan, United States of America. Ms Yeung is a fellow of The Chartered Institute of Marketing and a chartered fellow of The Chartered Institute of Logistics and Transport in Hong Kong (since 15 February 2016). She is also a Member of the Marketing Management Committee of The Hong Kong Management Association, the Advisory Committee on Publicity and Public Education in Innovation and Technology of the Innovation and Technology Commission of the Government of the HKSAR, the Hong Kong Trade Development Council Infrastructure Development Advisory Committee, and the Hong Kong Tourism Board (since 1 March 2016). Ms Yeung is a director of Hong Kong Cyberport Management Company Limited. She is also a director of some of the members of the Company's group.

Members of the Executive Committee

The Executive Committee comprises all Members of the Executive Directorate (whose biographies are on pages 136 to 139), and Deputy Director-Operating.

Adi Lau Tin-shing, 56, has been the Deputy Director-Operating since August 2013 and a Member of the Executive Committee since 1 November 2015. Mr Lau joined the Company in 1982 and had held various management positions in the design, construction, operations and maintenance of the railway system in Hong Kong and the Mainland of China. In October 2011, he took up the position of Chief of Operating. In August 2013, Mr Lau was appointed as the Deputy Director-Operating, responsible for managing the operating aspects of all transport business of the mass transit railway network in Hong Kong. He is a Chartered Engineer, a Corporate Member of the Institution of Civil Engineers in the United Kingdom and The Hong Kong Institution of Engineers. Mr Lau holds a Bachelor of Science (Honour) degree in Civil Engineering from The University of Hong Kong and an MBA degree from the University of Michigan in the United States of America, and is a graduate of the Advanced Management Programme of INSEAD. He is the President of the China Hong Kong Railway Institution, the Chairman of the International Association of Public Transport (UITP) Asia Pacific Urban Rail Platform and the Chairman of the Board of Ngong Ping 360 Limited. Mr Lau is also a director of some of the members of the Company's group.

Key Corporate Management

Lincoln Leong Kwok-ken
Chief Executive Officer

Operations

Jacob Kam Chak-pui
Operations Director

Adi Lau Tin-shing
Deputy Director – Operating

Tony Lee Kar-yun
Chief of Operations Engineering

Francis Li Shing-kee
Head of Operating – North & East Region

Alan Cheng Kwan-hing
Head of Operating – South Region

Sammy Wong Kwan-wai
Head of Operating – West Region

William Leung Hon-wai
Head of Operations Strategic Business Management

Philip Wong Wai-ming
General Manager – Technical & Engineering Services

Chan Keng-sam
General Manager – Works Management

Terry Wong Wing-kin
General Manager – Infrastructure Maintenance

Richard Keefe
General Manager – Rolling Stock Fleet

Chan Chi-kit
Head of Workshops

Lu Wong Ho-leung
Head of Infrastructure Works

Manho John-william
Deputy General Manager – Train Services & Systems Engineering (w.e.f. 1 February 2016)

Gordon Lam Bik-shun
Project Manager – Signalling (DUAT) (w.e.f. 1 February 2016)

Nelson Ng Wai-hung
General Manager – Safety & Quality

Choi Tak-tsan
General Manager – Planning & Development

Cheris Lee Yuen-ling
Deputy General Manager – Planning & Development

Carmen Li Wai-ching
General Manager – Intercity

Engineering

Peter Ewen
Engineering Director (w.e.f. 22 February 2016)

Wong Sha
Head of E&M Engineering (w.e.f. 22 February 2016)

China & International Business

Morris Cheung Siu-wa
European Business Director

Yi Min
Chief Executive Officer – China Business

Richard Wong Shiu-ki
General Manager – Beijing & Tianjin

John Woo Shui-wah
General Manager – Shenzhen Line 4

Victor Chan Hin-fu
General Manager – China Property

Felix Leung Ping-kin
General Manager – Tianjin Property

Terry Wong Ping-sau
General Manager – Corporate Finance & Development

Wilson Shao Shing-ming
General Manager – China Hub

Oscar Ho Ka-wa
Deputy General Manager – China Property

John Kwok Chor-kwong
Deputy General Manager – Operations (Beijing)

Lawrence Chung Kwok-leung
Deputy General Manager – Projects (Beijing)

Ivan Lai Ching-kai
Head of Operations – China & International Business

Jeremy Long
Chief Executive Officer – European Business

Wilfred Lau Cheuk-man
General Manager – Australia Business (w.e.f. 1 January 2016)

Ronald Cheng Kin-wai
Chief Executive Officer – Metro Trains Sydney

Projects

Philco Wong Nai-keung
Projects Director

James Chow So-hung
General Manager – KTE

Dono Tong Kwok-wai
Project Manager – KTE E&M

Lee Tze-man
General Manager – SCL & Head of E&M Construction

Jason Wong Chi-chung
General Manager – SCL Civil – EWL

Aidan Rooney
General Manager – SCL Civil – NSL

Clement Ngai Yum-keung
Chief Design Manager – SCL

David Salisbury
Project Manager – SCL Civil – EWL 1

Neil Ng Wai-hung
Project Manager – SCL Civil – NSL 1

Brendan Reilly
Project Manager – SCL Civil – NSL 2 (up to 31 December 2015)

Mark Cuzner
General Manager – WIL/SIL

Stephen Hamill
Project Manager – WIL

Ken Wong Kin-wai
Project Manager – SIL

Simon Tang Wai-yung
General Manager – XRL

Leung Chi-lap
General Manager – XRL E&M

Tommy Lam Choi-fung
Project Manager – XRL Railway Systems

Calum Smith
Project Manager – XRL Terminus

Andrew Yim Kin-on
Project Manager – XRL Terminus Building Services

Bill Clowes
Project Manager – XRL Tunnels

Patrick Lun Tak-wo
General Manager – Projects Management Office

Henry Young
Chief Programming Engineer

Chan Chun-sing
Project Manager – Rolling Stock

Terence Law Che-chung
Project Manager – Signalling

Stephen Chik Wai-keung
Head of Project Engineering

Andrew Mead
Chief Architect

Mark Lomas
Project Manager – Technical Support

Nelson Cheng Wai-hung
Project Manager – Cost Control

Stephen Howarth
Head of Project Safety

Peter Leung Man-fat
Project Manager – Operations Projects

Property

David Tang Chi-fai
Property Director

James Hor Wai-hong
Head of Property Development

Wilfred Yeung Sze-wai
Head of Property Project

Steve Yiu Chin
Head of Town Planning

Sammy Yu Ka-yin
Head of Property Management

Betty Leong Sin-ling
Head of Investment Property

Finance

Stephen Law Cheuk-kin
Finance Director (up to 1 July 2016)*

Lisa Seto Siu-wah
General Manager – Financial Control

Jeff Kwan Wai-hung
Treasurer

Ted Suen Yiu-tat
Head of Information Technology

Candy Ng Chui-lok
Head of Investor Relations and Retirement Benefits

Legal & Procurement

Gillian Meller
Legal Director & Secretary

Stephen Griffin
General Manager – Procurement & Contracts

Teresa Tang Sui-ching
Procurement & Contracts Manager – Operations & General

Scott Mackenzie
Procurement & Contracts Manager – Projects

Raymond Au Koon-shan
Principal Contracts Administration Manager – SCL

Barry Melbourne
Principal Contracts Administration Manager – XRL

Cecilia Cheng Yuet-fong
General Manager – Governance & Risk Management

Brian Downie
General Manager – Legal (Operations & Growth Business)

Linda Li Sau-lin
General Manager – Legal (Property)

Human Resources & Administration

Daniel Shim Ming-yi
Acting Human Resources Director

Alison Wong Yuen-fan
General Manager – Human Resources

Commercial & Marketing

Jeny Yeung Mei-chun
Commercial Director

Margaret Chu Fung-kuen
General Manager – Station Retail

Annie Leung Ching-man
General Manager – Customer Experience Development

Jacqueline Tong Wai-ling
General Manager – Branding and China & International Business Marketing

Raymond Yuen Lap-hang
General Manager – Marketing & Planning

Corporate Affairs

Linda So Ka-pik
Corporate Affairs Director

Maggie So Man-kit
General Manager – Corporate Relations
(w.e.f. 8 February 2016)

Corporate Strategy

Denise Ng Kee Wing-man
General Manager – Corporate Strategy

Internal Audit

Paul Chow Yuen-ming
Head of Internal Audit

* Mr Herbert Hui Leung-wah will be appointed as the Finance Director with effect from 2 July 2016.

Report of the Members of the Board

The Members of the Board have pleasure in submitting their Report and the audited statement of Accounts for the financial year ended 31 December 2015.

Principal Activities of the Group

The Group is principally engaged in the following core businesses – railway design, construction, operation, maintenance and investment in Hong Kong, the Mainland of China and a number of overseas cities; project management in relation to railway and property development businesses; station commercial business including leasing of station retail space, leasing of advertising space inside trains and stations, and enabling of telecommunication services on the railway system in Hong Kong; property business including property development and investment, management and leasing management of investment properties (including shopping malls and offices) in Hong Kong and the Mainland of China; and investment in Octopus Holdings Limited.

The principal activities of the Company's subsidiaries and associates as at 31 December 2015 are set out in notes 27 and 28 to the Accounts.

Business Review

The Company has always been committed to providing comprehensive reviews of the Group's business and performance in different sections of its Annual Reports. In light of the new requirement under the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong) for companies to have a "business review" section in the directors' report, a summary of the relevant sections in the Company's Annual Report 2015 covering the required disclosures is set out below for ease of reference.

A fair review of the business of the Group and a discussion and an analysis of the Group's performance during the year ended 31 December 2015 are provided in Chairman's Letter Section (pages 8 to 11), CEO's Review of Operations and Outlook Section (pages 12 to 26), Executive Management's Report Section (pages 30 to 85) and Financial Review Section (pages 86 to 91); particulars of important events affecting the Group that have occurred since the end of the financial year 2015 are set out in Chairman's Letter Section (pages 8 to 11), CEO's Review of Operations and Outlook Section (pages 12 to 26) and Executive Management's Report Section (pages 30 to 85); a description of the significant risks and uncertainties facing the Group can be found in CEO's Review of Operations and Outlook Section (pages 12 to 26), Executive Management's Report Section (pages 30 to 85) and Risk Management Section (pages 101 to 103); the outlook for the Group's business is set out in Chairman's Letter Section (pages 8 to 11), CEO's Review of Operations and Outlook Section (pages 12 to 26) and Executive Management's Report Section (pages 30 to 85); a description of the Group's relationships with its key stakeholders is included in Chairman's Letter Section (pages 8 to 11), CEO's Review of Operations and Outlook Section (pages 12 to 26), Executive Management's Report Section (pages 30 to 85), Investor

Relations Section (pages 94 to 95), Corporate Responsibility Section (pages 96 to 100) and Corporate Governance Report Section (pages 104 to 123); the Group's environmental policies and performance are listed in Corporate Responsibility Section (pages 96 to 100); and details regarding the Group's compliance with relevant laws and regulations which have a significant impact on the Group are provided in Corporate Governance Report Section (pages 104 to 123). Further details relating to the Group's relationships with its key stakeholders and the Group's environmental policies and performance can be found in the Company's 2015 Sustainability Report to be launched in late May 2016.

Dividend

The Board has recommended to pay a final dividend of HK\$0.81 per share (2014: HK\$0.80 per share). The Company proposes that a scrip dividend option will be offered to all shareholders except for shareholders with registered addresses in the United States of America or any of its territories or possessions. Subject to the approval of the shareholders at the forthcoming AGM, the proposed 2015 final dividend, with a scrip dividend option, is expected to be distributed on 13 July 2016 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 27 May 2016.

Accounts

The financial position of the Group as at 31 December 2015 and the Group's financial performance and cash flows for the year are set out in the consolidated accounts on pages 171 to 262.

Ten-Year Statistics

A summary of the results and of the assets and liabilities of the Group together with some major operational statistics for the last ten years are set out on pages 92 to 93.

Members of the Board

Members of the Board during the year and up to the date of this Report (unless otherwise stated) were:

Non-executive Directors

Professor Frederick Ma Si-hang (re-designated as a Non-executive Director (from an Independent Non-executive Director) since 30 November 2015) (Chairman since 1 January 2016)

Dr Raymond Ch'ien Kuo-fung (Chairman and Member up to 31 December 2015)

Professor Chan Ka-keung, Ceajer

Secretary for Transport and Housing
(Professor Anthony Cheung Bing-leung)

Permanent Secretary for Development (Works)
(Mr Hon Chi-keung)(since 7 April 2015)
(Mr Wai Chi-sing) (up to 6 April 2015)

Commissioner for Transport
(Mrs Ingrid Yeung Ho Poi-yan)

Report of the Members of the Board

Independent Non-executive Directors

Mrs Pamela Chan Wong Shui
Dr Dorothy Chan Yuen Tak-fai
Mr Vincent Cheng Hoi-chuen
Ms Christine Fang Meng-sang (up to 10 August 2015)
Dr Eddy Fong Ching (since 13 January 2015)
Mr Edward Ho Sing-tin
Mr James Kwan Yuk-choi
Mr Lau Ping-cheung, Kaizer (since 11 August 2015)
Mrs Lucia Li Li Ka-lai
Mr Alasdair George Morrison
Mr Ng Leung-sing
Mr Abraham Shek Lai-him
Mr T. Brian Stevenson (up to 20 May 2015)
Mr Benjamin Tang Kwok-bun
Dr Allan Wong Chi-yun (since 11 August 2015)

Executive Director

Mr Lincoln Leong Kwok-kuen (Chief Executive Officer)
(since 16 March 2015)

At the 2015 AGM on 20 May 2015 and pursuant to the Articles of Association, Dr Raymond Ch'ien Kuo-fung, Professor Chan Ka-keung, Ceajer, Dr Eddy Fong Ching, Mr James Kwan Yuk-choi, Mr Lincoln Leong Kwok-kuen, Mrs Lucia Li Li Ka-lai and Mr Benjamin Tang Kwok-bun retired under the Articles of Association and were re-elected/elected as Members of the Board. Mr T. Brian Stevenson did not stand for re-election at the 2015 AGM and retired as a Member of the Board pursuant to the Articles of Association.

At the 2016 AGM to be held on 18 May 2016 and in accordance with the Articles of Association, Mr Vincent Cheng Hoi-chuen and Mr Edward Ho Sing-tin will retire by rotation pursuant to Articles 91 and 92(a) of the Articles of Association. Mr Lau Ping-cheung, Kaizer and Dr Allan Wong Chi-yun, who were appointed by the Board after the 2015 AGM, will retire pursuant to Article 89 of the Articles of Association. Mr Ho will not stand for re-election at the 2016 AGM. The other three retiring Directors will offer themselves for re-election/election at the 2016 AGM. In addition, a resolution will be proposed to the shareholders to elect Mr Anthony Chow Wing-kin as a new Independent Non-executive Director of the Company at the 2016 AGM. Please also refer to the Circular to be sent together with this Report.

Biographical details for Board Members are set out on pages 132 to 136.

Alternate Directors

The Alternate Directors in office during the year and up to the date of this Report were:

For Professor Chan Ka-keung, Ceajer: (i) Ms Mable Chan; and (ii) Ms Elizabeth Tse Man-ye;e;

For the office of the Secretary for Transport and Housing: (i) the Under Secretary for Transport and Housing (Mr Yau Shing-mu); (ii) the Permanent Secretary for Transport and Housing (Transport) (Mr Joseph Lai Yee-tak); and (iii) the Deputy Secretaries for Transport and Housing (Transport) (Ms Rebecca Pun Ting-ting and Mr Andy Chan Shui-fu);

For the office of the Permanent Secretary for Development (Works): the Deputy Secretary for Development (Works) (Mr Chan Chi-ming); and

For the Commissioner for Transport: the Deputy Commissioner for Transport/Transport Services and Management (Miss Cinderella Law Fung-ping).

Executive Directorate

Members of the Executive Directorate during the year and up to the date of this Report (unless otherwise stated) were:

Mr Lincoln Leong Kwok-kuen (Chief Executive Officer and a Member of the Board since 16 March 2015) (formerly Acting Chief Executive Officer until 15 March 2015)

Mr Morris Cheung Siu-wa (European Business Director since 15 June 2015) (formerly Human Resources Director up to 14 June 2015)

Dr Peter Ronald Ewen (Engineering Director since 22 February 2016)

Dr Jacob Kam Chak-pui (Operations Director)

Mr Stephen Law Cheuk-kin (Finance Director)*

Ms Gillian Elizabeth Meller (Legal Director & Secretary)

Ms Linda So Ka-pik (Corporate Affairs Director since 16 September 2015)

Mr David Tang Chi-fai (Property Director)

Dr Philco Wong Nai-keung (Projects Director)

Ms Jeny Yeung Mei-chun (Commercial Director)

Human Resources Director**

* On 25 September 2015, the Company announced that Mr Stephen Law Cheuk-kin would not seek to renew his service contract with the Company upon expiry of his service contract on 1 July 2016. On 25 February 2016, the Company announced that Mr Herbert Hui Leung-wah would be appointed as the Finance Director and a member of the Executive Directorate, with effect from 2 July 2016.

** On 29 May 2015, the Company announced that a search would be commenced to fill the position of Human Resources Director following Mr Morris Cheung Siu-wa's change of role, and, in the interim, Mr Daniel Shim Ming-yi has served as Acting Human Resources Director of the Company.

Biographical details for Members of the Executive Directorate are set out on pages 136 to 139.

Directors of Subsidiaries

The names of all the directors of the subsidiaries of the Company during the year and up to the date of this Report (unless otherwise stated) are listed on page 168.

Directors' Service Contracts

No Director proposed for election or re-election at the forthcoming AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

No Director has a service contract with the Company or any of its subsidiaries which is for a duration which may exceed three years or which requires the Company to, in order to terminate such contract, give a notice period in excess of one year or pay compensation or make other payments equivalent to more than one year's emoluments.

Directors' Material Interests in Transactions, Arrangements or Contracts

Except for, in respect of Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury), Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung), Permanent Secretary for Development (Works) (Mr Wai Chi-sing (up to 6 April 2015) and Mr Hon Chi-keung (since 7 April 2015)), and Commissioner for Transport (Mrs Ingrid Yeung Ho Poi-yan), all of whom were officials of Government, those connected transactions and continuing connected transactions between the Company and Government (and/or its associates) which are described on pages 149 to 166, there was no transaction, arrangement or contract of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which a Member of the Board or a Member of the Executive Directorate or an entity connected with him/her had a material interest (whether direct or indirect), which was entered into during the year or subsisted at any time during the year.

Directors' Interests in Shares and Underlying Shares of the Company

As at 31 December 2015, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code, were as follows:

Member of the Board and/or the Executive Directorate	No. of Ordinary Shares held				No. of Share Options [#]	No. of Share Awards [#]	Total interests	Percentage of aggregate interests to total no. of voting shares in issue
	Personal interests*	Family interests [†]	Other interests	Corporate interests	Personal interests*	Personal interests*		
Frederick Ma Si-hang (Note 1)	–	70,000 (Note 1)	70,000 (Note 1)	–	–	–	70,000	0.00119
Raymond Ch'ien Kuo-fung (Note 2)	53,543	–	–	–	–	–	53,543	0.00091
Lincoln Leong Kwok-kuen	363,000	–	–	23,000 (Note 3)	797,000	315,200	1,498,200	0.02557
Pamela Chan Wong Shui	9,002	1,675	–	–	–	–	10,677	0.00018
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	–	3,350	0.00006
Lucia Li Li Ka-lai	–	1,614 (Note 4)	2,215 (Note 4)	–	–	–	3,829	0.00007
Ingrid Yeung Ho Poi-yan	1,116	–	–	–	–	–	1,116	0.00002
Morris Cheung Siu-wa	14,098	–	–	–	334,500	28,800	377,398	0.00644
Jacob Kam Chak-pui	2,283	–	–	–	659,500	79,650	741,433	0.01266
Stephen Law Cheuk-kin	–	–	–	–	196,000	74,300	270,300	0.00461
Gillian Elizabeth Meller	–	–	–	–	497,500	74,550	572,050	0.00976
David Tang Chi-fai	633	–	–	–	454,000	76,050	530,683	0.00906
Philco Wong Nai-keung	–	–	–	–	187,500	79,300	266,800	0.00455
Jeny Yeung Mei-chun	78,400	–	–	–	478,000	76,950	633,350	0.01081

Notes

- 1 Professor Frederick Ma Si-hang was appointed as Chairman of the Company with effect from 1 January 2016. The 70,000 shares were indirectly held by The Ma Family Trust established by Professor Ma for himself and his family of which his spouse was also a beneficiary.
- 2 Dr Raymond Ch'ien Kuo-fung retired as Chairman and a Member of the Board of the Company with effect from 1 January 2016.
- 3 The 23,000 shares were held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr Lincoln Leong Kwok-kuen.
- 4 The 1,614 shares were held by Mrs Lucia Li Li Ka-lai's spouse and the 2,215 shares were jointly held by Mrs Li and her spouse.

[#] Details of the Share Options and Share Awards are set out in the sections headed "2007 Share Option Scheme" and "2014 Share Incentive Scheme" respectively on pages 144 to 147

* Interests as beneficial owner

[†] Interests of spouse or child under 18 as beneficial owner

Report of the Members of the Board

Save as disclosed above, during the year ended 31 December 2015:

- A** none of the Members of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and
- B** no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them, as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code.

Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5% or more of all the Company's voting shares in issue and the number of shares in which it was interested as at 31 December 2015 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to all the voting shares in issue
The Financial Secretary Incorporated ("FSI") (in trust on behalf of Government)	4,434,552,207	75.70%

The Company has been informed by the Hong Kong Monetary Authority that, as at 31 December 2015, approximately 0.51% of the shares of the Company (not included in the FSI shareholding set out in the above table) were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

Other Persons' Interest

Save as disclosed in the sections headed "Directors' Interests in Shares and Underlying Shares of the Company" and "Substantial Shareholders' Interests", as at 31 December 2015, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO or otherwise notified to the Company and the HKSE.

2007 Share Option Scheme

Movements in the outstanding share options to subscribe for Ordinary Shares of the Company granted under the 2007 Share Option Scheme during the year ended 31 December 2015 are set out below:

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2015	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK\$)	Options outstanding as at 31 December 2015	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Lincoln Leong Kwok-kuen	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	28.84	170,000	–
	30/3/2012	201,000	23/3/2013 – 23/3/2019	201,000	67,000	–	–	27.48	201,000	–
	6/5/2013	256,000	26/4/2014 – 26/4/2020	256,000	85,500	–	–	31.40	256,000	–
Morris Cheung Siu-wa	11/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	65,000	26.85	–	38.95
	21/7/2010	35,000	28/6/2011 – 28/6/2017	35,000	–	–	24,000	27.73	11,000	38.95
	20/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	44,000	28.84	21,000	38.95
	30/3/2012	122,000	23/3/2013 – 23/3/2019	122,000	40,000	–	–	27.48	122,000	–
Jacob Kam Chak-pui	6/5/2013	180,500	26/4/2014 – 26/4/2020	180,500	60,500	–	–	31.40	180,500	–
	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	26.85	65,000	–
	21/7/2010	50,000	28/6/2011 – 28/6/2017	50,000	–	–	–	27.73	50,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	28.84	170,000	–
	30/3/2012	172,000	23/3/2013 – 23/3/2019	172,000	57,000	–	–	27.48	172,000	–
	6/5/2013	202,500	26/4/2014 – 26/4/2020	202,500	67,500	–	–	31.40	202,500	–

2007 Share Option Scheme (Continued)

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2015	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK\$)	Options outstanding as at 31 December 2015	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Stephen Law Cheuk-kin	1/11/2013	196,000	25/10/2014 – 25/10/2020	196,000	65,500	–	–	29.87	196,000	–
Gillian Elizabeth Meller	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	26.85	65,000	–
	17/12/2010	90,000	16/12/2011 – 16/12/2017	90,000	–	–	–	28.84	90,000	–
	30/3/2012	158,500	23/3/2013 – 23/3/2019	158,500	52,500	–	–	27.48	158,500	–
	6/5/2013	184,000	26/4/2014 – 26/4/2020	184,000	61,500	–	–	31.40	184,000	–
David Tang Chi-fai	12/12/2008	65,000	8/12/2009 – 8/12/2015	21,000	–	–	21,000	18.30	–	35.80
	15/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	22,000	26.85	43,000	35.80
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	28.84	65,000	–
	30/3/2012	163,500	23/3/2013 – 23/3/2019	163,500	54,500	–	–	27.48	163,500	–
Philco Wong Nai-keung	6/5/2013	182,500	26/4/2014 – 26/4/2020	182,500	61,000	–	–	31.40	182,500	–
	30/3/2012	70,500	23/3/2013 – 23/3/2019	23,500	23,500	–	–	27.48	23,500	–
	6/5/2013	81,000	26/4/2014 – 26/4/2020	81,000	27,000	–	–	31.40	81,000	–
Jeny Yeung Mei-chun	30/5/2014	83,000	23/5/2015 – 23/5/2021	83,000	28,000	–	–	28.65	83,000	–
	10/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	–	65,000	18.30	–	36.70
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	28.84	65,000	–
	30/3/2012	161,000	23/3/2013 – 23/3/2019	161,000	53,000	–	–	27.48	161,000	–
Other eligible employees	6/5/2013	187,000	26/4/2014 – 26/4/2020	187,000	62,500	–	–	31.40	187,000	–
	28/3/2008	255,000	26/3/2009 – 26/3/2015	54,000	–	–	54,000	26.52	–	33.86
	31/3/2008	379,000	26/3/2009 – 26/3/2015	81,000	–	–	81,000	26.52	–	34.25
	1/4/2008	261,000	26/3/2009 – 26/3/2015	127,000	–	–	127,000	26.52	–	34.15
	2/4/2008	296,000	26/3/2009 – 26/3/2015	159,000	–	–	159,000	26.52	–	34.30
	3/4/2008	171,000	26/3/2009 – 26/3/2015	55,000	–	–	55,000	26.52	–	34.82
	7/4/2008	390,000	26/3/2009 – 26/3/2015	130,000	–	–	130,000	26.52	–	34.66
	9/4/2008	85,000	26/3/2009 – 26/3/2015	23,000	–	–	23,000	26.52	–	33.55
	10/4/2008	58,000	26/3/2009 – 26/3/2015	58,000	–	–	58,000	26.52	–	35.67
	11/4/2008	134,000	26/3/2009 – 26/3/2015	70,000	–	–	70,000	26.52	–	34.95
	12/4/2008	48,000	26/3/2009 – 26/3/2015	31,000	–	–	31,000	26.52	–	34.22
	14/4/2008	40,000	26/3/2009 – 26/3/2015	40,000	–	–	40,000	26.52	–	35.87
	15/4/2008	34,000	26/3/2009 – 26/3/2015	17,000	–	–	17,000	26.52	–	33.00
	16/4/2008	57,000	26/3/2009 – 26/3/2015	40,000	–	–	40,000	26.52	–	33.47
	17/4/2008	147,000	26/3/2009 – 26/3/2015	90,000	–	–	90,000	26.52	–	32.57
	18/4/2008	32,000	26/3/2009 – 26/3/2015	15,000	–	–	15,000	26.52	–	35.15
	21/4/2008	66,000	26/3/2009 – 26/3/2015	58,000	–	–	58,000	26.52	–	33.65
	23/4/2008	34,000	26/3/2009 – 26/3/2015	19,000	–	–	19,000	26.52	–	35.95
	8/12/2008	90,000	8/12/2009 – 8/12/2015	20,000	–	–	20,000	18.30	–	34.90
	9/12/2008	1,293,000	8/12/2009 – 8/12/2015	257,000	–	–	257,000	18.30	–	36.19
	10/12/2008	2,046,400	8/12/2009 – 8/12/2015	419,700	–	–	419,700	18.30	–	35.26
	11/12/2008	2,394,200	8/12/2009 – 8/12/2015	370,000	–	–	370,000	18.30	–	36.13
	12/12/2008	1,416,500	8/12/2009 – 8/12/2015	442,500	–	–	442,500	18.30	–	34.66
	13/12/2008	84,500	8/12/2009 – 8/12/2015	40,500	–	–	40,500	18.30	–	34.60
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	228,700	–	–	228,700	18.30	–	35.41
	16/12/2008	581,500	8/12/2009 – 8/12/2015	134,000	–	–	134,000	18.30	–	37.39
	17/12/2008	513,500	8/12/2009 – 8/12/2015	171,500	–	–	171,500	18.30	–	36.58
	18/12/2008	611,500	8/12/2009 – 8/12/2015	19,000	–	–	19,000	18.30	–	33.00
	19/12/2008	198,000	8/12/2009 – 8/12/2015	44,000	–	–	44,000	18.30	–	35.90
	22/12/2008	772,500	8/12/2009 – 8/12/2015	136,500	–	–	136,500	18.30	–	36.18
23/12/2008	306,000	8/12/2009 – 8/12/2015	44,000	–	–	44,000	18.30	–	36.85	

Report of the Members of the Board

2007 Share Option Scheme (Continued)

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2015	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK\$)	Options outstanding as at 31 December 2015	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Other eligible employees	24/12/2008	500,500	8/12/2009 – 8/12/2015	109,000	–	–	109,000	18.30	–	34.72
	25/12/2008	45,000	8/12/2009 – 8/12/2015	45,000	–	–	45,000	18.30	–	34.55
	18/6/2009	255,000	12/6/2010 – 12/6/2016	130,000	–	–	130,000	24.50	–	35.50
	6/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	–	45,000	24.50	–	35.55
	9/12/2009	670,000	8/12/2010 – 8/12/2016	520,000	–	–	50,000	26.85	470,000	36.13
	10/12/2009	2,551,000	8/12/2010 – 8/12/2016	1,364,000	–	–	638,000	26.85	726,000	35.93
	11/12/2009	2,297,000	8/12/2010 – 8/12/2016	1,251,000	–	–	605,500	26.85	645,500	35.19
	12/12/2009	610,000	8/12/2010 – 8/12/2016	290,000	–	–	155,000	26.85	135,000	36.91
	14/12/2009	2,443,000	8/12/2010 – 8/12/2016	1,332,000	–	–	818,000	26.85	514,000	35.93
	15/12/2009	2,773,000	8/12/2010 – 8/12/2016	1,192,500	–	–	660,500	26.85	532,000	36.16
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	581,500	–	–	208,000	26.85	373,500	36.51
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	290,000	–	–	123,000	26.85	167,000	36.10
	18/12/2009	389,000	8/12/2010 – 8/12/2016	228,500	–	–	120,500	26.85	108,000	36.13
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	279,000	–	–	121,000	26.85	158,000	36.49
	22/12/2009	256,000	8/12/2010 – 8/12/2016	147,000	–	–	25,000	26.85	122,000	33.65
	21/7/2010	270,000	28/6/2011 – 28/6/2017	45,000	–	–	–	27.73	45,000	–
	16/12/2010	194,000	16/12/2011 – 16/12/2017	104,000	–	–	49,000	28.84	55,000	35.90
	17/12/2010	4,907,000	16/12/2011 – 16/12/2017	3,463,000	–	–	1,114,000	28.84	2,349,000	36.33
	18/12/2010	673,000	16/12/2011 – 16/12/2017	608,000	–	–	218,500	28.84	389,500	35.80
	19/12/2010	174,000	16/12/2011 – 16/12/2017	98,000	–	–	73,000	28.84	25,000	36.46
	20/12/2010	4,789,500	16/12/2011 – 16/12/2017	3,086,000	–	–	1,411,000	28.84	1,675,000	35.68
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	1,929,000	–	–	757,500	28.84	1,171,500	36.14
	22/12/2010	975,000	16/12/2011 – 16/12/2017	682,000	–	–	196,000	28.84	486,000	36.11
	23/12/2010	189,000	16/12/2011 – 16/12/2017	119,000	–	–	44,000	28.84	75,000	34.60
	7/7/2011	215,000	27/6/2012 – 27/6/2018	123,000	–	–	88,000	26.96	35,000	34.42
	30/3/2012	15,868,500	23/3/2013 – 23/3/2019	12,562,500	4,795,000	8,500	5,227,000	27.48	7,327,000	36.87
	6/5/2013	20,331,500	26/4/2014 – 26/4/2020	19,037,500	6,431,500	319,000	3,081,500	31.40	15,637,000	36.59
	1/11/2013	188,500	25/10/2014 – 25/10/2020	188,500	63,500	–	–	29.87	188,500	–
30/5/2014	19,812,500	23/5/2015 – 23/5/2021	19,551,000	6,628,000	389,500	1,285,500	28.65	17,876,000	36.33	

Notes

- No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme on 7 June 2007. The 2007 Share Option Scheme expired at 5.00 p.m. on 6 June 2014, with no further option granted since then.
- Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the 2007 Share Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 0.2% of the shares of the Company in issue at the date of offer in respect of such option under the 2007 Share Option Scheme.
- The proportion of underlying shares in respect of which the above share options will vest is as follows:

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

- Pursuant to the terms of the 2007 Share Option Scheme, each grantee undertakes to pay HK\$1.00, on demand, to the Company, in consideration for the grant of the options.
- Other details of the 2007 Share Option Scheme are set out in notes 10B and 47A(i) to the Accounts.

Equity-linked Agreement

Save as disclosed in the section headed “2007 Share Option Scheme” above, no equity-linked agreements were entered into during the year ended 31 December 2015 or subsisted at the end of the year.

2014 Share Incentive Scheme

The Company adopted the 2014 Share Incentive Scheme on 15 August 2014. The purposes of the 2014 Share Incentive Scheme are to retain management and key employees, to align participants’ interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the 2014 Share Incentive Scheme as award holders in accordance with the rules of the 2014 Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares (together, the “Award Shares”). The shares to be granted under the 2014 Share Incentive Scheme are Ordinary Shares in the capital of the Company.

In general, the Company will pay to the third party trustee (the “Trustee”) monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from Ordinary Shares of the Company held as part of the funds of the trust to acquire existing Ordinary Shares of the Company from the market. Such Ordinary Shares will be held on trust by the Trustee for the relevant award holders. The Trustee shall not exercise any voting rights in respect of any Ordinary Shares of the Company held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested Award Shares. An award holder shall have no right to any dividend held under the trust.

The maximum number of Award Shares that may at any time be the subject of an outstanding award granted under the 2014 Share Incentive Scheme shall not exceed 2.5 per cent. of the number of issued Ordinary Shares of the Company as at 1 January 2015, the effective date of the 2014 Share Incentive Scheme (the “Effective Date”).

For the year ended 31 December 2015, a total of 4,029,200 Award Shares were awarded under the 2014 Share Incentive Scheme, representing 0.07 per cent. of the issued Ordinary Shares of the Company as at the Effective Date.

Further details of the 2014 Share Incentive Scheme are set out in the section headed “Long-Term Incentives” under the Remuneration Report (pages 129 to 130) and notes 10C and 47A(ii) to the Accounts.

The particulars of the Award Shares granted are as follows:

Executive Directorate and eligible employees	Date of award	Types of Award Shares granted		Award Shares outstanding as at 1 January 2015	Award Shares vested during the year	Award Shares lapsed and /or forfeited during the year	Award Shares outstanding as at 31 December 2015
		Restricted Shares	Performance Shares				
Lincoln Leong Kwok-kuen	27/4/2015	60,200	255,000	–	–	–	315,200
Morris Cheung Siu-wa	27/4/2015	–	28,800	–	–	–	28,800
Jacob Kam Chak-pui	27/4/2015	22,050	57,600	–	–	–	79,650
Stephen Law Cheuk-kin	27/4/2015	16,700	57,600	–	–	–	74,300
Gillian Elizabeth Meller	27/4/2015	16,950	57,600	–	–	–	74,550
David Tang Chi-fai	27/4/2015	18,450	57,600	–	–	–	76,050
Philco Wong Nai-keung	27/4/2015	21,700	57,600	–	–	–	79,300
Jeny Yeung Mei-chun	27/4/2015	19,350	57,600	–	–	–	76,950
Other eligible employees	27/4/2015	2,172,750	1,051,650	–	8,533	89,067	3,126,800

Report of the Members of the Board

Shares Issued

As at 31 December 2014, a total of 5,826,534,347 Ordinary Shares were issued and credited as fully paid.

During the year, the Company issued a total of 31,693,889 Ordinary Shares. Of this number:

- A** 21,033,900 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's 2007 Share Option Scheme (as referred in note 47A(i) to the Accounts). In respect of each Ordinary Share issued, the relevant exercise prices per share of options were HK\$18.30, HK\$24.50, HK\$26.52, HK\$26.85, HK\$26.96, HK\$27.48, HK\$27.73, HK\$28.65, HK\$28.84 and HK\$31.40 to the Company. The total consideration received by the Company for the issue of these Ordinary Shares was approximately HK\$569 million;
- B** 6,468,200 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the final dividend of the Company for the year ended 31 December 2014 (the relevant cash dividend was HK\$0.80 per Ordinary Share); and
- C** 4,191,789 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the interim dividend of the Company for the six months' period ended 30 June 2015 (the relevant cash dividend was HK\$0.25 per Ordinary Share).

As at 31 December 2015, a total of 5,858,228,236 Ordinary Shares were issued and credited as fully paid.

Purchase, Sale or Redemption of Listed Securities

The Group did not purchase, sell or redeem any of the Group's listed securities during the year ended 31 December 2015. However, the Trustee of the 2014 Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the 2014 Share Incentive Scheme, purchased on the HKSE a total of 4,029,200 shares of the Company for a total consideration of approximately HK\$150 million (2014: N/A) during the year.

Public Float

The HKSE granted to the Company, at the time of its listing on the Main Board of the HKSE in 2000, a waiver from strict compliance with Rule 8.08(1) of the Listing Rules ("Public Float Waiver"). Pursuant to the Public Float Waiver, the Company's prescribed minimum percentage of shares which must be in the hands of the public must not be less than 10% of the total number of issued shares of the Company. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this Report as required by the Public Float Waiver.

Major Suppliers and Customers

Information in respect of the Group's major suppliers and major customers for the year ended 31 December 2015 is as follows:

	As a percentage of the Group's total supplies
Total value of supplies (not of a capital nature) attributable to the Group's five largest suppliers	17.72%

	As a percentage of the Group's total revenue
Total revenue attributable to the Group's five largest customers	33.87%
Total revenue attributable to the Group's largest customer	17.17%

As at 31 December 2015, Government, being one of the Group's five largest customers, through the FSI, the substantial shareholder of the Company, held approximately 75.70% of all the Company's voting shares in issue (see the section headed "Substantial Shareholders' Interests" above for further details).

As at 31 December 2015, the following Non-executive Directors*/Alternate Directors[†] of the Company were officials of Government:

- Professor Chan Ka-keung, Ceajer* (Secretary for Financial Services and the Treasury)
- Secretary for Transport and Housing* (Professor Anthony Cheung Bing-leung)
- Permanent Secretary for Development (Works)* (Mr Hon Chi-keung)
- Commissioner for Transport* (Mrs Ingrid Yeung Ho Poi-yan)
- Ms Mable Chan[‡] (Deputy Secretary for Financial Services and the Treasury (Treasury)2)
- Ms Elizabeth Tse Man-yee[‡] (Permanent Secretary for Financial Services and the Treasury (Treasury))
- Under Secretary for Transport and Housing[‡] (Mr Yau Shing-mu)
- Permanent Secretary for Transport and Housing (Transport)[‡] (Mr Joseph Lai Yee-tak)
- Deputy Secretaries for Transport and Housing (Transport)[‡] (Ms Rebecca Pun Ting-ting and Mr Andy Chan Shui-fu)
- Deputy Secretary for Development (Works)[‡] (Mr Chan Chi-ming)
- Deputy Commissioner for Transport/Transport Services and Management[‡] (Miss Cinderella Law Fung-ping)

Save as disclosed above and as at 31 December 2015, no other Members of the Board or the Executive Directorate or any of their respective close associates or any Shareholder (which to the knowledge of the Members of the Board or the Executive

Directorate, own more than 5% of all the Company's voting shares in issue) had any beneficial interests in the Group's five largest customers.

Donations

During the year, the Group donated approximately HK\$8.2 million (2014: approximately HK\$15.4 million) to charitable and other organisations.

The MTR HONG KONG Race Walking 2015 raised over HK\$1.42 million (including over HK\$137,000 from MTR staff) for the Hospital Authority Health InfoWorld to support its work on enhancing disease management skills and promoting healthy living.

The Company raised funds from staff for charitable causes with a total cash donation of over HK\$378,000 (2014: over HK\$239,000) through different activities:

- Over HK\$329,000 was raised for the Community Chest through CARE Scheme, Love Teeth Day, Skip Lunch Day and Dress Casual Day; and
- Over HK\$49,000 was raised for Dress Pink Day for the Hong Kong Cancer Fund.

Bank Overdrafts, Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2015 amounted to HK\$20,811 million (2014: HK\$20,507 million). Particulars of the borrowings are set out in note 36 to the Accounts.

Bonds and Notes Issued

The Group issued notes amounting to HK\$1,197 million equivalent during the year ended 31 December 2015 (2014: HK\$550 million equivalent), details of which are set out in note 36C to the Accounts. Such notes were issued in order to meet the Group's general corporate funding requirements, including financing of capital expenditure and refinancing of debts.

Loan Agreements with Covenant Relating to Specific Performance of the Controlling Shareholder

As at 31 December 2015, the Group had borrowings of HK\$14,531 million (2014: HK\$14,066 million) with maturities ranging from 2016 to 2055 and undrawn committed banking facilities of HK\$10,200 million (2014: HK\$7,300 million), which were subject to the condition that Government, being the Company's controlling shareholder, owns more than half of all the Company's voting shares in issue. Failure to satisfy such condition may result in immediate repayment of the borrowings being demanded and cancellation of the undrawn committed banking facilities.

Properties

Particulars of the principal investment properties and properties held for sale of the Company are shown on pages 62 to 63.

Connected Transactions

During the year under review, the transactions described below were entered into with Government (which is a substantial shareholder of the Company as defined in the Listing Rules). Government is therefore a "connected person" of the Company for the purposes of the Listing Rules, and each transaction described below is a connected transaction for the Company under the Listing Rules.

As disclosed in the announcement of the Company dated 13 January 2005, the Stock Exchange has granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and Government, subject to certain conditions (the "Waiver").

Consequently, the Company makes the disclosures below in accordance with Rule 14A.71 of the Listing Rules and in accordance with the conditions of the Waiver.

I Land Agreements

A On 27 October 2014, the Company accepted an offer dated 16 September 2014 from Government to allow the Company to proceed with the proposed Tai Wai Station property development in respect of Sha Tin Town Lot No. 520, Sha Tin, New Territories ("STTL No.520") at a land premium of HK\$10,356,010,000 in respect of the non-railway portion of STTL No.520 and HK\$1,000 in respect of the railway portion of STTL No.520 and on the terms and conditions of the land grant by private treaty of STTL No.520 to be entered into between the Company and Government (the "Land Grant"). The Land Grant was executed on 26 January 2015.

B On 3 December 2014, the Company accepted an offer dated 27 October 2014 from Government to allow the Company to proceed with the proposed LOHAS Park Package 5 property development in respect of Site G of The Remaining Portion of Tseung Kwan O Town Lot No. 70 ("Site G") at a land premium of HK\$2,064,250,000 and of the terms and conditions of a further lease modification in respect of the Site G (the "Site G Lease Modification") of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant No.9689 as varied or modified by six modification letters. The Site G Lease Modification was executed on 5 January 2015.

C On 23 January 2015, the Company accepted an offer dated 23 December 2014 from Government to allow the Company to proceed with the proposed LOHAS Park Package 6 property development in respect of Site N of The Remaining Portion of Tseung Kwan O Town Lot No. 70 ("Site N") at a land premium of HK\$3,345,440,000 and of the terms and conditions of a further lease modification in respect of the Site N (the "Site N Lease Modification") of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant

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No.9689 as varied or modified by seven modification letters. The Site N Lease Modification was executed on 24 April 2015.

D On 3 March 2015, the Company accepted an offer dated 6 February 2015 from Government to allow the Company to proceed with the proposed Tin Wing Stop Property Development (previously referred to as “Tin Shui Wai Terminus, Light Rail”) at Tin Shui Wai Town Lot No. 23 (the “Lot”) at a land premium of HK\$1,518,990,000. The Conditions of Grant of the Lot was executed on 17 June 2015.

E On 11 June 2015, the Company accepted an offer dated 6 May 2015 from Government to allow the Company to proceed with the proposed LOHAS Park Package 7 property development in respect of Site C1 of The Remaining Portion of Tseung Kwan O Town Lot No. 70 (the “Site C1”) at a land premium of HK\$3,888.3068 million being as to HK\$3,887.79 million thereof as the land premium in respect of Site C1 and as to the remaining HK\$516,800 thereof as the premium for modifying matters not relating to Site C1, and of the terms and conditions of a further lease modification in respect of the Site C1 (the “Site C1 Lease Modification”) of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant No.9689 as varied or modified by eight modification letters. The Site C1 Lease Modification was executed on 31 July 2015.

F The Company and Yan Nin Development Company Limited (the “Co-owner”), the co-owner of New Kowloon Inland Lot No.6201, entered into a consent letter dated 20 October 2015 with Government in respect of Telford Plaza II which allows the Company and the Co-owner to amend the Master Layout Plan for New Kowloon Inland Lot No.5744 (Part) and New Kowloon Inland Lot No.6201 at a premium of HK\$298,480,000 and an administrative fee of HK\$326,789 and subject to the terms and conditions set out in the consent letter dated 20 October 2015.

G On 8 October 2015, the Company accepted an offer dated 28 August 2015 from Government to allow the Company to proceed with the proposed LOHAS Park Package 8 property development in respect of Site H of The Remaining Portion of Tseung Kwan O Town Lot No. 70 (the “Site H”) at a land premium of HK\$2,955.26 million and of the terms and conditions of a further lease modification in respect of the Site H (the “Site H Lease modification”) of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant No.9689 as varied or modified by nine modification letters. The Site H Lease Modification was executed on 11 November 2015.

H On 5 January 2016, the Company accepted an offer dated 25 November 2015 from Government to allow the Company to proceed with the proposed LOHAS Park Package

9 property development in respect of Site J of The Remaining Portion of Tseung Kwan O Town Lot No. 70 (the “Site J”) at a land premium of HK\$2,851.99 million and of the terms and conditions of a further lease modification in respect of the Site J (the “Site J Lease Modification”) of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant No.9689 as varied or modified by ten modification letters. The Site J Lease Modification was executed on 15 February 2016.

II The Third Agreement in Relation to the Express Rail Link

On 30 November 2015, Government and the Company entered into the deed of agreement relating to the further funding and completion of the Express Rail Link Project (the “Third XRL Agreement”). The Third XRL Agreement contains an integrated package of terms and provides that:

- (i) Government will bear and finance the project cost up to HK\$84.42 billion;
- (ii) if the project cost exceeds HK\$84.42 billion, the Company will bear and finance the portion which exceeds that sum (if any), except for certain agreed excluded costs;
- (iii) the Company will pay a special dividend of HK\$4.40 in aggregate per share in two equal tranches (of HK\$2.20 per share, in cash in each tranche);
- (iv) certain amendments will be made to the existing entrustment arrangements entered into in 2010 relating to the Express Rail Link (please see section B2 in the section headed “II. Non Merger-related Continuing Connected Transactions with Government and/or its Associates” in the section headed “Continuing Connected Transactions” below), including an increase in the project management fee payable to the Company to HK\$6.34 billion;
- (v) Government reserves the right to refer to arbitration, after commencement of operations on the Express Rail Link, the question of the Company’s liability for the current cost overrun (if any); and
- (vi) the Third XRL Agreement is subject to (a) the obtaining of approval of the Company’s independent shareholders and (b) the obtaining of approval of the Legislative Council for Government’s additional funding obligations, within the agreed timeframe.

At the general meeting of the Company held on 1 February 2016, the independent shareholders of the Company voted in favour of the resolution to approve the Third XRL Agreement and, accordingly, the condition referred to in paragraph (vi)(a) above has been satisfied. The Legislative Council of Hong Kong approved Government’s additional funding obligations on 11 March 2016.

Continuing Connected Transactions

During the year under review, the following transactions and arrangements described below involved the provision of goods or services carried out on an ongoing or recurring basis and are expected to extend over a period of time with Government and/or KCRC, the Airport Authority (the "AA"), UGL Rail Services Pty Limited ("UGL"), Leighton Contractors (Asia) Limited ("LCAL") and John Holland Pty Limited ("JHL").

As noted above under the section headed "Connected Transactions", Government is a substantial shareholder of the Company for the purposes of the Listing Rules. KCRC and the AA are both associates of the Company as defined in the Listing Rules. As explained under Section III below, UGL and John Holland Melbourne Rail Franchise Pty Ltd. ("John Holland") are substantial shareholders of a subsidiary of the Company and JHL is an associate of John Holland for the purposes of the Listing Rules. As of April 2015, LCAL ceased to be an associate of John Holland as a result of the transfer of 100% of the equity interests in John Holland Group Pty Ltd and its subsidiaries by Leighton Holdings Limited to CCCC International Holding Limited.

Therefore, each of Government, KCRC, the AA, UGL, LCAL (up to April 2015), John Holland and JHL is / was therefore each "connected person" for the purposes of the Listing Rules and, during 2015, each transaction set out at paragraphs I, II and III below constituted a continuing connected transaction for the Company under the Listing Rules.

I Merger-related Continuing Connected Transactions

Each of the transactions listed in paragraphs A to D below and which formed part of the Rail Merger, was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. These paragraphs should be read in conjunction with the paragraphs contained in the section below headed "Additional Information in respect of the Rail Merger".

As disclosed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to continuing connected transactions between the Company, Government and/or KCRC arising as a result of the Rail Merger, subject to certain conditions (the "Merger-related Waiver").

A Merger Framework Agreement

The Merger Framework Agreement was entered into on 9 August 2007 between the Company, KCRC and the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury for and on behalf of Government.

The Merger Framework Agreement contains provisions for the overall structure and certain specific aspects of the Rail Merger, including in relation to:

- a seamless interchange programme;
- corporate governance of the Company Post-Rail Merger;
- payments relating to property enabling works;
- arrangements relating to the establishment of a rolling programme on the level of flat production arising from tenders for railway property development;
- arrangements in relation to the assessment of land premium amounts;
- arrangements in relation to the employees of the Company and KCRC, including provisions preventing the Company from terminating the employment of relevant frontline staff for any reason that relates to the process of integrating the operations of the Company and KCRC;
- the implementation of certain fare reductions;
- arrangements in relation to the proposed Shatin to Central Link;
- KCRC's continuing responsibility for its existing financial arrangements;
- treatment of KCRC's cross border leases;
- the payment of HK\$7.79 billion in respect of the Property Package (as described on pages 152 to 154 and in paragraph D below);
- the allocation of liability for any Pre-Rail Merger and Post-Rail Merger claims by third parties; and
- the Company's retention of its English name and (pursuant to the Rail Merger Ordinance) the change of its Chinese name to "香港鐵路有限公司".

B West Rail Agency Agreement

The West Rail Agency Agreement and related agreements were entered into on 9 August 2007 between the Company, KCRC and certain KCRC subsidiary companies (the "West Rail Subsidiaries"). Pursuant to the terms of the West Rail Agency Agreement, the Company was appointed:

- to act as KCRC's agent, and donee under powers of attorney, to exercise certain rights and perform certain obligations relating to specified development sites along West Rail; and
- to act as agent for, and donee under powers of attorney from, each of the West Rail Subsidiaries to exercise certain rights and perform certain obligations relating to specified development sites along West Rail.

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The Company will receive an agency fee of 0.75% of the gross sale proceeds in respect of the unawarded West Rail development sites and 10% of the net profits accrued to the West Rail Subsidiaries under the development agreements in respect of the awarded West Rail development sites. The Company will also recover from the West Rail Subsidiaries its costs (including internal costs) incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon.

C KCRC Cross Border Lease Agreements

US CBL Assumption Agreements

Separate US CBL Assumption Agreements were entered into on 30 November 2007 between the Company, KCRC and, variously, Wilmington Trust Company, Buoyant Asset Limited, BA Leasing & Capital Corporation, Utrecht-America Finance Co., Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., Advanced Asset Limited, Washoe Asset Management Company, Quality Asset Limited, Kasey Asset Limited, Key Equipment Finance Inc., Mercantile Leasing Company (No. 132) Limited, Landesbank Sachsen Aktiengesellschaft, Barclays Bank PLC, Bayerische Landesbank Girozentrale, U.S. Bank National Association, Circuit Asset Limited, Citicorp USA Inc., Shining Asset Limited, Banc of America FSC Holdings Inc., Fluent Asset Limited, Anzef Limited, Societe Generale, Australia and New Zealand Banking Group Limited, Statesman Asset Limited, State Street Bank and Trust Company and Bowman Asset Limited and became effective on 3 December 2007, with respect to each of the US cross border leases originally entered into between KCRC and certain counterparties (each, a "CBL"). Pursuant to each US CBL Assumption Agreement, the Company undertakes to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs. As a result thereof, the Company is generally liable to the CBL counterparties in respect of KCRC's obligations under the CBLs and has the right to exercise certain of KCRC's rights under the CBLs.

Due to early termination of and exercise of purchase options under certain CBLs, Advanced Asset Limited, Washoe Asset Management Company, Quality Asset Limited, Barclays Bank PLC, Circuit Asset Limited, Citicorp USA Inc., Shining Asset Limited are no longer counterparties to the US CBL Assumption Agreements.

US CBL Allocation Agreement

The US CBL Allocation Agreement was entered into between the Company, KCRC and the subsidiaries of KCRC (the "KCRC Subsidiaries") on 2 December 2007. Pursuant to the US CBL Allocation Agreement, rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between KCRC and the Company (each of which is jointly and severally liable to specified CBL counterparties, as referred to in the

paragraph above headed "US CBL Assumption Agreements"). Under the terms of the US CBL Allocation Agreement, as between the Company and KCRC, the Company is responsible for specified obligations. The Company and KCRC each made representations under the US CBL Allocation Agreement, which include, in the case of those made by KCRC, representations with respect to the status of the CBLs. The Company and KCRC agreed to indemnify each other for certain losses in relation to the CBLs.

D Property Package Agreements

Category 2A Properties

On 9 August 2007, Government entered into an undertaking that it would, within twelve months of the Merger Date or such further period of time as Government and the Company may agree, issue to KCRC an offer for the grant at nil premium of Government leases in respect of the land upon which certain properties (the "Category 2A Properties") are situated (the "said Government Leases"). The Category 2A Properties were held by KCRC as vested land under the Kowloon-Canton Railway Corporation Ordinance (Cap. 372 of the Laws of Hong Kong) ("KCRC Ordinance"). On 9 August 2007, KCRC entered into an undertaking that it would, immediately after the grant of the said Government Leases referred to in the preceding sentence, enter into agreements for sale and purchase to sell the Category 2A Properties to the Company (the "said Agreements for Sale and Purchase"). Assignments of the Category 2A Properties to the Company shall then take place pursuant to the said Agreements for Sale and Purchase (the said "Assignments"). Pursuant to the KCRC undertaking and as interim arrangements until the grant of Government leases, on 9 August 2007 the following agreements were entered into between KCRC and the Company:

- an agreement that KCRC (as lessor) shall enter into tenancy agreements with the Company (as lessee) at market rent in respect of the Category 2A Properties' vacant units (with the intention that the Company will then sub-let the vacant units to sub-tenants);
- two licence agreements in respect of the common areas within the Category 2A Properties, pursuant to which KCRC granted the Company the right to use certain common areas until the execution of the Category 2A Properties assignment referred to above;
- a lease enforcement agency agreement appointing the Company as its enforcement agent to enforce KCRC's current Category 2A Properties tenancy agreements against tenants; and
- an assignment of rental proceeds whereby the proceeds received under KCRC's current Category 2A Properties tenancy agreements with tenants are assigned to the Company.

The said Government Leases were issued to KCRC respectively on 27 March 2009 and 31 March 2009. The said Agreements for Sale and Purchase were entered into between KCRC and the Company on 27 March 2009 and 31 March 2009 respectively and the said Assignments to the Company were executed on 27 March 2009 and 31 March 2009 respectively. Deeds of Mutual Grant were also entered into between the Company and KCRC on 27 March 2009 and 31 March 2009 respectively setting out the easements, rights, entitlements, privileges and liberties of the Company and KCRC in the land on which the Category 2A Properties are situated.

Category 2B Property

On 9 August 2007, Government entered into an undertaking that it would, within twenty four months of the Merger Date or such further period of time as Government and the Company may agree, issue to the Company an offer for the grant of a Government Lease of a certain property (the "Category 2B Property") on terms to be agreed. The Category 2B Property is currently held by KCRC as vested land under the KCRC Ordinance for use as staff quarters and a recreational club.

On 9 August 2007, KCRC entered into an undertaking relating to interim arrangements to ensure that, as from the Merger Date, the Company shall be responsible for KCRC's obligations under licence agreements relating to the Category 2B Property, and for enforcing such agreements. The Company is entitled to proceeds received by KCRC in respect of those licence agreements. The interim arrangements include, inter alia, as from the Merger Date:

- an agreement that KCRC (as licensor) shall grant to the Company (as licensee) possession of the Category 2B Property (without payment of any licence fee or premium), subject to existing licences and the Second Schedule of the KCRC Ordinance, with the right of the Company to sublicense all or any part of the Category 2B Property (subject to it being used as staff quarters and a recreation club);
- until the grant of Government lease of the Category 2B Property, KCRC has appointed the Company as its enforcement agent to enforce KCRC's current Category 2B Property licence agreements against licensees; and
- KCRC has assigned to the Company the proceeds received under KCRC's current Category 2B Property licence agreements with licensees.

The basic terms offer for the Category 2B Property (i.e. Trackside Villas) was issued and accepted by the Company on 31 December 2009 and Government Lease in respect of Tai Po Town Lot No. 199 dated 29 March 2010 was issued for a term of 50 years from 2 December 2007.

Category 3 Properties

On 9 August 2007, the Company entered into three agreements (the "Category 3 Agreements") and related powers of attorney with KCRC. Each Category 3 Agreement relates to a certain property (each a "Category 3 Property"). KCRC has previously entered into a development agreement in respect of each Category 3 Property. None of the rights and obligations granted to or undertaken by the Company under the Category 3 Agreements may be exercised or performed by the Company if they relate exclusively to concession property situate on any Category 3 Property. Matters affecting the concession property situate on any Category 3 Property are dealt with under the terms of the Service Concession Agreement (as defined and summarised on page 165).

Pursuant to the terms of each Category 3 Agreement, the Company has been appointed to act as KCRC's agent, and donee under powers of attorney, to exercise rights and to perform obligations of KCRC which relate to the Category 3 Property (but excluding the right or obligation to dispose of the relevant Category 3 Property).

The Company is required at all times to comply with statutory restrictions and obligations binding on KCRC which relate to the Category 3 Properties, and shall pay all amounts due and payable from KCRC which have been incurred by KCRC as a result of the Company's actions.

In acting as KCRC's agent, the Company is required to act according to prudent commercial principles, and aim to maximise gross profits under the Category 3 Properties and to run a safe and efficient railway. In order to assist the Company in performing its agency functions, KCRC has granted powers of attorney to the Company. The Company may only use the powers of attorney to exercise rights and perform obligations conferred or undertaken by it under the relevant Category 3 Agreement. As well as acting as KCRC's agent, the Company has the right to give KCRC instructions in respect of any action or matter relating to each Category 3 Property (including its related development agreement) which the Company is unable to take by reason of the limitation of the scope of its agency powers. KCRC is required to comply promptly with those instructions provided that it is permitted under law, and under the relevant Government grant, to carry out those instructions.

KCRC is required to account for revenue received in respect of a Category 3 Property by way of balance sheet movement (rather under its profit and loss account), provided that such treatment is permitted under law and accounting principles and practices.

KCRC shall not take any action in respect of a Category 3 Property which is not carried out by the Company (acting as KCRC's agent), or according to the Company's instructions, or otherwise in accordance with the terms of the Category 3 Agreement.

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As consideration for acting as KCRC's agent, the Company shall be paid a fee which is expected to be similar in quantum to the profits made by KCRC in respect of the relevant Category 3 Property (after deducting certain initial and upfront payments and consultant contribution costs, in each case paid or to be paid by the relevant developer to KCRC). Generally, the Company's fee shall be payable in instalments promptly following receipt of relevant funds by KCRC (but subject to specified deductions of amounts due from KCRC to the relevant Category 3 Property developer).

The Company has agreed to give certain indemnities to KCRC in respect of each Category 3 Property.

The Company shall be the first manager, or shall ensure that a manager is appointed in respect of, each Category 3 Property (once developed).

The Company's appointment as agent shall terminate when KCRC ceases to have any undivided share in the relevant Category 3 Property, other than concession property, and neither KCRC nor the developer nor the guarantors have any further rights to exercise, or obligations to perform, under the development agreement relating to the relevant Category 3 Property.

In relation to the Merger Framework Agreement, the West Rail Agency Agreement (and related powers of attorney), the US CBL Assumption Agreements, the US CBL Allocation Agreement and the agreements in relation to Category 2A, Category 2B and Category 3 Properties (together the "Merger-related Continuing Connected Transactions") and in accordance with paragraph B(l)(i) of the Merger-related Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Merger-related Continuing Connected Transactions and confirmed that the Merger-related Continuing Connected Transactions were entered into:

- (1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;
- (2) on normal commercial terms or better (within the meaning of the Listing Rules); and
- (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to carry out a review of each of the Merger-related Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews

of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(l)(ii) of the Merger-related Waiver, the auditors have provided a letter to the Board confirming that:

- (a) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions have not been approved by the Board; and
- (b) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

II Non Merger-related Continuing Connected Transactions with Government and / or its Associates

The following disclosures are made in accordance with the conditions of the Waiver and Rule 14A.71 of the Listing Rules.

A1 Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link

The Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link (the "First SCL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First SCL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Shatin to Central Link, including in relation to:

- Government's obligation to pay the Company up to a maximum aggregate amount of HK\$1,500 million in respect of certain costs incurred by the Company pursuant to the First SCL Agreement, including the Company's in-house design costs and certain on-costs and preliminary costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First SCL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Shatin to Central Link;
- the limitation of the Company's liability to Government under the First SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK\$600 million; and

- should the railway scheme for the Shatin to Central Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Shatin to Central Link.

A2 Entrustment Agreement for Advance Works Relating to the Shatin to Central Link

The Entrustment Agreement for Advance Works Relating to the Shatin to Central Link (the “Second SCL Agreement”) was entered into on 17 May 2011 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Second SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second SCL Agreement and carrying out its other obligations under the Second SCL Agreement, Government shall pay to the Company the Company’s project management cost. The amount of such project management cost is to be agreed between the Company and Government and prior to such agreement, the project management cost shall be paid by Government to the Company on a provisional basis calculated in accordance with the Second SCL Agreement;
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being “miscellaneous works”). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Second SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear all of the “Works Cost” (as defined in the Second SCL Agreement). In this connection, Government will make payments to the Company in respect of the Works Cost on a provisional basis, subject to adjustments when the final outturn cost of the Works Cost is determined;
- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Second SCL Agreement is limited to approximately HK\$3,000 million per annum and a total in aggregate of approximately HK\$15,000 million;
- the Company shall carry out or procure the carrying out of certain enabling works on the expanded Admiralty Station and the to be constructed Ho Man Tin Station, the reprovisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other works as described under the Second SCL Agreement;
- the Company’s total liability to Government under the First SCL Agreement and the Second SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement and the Second SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the completion of the relevant works, a final report on the activities required to be carried out under the Second SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
 - in the case of those activities under the Second SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;

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- in the case of those activities under the Second SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
- in the case of those activities under the Second SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

A3 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link

The Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link (the “Third SCL Agreement”) was entered into on 29 May 2012 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Third SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Third SCL Agreement and carrying out its other obligations under the First SCL Agreement and the Second SCL Agreement, Government shall pay to the Company the Company’s project management cost. The amount of the project management cost is HK\$7,893 million and will be paid by Government to the Company on a quarterly basis;
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being “miscellaneous works”). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Third SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Third SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear certain “Third Party Costs”, any “Interface Works Costs” and any “Direct Costs” (each as defined in the Third SCL Agreement);
- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Third SCL Agreement is limited to HK\$3,000 million per annum and a total in aggregate of HK\$15,000 million;
- the maximum aggregate amount payable by the Company to Government under the Third SCL Agreement in relation to its contribution to certain railway works under the Third SCL Agreement is limited to HK\$4,000 million per annum and a total in aggregate of HK\$15,000 million;
- the Company’s total liability to Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Third SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the handover of the Shatin to Central Link project to Government, a final report on the activities required to be carried out under the Third SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
 - in the case of those activities under the Third SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;

- in the case of those activities under the Third SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
 - in the case of those activities under the Third SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

B1 Entrustment Agreement for Design and Site Investigation in Relation to the Express Rail Link

The Entrustment Agreement for Design and Site Investigation in Relation to the Express Rail Link (the “First XRL Agreement”) was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First XRL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Express Rail Link, including in relation to:

- Government’s obligation to pay the Company, up to a maximum aggregate amount of HK\$1,500 million, in respect of certain costs incurred by the Company pursuant to the First XRL Agreement, including the Company’s in-house design costs and certain on-costs, preliminary costs and recruited staff costs;
- Government’s obligation to bear and finance the total cost of the design and site investigation activities under the First XRL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company’s obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Express Rail Link;
- the limitation of the Company’s liability to Government under the First XRL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK\$700 million; and
- should the railway scheme for the Express Rail Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting

out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Express Rail Link.

B2 Entrustment Agreement for Construction, Testing and Commissioning of the Express Rail Link

The Entrustment Agreement for the construction and commissioning of the Express Rail Link was entered into on 26 January 2010 between the Company and the Secretary for Transport and Housing for and on behalf of Government (the “Second XRL Agreement”).

The scheme in respect of the Express Rail Link was first gazetted under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong) on 28 November 2008, with amendments and corrections gazetted on 30 April 2009. The scheme, as amended with such minor modifications as deemed necessary, was authorised by the Chief Executive in Council on 20 October 2009 and funding support approved by the Finance Committee on 16 January 2010.

The Second XRL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second XRL Agreement and carrying out its other obligations under the Second XRL Agreement and the First XRL Agreement, Government shall pay to the Company HK\$4,590 million (further details relating to the amendments to this provision, if the conditions in the Third XRL Agreement become satisfied, are set out in the section above headed “II. The Third Agreement in Relation to the Express Rail Link” in the section headed “Connected Transactions”), to be paid in cash quarterly in advance on a scheduled basis as such sum may be varied in accordance with the Second XRL Agreement, subject to the maximum payment limits stated in the Second XRL Agreement (being HK\$2,000 million annually and HK\$10,000 million in total) (the “Maximum Payment Limits”);
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being “miscellaneous works”). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second XRL Agreement and in consideration of the Company executing or procuring the execution of the miscellaneous works (if any) and carrying out its other obligations under the Second XRL Agreement in relation to the miscellaneous works (if any), Government shall pay to the Company an amount equal to an agreed fixed percentage

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of third party costs attributable to the miscellaneous works from time to time subject to the Maximum Payment Limits;

- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second XRL Agreement that were carried out in the immediately preceding calendar month and, within three months following the earlier of handover of the Express Rail Link project to Government or termination of the Second XRL Agreement, a final report on the activities required to be carried out under the Second XRL Agreement;
- the Company shall be responsible for the care of all works constructed under the Express Rail Link project from the commencement of construction until the date of handover of those works to Government (or to a third party directed by Government) and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
 - in the case of those activities under the Second XRL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
 - in the case of those activities under the Second XRL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
 - in the case of those activities under the Second XRL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor;
- Government is required to bear (i) any costs payable to third parties, (ii) any charges, costs or amounts payable to any Government department, bureau, agency or body in relation to the activities to be carried out under the Second XRL Agreement, (iii) any and all amounts payable to the KCRC as compensation for damage arising as a result of the Company and/or a third party contractor carrying out activities under the Second XRL Agreement; and (iv) all

land acquisition, clearance and related costs (including all amounts arising as a result of any claim for compensation by any third party) and those costs which are incurred by the Lands Department in connection with the Express Rail Link project (further details relating to the amendments to this provision, if the conditions in the Third XRL Agreement become satisfied, are set out in the section above headed “II. The Third Agreement in Relation to the Express Rail Link” in the section headed “Connected Transactions”); and

- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Express Rail Link are given or granted.

Government has agreed that the Company has been asked to proceed with the construction, testing and commissioning of the Express Rail Link (pursuant to and on the terms of the Second XRL Agreement) on the understanding that the Company will be invited to undertake the operation of the Express Rail Link under the concession approach.

Provided the conditions contained in the Third XRL Agreement are satisfied, pursuant to the Third XRL Agreement, certain amendments will be made to the Second XRL Agreement to reflect the arrangements contained in the Third XRL Agreement, including (i) amendments to the arrangements for the bearing and financing of the project cost; and (ii) an increase in the project management cost payable to the Company to an aggregate of HK\$6.34 billion (which reflects the estimate of the Company’s expected internal costs in performing its obligations in relation to the Express Rail Link project). Further details are set out in the section above headed “II. The Third Agreement in Relation to the Express Rail Link” in the section headed “Connected Transactions”.

C Renewal of the existing Maintenance Agreement for the Automated People Mover System at the Hong Kong International Airport

The Company entered into a Maintenance Agreement with the AA for the maintenance of the Automated People Mover system at the Hong Kong International Airport since 2002. It was signed on 18 March 2002 for a period of three years, which expired on 6 July 2005. A Supplemental Agreement was agreed with the AA, and approved by the Board in June 2005, to extend the Maintenance Agreement for another three years until 6 July 2008, which also included options for the Automated People Mover serving the Sky Plaza and Sky Pier terminal buildings. Another Maintenance Agreement was then signed on 21 August 2008 for a period of 5 years, which expired on 5 July 2013 (the “Maintenance Agreement”).

On 5 July 2013, the Company entered into a new Maintenance Contract with the AA for the renewal of the then expired Maintenance Agreement for the Automated People Mover system for a seven year period (the “New Maintenance Contract”), effective from 6 July 2013. On 5 March 2015, the Company entered into a supplemental agreement to the New Maintenance Contract with the AA for carrying out the Automated People Mover system’s testing and commissioning works (the “Supplemental Agreement”). It is expected that the highest amount per year receivable from the AA under the New Maintenance Contract and the Supplemental Agreement will be HK\$60 million.

The New Maintenance Contract contains provisions relating to the operation and maintenance by the Company of the Automated People Mover system installed at Hong Kong International Airport (the “System”) and the carrying out by the Company of certain specified services in respect of the System, they including the following:

- provisions stating that the duration of the New Maintenance Contract shall be seven years from 6 July 2013 up to and including 5 July 2020;
- provisions relating to the performance of scheduled maintenance works and overhaul of the System by the Company;
- provisions relating to monitoring the System for any breakdown and the Company providing repair services where necessary;
- provisions relating to the standards to which the Company must operate the System;
- provisions relating to the carrying out by the Company (as additional services), in certain circumstances, of upgrade work on the System; and
- provisions relating to the operations of and maintenance for the extension of the System to the new Midfield Concourse.

D Project Agreement for the Financing, Design, Construction and Operation of the West Island Line

The Project Agreement for the Financing, Design, Construction and Operation of the West Island Line (the “WIL Project Agreement”) was entered into on 13 July 2009 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The WIL Project Agreement contains provisions for the financing of and the carrying out, or procuring the carrying out, of the design, construction, completion, testing and commissioning by the Company of the railway works required in order to bring the West Island Line into operation in accordance with the MTR Ordinance, the Operating Agreement between the Company and the Secretary for

Transport and Housing for and on behalf of Government dated 9 August 2007 and the WIL Project Agreement. The West Island Line will be owned, operated and maintained by the Company for its own account for the period of the Company’s railway franchise. The WIL Project Agreement includes provisions in relation to:

- payment by Government of HK\$12,252 million to the Company in consideration of the Company’s obligations under the WIL Project Agreement, such sum constituting funding support from Government for the Company to implement the West Island Line project;
- within 24 months of commercial operations commencing on the West Island Line on a revenue earning basis and providing scheduled transport for the public, payment by the Company to Government of any “Repayment Amounts” for any over-estimation of certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway works and reprovisioning, remedial and improvement works (together with interest);
- the design, construction and completion of the associated reprovisioning, remedial and improvement works (the cost of which shall be the responsibility of the Company) and the associated essential public infrastructure works (the cost of which shall be the responsibility of Government);
- the Company’s responsibility for costs relating to land acquisition, clearance and related costs arising from the implementation of the West Island Line project (save for costs arising from certain claims for compensation by third parties) and all costs, expenses and other amounts incurred or paid by the Lands Department pursuant to the involvement of the Lands Department in connection with the implementation of the West Island Line project; and
- the Company carrying out measures specified in the environmental impact assessment and the environmental permit issued by Government to the Company in relation to the West Island Line on 12 January 2009.

The construction of the West Island Line took place between the date of the WIL Project Agreement and 2015.

In relation to the First SCL Agreement, the Second SCL Agreement, the Third SCL Agreement, the First XRL Agreement, the Second XRL Agreement (as amended by the Third XRL Agreement), the New Maintenance Contract and the WIL Project Agreement (together the “Non Merger-related Continuing Connected Transactions”) and the Third XRL Agreement and in accordance with paragraph B(l)(iii)(a) of the Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Non Merger-related Continuing Connected Transactions and

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the Third XRL Agreement and confirmed that the Non Merger-related Continuing Connected Transactions were entered into:

- (1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;
- (2) on normal commercial terms or better (within the meaning of the Listing Rules); and
- (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to carry out a review of each of the Non Merger-related Continuing Connected Transactions and the Third XRL Agreement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(l)(iii)(b) of the Waiver, the auditors have provided a letter to the Board confirming that:

- (a) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions and the Third XRL Agreement have not been approved by the Board; and
- (b) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions and the Third XRL Agreement were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

III Non Merger-related Continuing Connected Transactions with parties other than Government and / or its Associates

The following disclosures are made in accordance with Rule 14A.71 of the Listing Rules.

A *Pre-Existing UGL Contract and Pre-Existing Supplemental UGL Contract for the provision of maintenance and other services for certain trains*

Metro Trains Melbourne Pty. Ltd. ("MTM") is a joint venture company incorporated in Australia. The Company controls 60% of the voting power at any general meeting of MTM and each of UGL and John Holland controls 20% of the voting power at any general meeting of MTM. Accordingly, subsequent to the Company entering into the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract (each, as defined below), UGL is treated as a substantial shareholder of MTM (a subsidiary of the Company) and therefore a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. The Pre-

Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) is therefore a "continuing connected transaction" within the meaning of Rule 14A.31 of the Listing Rules.

On 11 January 2002, the Company entered into a contract with UGL for the provision of maintenance and other services in respect of trains at certain depots for a period of seven years commencing on or around 1 October 2002 to 30 September 2009 (the "Pre-Existing UGL Contract"). The commencement date was subsequently advanced by three months. On 14 April 2009, the Company entered into a supplemental agreement with UGL for the extension of the Pre-Existing UGL Contract for a further period of seven years from 1 August 2009 and for the transfer of the provision of certain services to the Kowloon Bay depot (the "Pre-Existing Supplemental UGL Contract").

The Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) provides for the provision of maintenance and other services by UGL in respect of 15 G/H stock trains used by the Company on the Kwun Tong Line, the Island Line, the Tsuen Wan Line and the Tseung Kwan O Line, in each case at the Tseung Kwan O depot and the Kowloon Bay depot, including provisions in relation to:

- payment by the Company of a total sum of approximately HK\$171,966,450 to UGL (including for variations and additional works) in consideration of UGL providing certain services between 1 August 2002 and 31 July 2009 and payment by the Company of HK\$152,940,000 to UGL for the extended term of seven years pursuant to the Pre-Existing Supplemental UGL Contract (which amount is to be paid on a scheduled basis), subject to certain adjustments, including for the level of performance by the relevant trains;
- indemnification by UGL of the Company against certain losses and expenses sustained by the Company arising out of or in connection with UGL carrying out its obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract);
- maintenance by UGL of insurance in relation to certain liabilities to the Company;
- the Company effecting and maintaining third party insurance covering the legal liability of both UGL and the Company for accidental death or injury to persons or accidental loss of or damage to property, in each case, arising out of the UGL's obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract); and
- the Company maintaining "Contractors All Risks" insurance covering loss or damage to certain goods, equipment and temporary buildings at the Tseung Kwan O depot and the Kowloon Bay depot.

The terms of the Pre-existing UGL Contract were agreed upon subsequent to a tender process that invited submissions from a number of contractors, including UGL. UGL was selected by the Company in accordance with the Company's established procedures for the assessment of tenders.

The Company regularly outsources certain services to third parties that specialise in the type of work outsourced, thereby improving the efficiency of the Company's operations and allowing the Company to concentrate its resources on its core business areas. UGL is a specialist in the provision of construction, refurbishment and maintenance services to the railway industry.

B Supplemental Agreement for the extension of the Original Contract for the Mid-Life Refurbishment of Phase 1 Light Rail Vehicles

The Supplemental Agreement for the extension of the Original Contract (defined below) for the Mid-Life Refurbishment of Phase 1 Light Rail Vehicles (the "Phase 1 LRVs"), was entered into on 26 February 2010 between the Company and UGL (the "Supplemental Agreement").

On 30 November 2007, KCRC entered into the Original Contract with UGL (the "Original Contract"), for the refurbishment of the Phase 1 LRVs for a period of 45 months from 30 November 2007 to 31 August 2011. On 2 December 2007, the rights and obligations of KCRC under the Original Contract were vested in the Company pursuant to section 52(B) of the MTR Ordinance. The Supplemental Agreement extends the Original Contract for a further period of 16 months from 31 August 2011 until 31 December 2012. A second supplemental agreement was entered into by the Company and UGL on 21 December 2011 (the "Second Supplemental Agreement") which extended the Original Contract to 31 December 2013. A third supplemental agreement was entered into by the Company and UGL on 21 July 2014 (the "Third Supplemental Agreement") which extended the Original Contract to 17 February 2014. The final payment certificate for the works under the Original Contract and the Supplemental Agreements was issued in 2015. The Original Contract (as amended) contains the following provisions:

- in consideration of UGL providing the Refurbishment Works (defined below) under the Original Contract, the Company is obliged to pay UGL a total sum of approximately HK\$48,260,000 (excluding amounts for variations and additional works). The Supplemental Agreement, inter alia, extended the scope of the Refurbishment Works of the Original Contract and the consideration payable by the Company to UGL for such extension is HK\$83,736,143, which was further increased by the Second Supplemental Agreement by an additional

HK\$34,957,178 (the "Contract Sum"). The total sum under the Original Contract plus the Contract Sum is to be paid progressively based on materials delivered and on works completed as set out in the Supplemental Agreement, subject to adjustments to take account of variations made by the Company's Chief Electrical and Mechanical Engineer (the "Engineer") to the scope of the Refurbishment Works. The maximum aggregate amount payable annually by the Company under the Original Contract plus the Contract Sum is approximately HK\$78,632,000;

- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK\$30 million;
- UGL shall carry out a carbody structure review to assess the mechanical condition of the Phase 1 LRVs; refurbish the drivers' consoles, the operators' seats and the passenger saloons of the Phase 1 LRVs; conduct a brake software upgrade of the Phase 1 LRVs; and carry out further miscellaneous repairs to the Phase 1 LRVs (together the "Refurbishment Works");
- UGL shall indemnify the Company against any certain losses or expenses which may arise out of or in connection with the Refurbishment Works, subject to any proportionate reduction in liability on account of any related negligence by the Company, its employees or agents, the Engineer or those appointed by the Engineer;
- UGL shall indemnify the Company against certain damages, compensation, costs and expenses in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any person in the employment of UGL arising out of and in the course of such employment;
- UGL shall effect and maintain insurance with a limit of not less than HK\$100 million in relation to certain of its liabilities for the period commencing on 30 November 2007 until the date of the completion of the Refurbishment Works;
- UGL's liability to indemnify the Company is reduced proportionally to the extent that any act or omission of the Company, its employees or agents, the Engineer or those appointed by the Engineer, caused or contributed to the relevant death, illness, injury, loss or damage and the total liability of UGL shall not exceed 100% of the total sum payable under the Original Contract, save and except for UGL's liability for death, personal injury, wilful misconduct, fraud and infringement of third party intellectual property rights; and
- the total liability of UGL to the Company for liquidated damages arising as a result of delay is limited to 10% of the total sum payable under the Original Contract and, subject

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to the provisions regarding liquidated damages, UGL is not liable for any kind of economic, financial, indirect or consequential loss or damage, including but not limited to loss of profit, loss of use, loss of production, loss of any contract and the like, suffered by the Company.

C Contract 903 between the Company and LCAL relating to certain works on the South Island Line (East)

As mentioned above, MTM is a joint venture company incorporated in Australia. MTM is a non-wholly owned subsidiary of the Company and each of UGL and John Holland controls 20% of the voting power at any general meeting of MTM.

Accordingly, John Holland is treated as a substantial shareholder of MTM. As of April 2015, LCAL ceased to be an associate of John Holland as a result of the transfer of 100% of the equity interests in John Holland Group Pty Ltd and its subsidiaries by Leighton Holdings Limited to CCCC International Holding Limited. Therefore, each of John Holland, JHL and LCAL (up to 20 April 2015) is / was a “connected person” of the Company within the meaning of Chapter 14A of the Listing Rules. Contract 903 (as defined below) is therefore a “continuing connected transaction” within the meaning of Rule 14A.31 of the Listing Rules.

On 17 May 2011, the Company and LCAL entered into Contract 903 (as amended by a supplemental agreement on 14 November 2014) (the “Contract 903”) for the construction of certain works relating to the Aberdeen Channel Bridge, Wong Chuk Hang Station and Ocean Park Station in respect of the South Island Line (East) (the “Contract 903 Works”).

Contract 903 is in substantially the same form as the Company’s standard conditions of contract for target cost construction and contains the following provisions:

- the principal obligation of LCAL under Contract 903 is the construction of the Contract 903 Works;
- LCAL shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 903 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 903 Works, or the right of the Company to execute the Contract 903 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by LCAL;
- LCAL shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of LCAL or its sub-contractors or suppliers arising out of and in the course of such employment;
- LCAL shall effect and maintain insurance with a limit of not less than HK\$200 million in relation to certain of its liabilities for the period commencing on 29 April 2011 until 30 June 2016;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of LCAL under Contract 903;
- LCAL’s liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 903 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage. The total liability of LCAL to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the target cost plus fees as calculated under Contract 903;
- the total amount payable by the Company to LCAL under Contract 903 is the Contract Sum, which includes the target cost for the Contract 903 Works and fees to LCAL. From time to time the scope of the Contract 903 Works may vary and the Company will be obliged to revise the fees payable to LCAL in accordance with the terms of the Contract;
- the Company is obliged to pay the target cost for the Contract 903 Works to LCAL on a scheduled basis set out in Contract 903. If the final total cost of the Contract 903 Works exceeds or is less than the target cost for the Works, the deficit or, as the case may be, the excess will be borne by or, as the case may be, distributed to the Company and LCAL on a basis calculated in accordance with Contract 903;
- the maximum aggregate amount payable annually by the Company under Contract 903 is approximately HK\$1,400 million. As payments by the Company to LCAL are paid on a scheduled basis as set out in Contract 903, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect “Contractor’s All Risks” and “Third Party Liability” insurance with a third party liability limit of not less than HK\$700 million. In addition, LCAL has agreed to separately purchase additional cover for “Third Party Liability” insurance in the amount of HK\$ 3,638 million; and
- the Company may at any time, by giving 30 days’ notice in writing to LCAL, terminate Contract 903 but without prejudice to any claims by the Company for breach of contract.

D Contract 904 between the Company, LCAL and JHL relating to certain works on the South Island Line (East)

As explained above, each of LCAL (up to 20 April 2015) and JHL was / is a “connected person” under the Listing Rules. Contract 904 (as defined below) is therefore a “continuing connected transaction” within the meaning of Rule 14A.31 of the Listing Rules.

On 17 May 2011, the Company, LCAL and JHL (LCAL and JHL being “the Contractors”) entered into Contract 904 (as amended by a supplemental agreement on 7 June 2013) (the “Contract 904”) for the construction of certain works relating to Lei Tung Station and South Horizons Station in respect of the South Island Line (East) (the “Contract 904 Works”).

Contract 904 is in substantially the same form as the Company’s standard conditions of contract for engineering works and contains the following provisions:

- the principal obligation of the Contractors is the construction of the Contract 904 Works. The obligations of the Contractors under Contract 904 are joint and several;
- the Contractors shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 904 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 904 Works, or the right of the Company to execute the Contract 904 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by the Contractors;
- the Contractors shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of the Contractors or their subcontractors or suppliers arising out of and in the course of such employment;
- the Contractors shall effect and maintain insurance with a limit of not less than HK\$200 million in relation to certain of its liabilities for the period commencing on 29 April 2011 until 30 June 2016;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of the Contractors under Contract 904;
- the Contractors’ liability to indemnify the Company is reduced proportionally to the extent that any act or

neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 904 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage;

- the total liability of the Contractors to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the contract sum under the Contract;
- the total amount payable by the Company to the Contractors under Contract 904 is the Contract Sum. From time to time the scope of Works may vary and the Company will be obliged to revise the Contract Sum in accordance with the terms of Contract 904;
- the maximum aggregate amount payable annually by the Company under Contract 904 is approximately HK\$1,400 million. As payments by the Company to the Contractors are paid on a scheduled basis as set out in Contract 904, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect “Contractor’s All Risks” and “Third Party Liability” insurance with a third party liability limit of not less than HK\$700 million. In addition, the Contractors have agreed to separately purchase additional cover for “Third Party Liability” insurance in the amount of AU\$485 million; and
- the Company may at any time, by giving 30 days’ notice in writing to the Contractors, terminate Contract 904 but without prejudice to any claims by the Company for breach of contract.

In relation to the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract, the Original Contract (as amended), Contract 903 and Contract 904 (together the “Continuing Connected Transactions with Parties other than Government and/or its Associates”) and in accordance with Rule 14A.55 of the Listing Rules, the Company confirms that the Independent Non-executive Directors of the Company have reviewed the Continuing Connected Transactions with Parties other than Government and/or its Associates and confirmed that each of the Continuing Connected Transactions with Parties other than Government and/or its Associates was entered into:

- (1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;
- (2) on normal commercial terms or better (within the meaning of the Listing Rules); and
- (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company’s shareholders as a whole.

Report of the Members of the Board

The Company has engaged the auditors of the Company to carry out a review of the Continuing Connected Transactions with Parties other than Government and/or its Associates in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with Rule 14A.56 of the Listing Rules, the auditors have provided a letter to the Board confirming that:

- (a) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have not been approved by the Board;
- (b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not, in all material respects, in accordance with the pricing policies of the Group;
- (c) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (d) with respect to the aggregate amount of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have exceeded the relevant annual caps as set by the Company in respect of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates.

Additional Information in respect of the Rail Merger

The Rail Merger consisted of a number of separate agreements, each of which was detailed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, and which together formed a complete package deal which was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. The information set out at paragraph A below describes the payment framework adopted in respect of the Rail Merger and paragraphs B to E below set out, summaries of the various agreements entered into by the Company in

respect of the Rail Merger in addition to those agreements disclosed above under the heading "Merger-related Continuing Connected Transactions".

A Payments in connection with Merger-related Agreements

In connection with the Rail Merger, the following initial payments were made by the Company to KCRC on 2 December 2007 (being the Merger Date):

- an upfront payment of HK\$4.25 billion, payable under the Service Concession Agreement (as described in paragraph B below), being the upfront fee for the right to operate the Service Concession (as defined in paragraph B below) and the consideration for the purchased rail assets; and
- an upfront payment of HK\$7.79 billion payable under the Merger Framework Agreement (as described on page 151) in consideration for the execution of the Property Package Agreements (as described on pages 152 to 154 and in paragraph E below) and the sale of the shares in the KCRC Subsidiaries (as defined on page 152) that were transferred to the Company under the Sale and Purchase Agreement which was entered into on 9 August 2007 between the Company and KCRC.

In addition to the initial payments above, the Company is also required to make the following payments to KCRC going forward:

- fixed annual payments of HK\$750 million payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in arrears on the day immediately preceding each anniversary of the Merger Date which falls during the concession period in respect of the 12 month period up to and including the date on which such payment falls due; and
- variable annual payments payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in each case, calculated on a tiered basis by reference to the amount of revenue from the KCRC system (as determined in accordance with the Service Concession Agreement) for each financial year of the Company. No variable annual payment is payable in respect of the first 36 months following the Merger Date.

As a complete package deal, other than the payment elements described above and unless stated otherwise in the relevant paragraph below, no specific allocation was made between the various elements of the Rail Merger.

B Service Concession Agreement

The Service Concession Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Service Concession Agreement contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company (the "Service Concession"), including in relation to:

- the grant of the Service Concession to the Company to access, use and operate the concession property (other than KCRC railway land referred to immediately below) to certain specified standards;
- the grant of a licence to access and use certain KCRC railway land;
- the term (being an initial period of 50 years from the Merger Date) of the Service Concession and redelivery of the KCRC system upon expiry or termination of the concession period. The Service Concession will end if the Company's franchise relating to the KCRC railway is revoked;
- the payments of an upfront payment of HK\$4.25 billion and fixed annual payments and variable annual payments (as described in paragraph A above);
- KCRC remaining the legal and beneficial owner of the concession property as at the Merger Date and the Company being the legal and beneficial owner of certain future concession property (the "Additional Concession Property");
- the regime for compensation payable by KCRC to the Company if Additional Concession Property is returned to KCRC at the end of the concession period;
- the rights and restrictions of the Company and KCRC in relation to the concession property; and
- subject to certain conditions, the Company bearing all risks, liabilities and/or costs whatsoever associated with or arising from the concession property and the land on which any of the concession property is located during the concession period.

C Sale and Purchase Agreement

The Sale and Purchase Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Sale and Purchase Agreement provides the terms pursuant to which the Company acquired certain assets and contracts (the "Purchased Rail Assets") from KCRC.

The consideration for the sale of the Purchased Rail Assets (excluding the shares in the KCRC Subsidiaries) formed part of the upfront payment of HK\$4.25 billion. The consideration for the sale of the shares in the KCRC Subsidiaries (which own

the Category 1A Properties referred to at paragraph E below and act as property managers) formed part of the payment of HK\$7.79 billion for the property package (as described in paragraph A above and in paragraph E below).

D Operating Agreement

The Operating Agreement was entered into on 9 August 2007 between the Company and the Secretary for Transport and Housing for and on behalf of Government as contemplated in the MTR Ordinance.

The Operating Agreement is based on the previous Operating Agreement which was signed on 30 June 2000. The Operating Agreement differs from the previous Operating Agreement to provide for, amongst other things, the nature of the combined MTRC railway and KCRC railway. The Operating Agreement includes terms relating to:

- the extension of the Company's franchise under the MTR Ordinance;
- the design, construction and maintenance of the railway;
- passenger services;
- a framework for the award of new projects and the operation and ownership structure of new railways;
- the adjustment mechanism to be applied to certain of the Company's fares; and
- compensation which may be payable under the MTR Ordinance to the Company in relation to a suspension, expiry or termination of the franchise.

Under the Operating Agreement, the fare adjustment mechanism is subject to review periodically. The first of such reviews was undertaken in 2013. The Company and Government agreed on 16 April 2013 to amend the fare adjustment mechanism. In addition, the wider terms of the Operating Agreement are subject to review every five years and such a review was also undertaken in 2013. As a result of such reviews, the Company and Government agreed measures in enhancing communication and liaison on operational arrangements.

E Additional Property Package Agreements Category 1A Properties

The Category 1A Properties are held by the KCRC Subsidiaries. Under the terms of the Sale and Purchase Agreement, the Company acquired from KCRC the shares in the KCRC Subsidiaries (and thereby indirectly acquired the "Category 1A Properties").

Report of the Members of the Board

Category 1B Properties

On 9 August 2007, KCRC and the Company entered into an agreement for sale and purchase under which KCRC agreed to assign certain properties (the "Category 1B Properties") to the Company on the Merger Date. The relevant assignment was executed between KCRC and the Company on 2 December 2007.

Category 4 Properties

On 9 August 2007, Government entered into an undertaking that it would, within periods to be agreed between the Company and Government, offer to the Company a private treaty grant in respect of certain development sites (the "Category 4 Properties"). The terms of each private treaty grant shall generally be determined by Government, and the premium for each private treaty grant shall be assessed on a full market value basis ignoring the presence of the railway other than the Tin Shui Wai Terminus, Light Rail, Yuen Long, New Territories.

On 9 August 2007, the Company issued a letter to KCRC confirming that, if there should be any railway premises on the Category 4 Properties, the Company would assign the railway premises to KCRC.

Metropolis Equity Sub-participation Agreement

The Metropolis Equity Sub-participation Agreement was entered into on 9 August 2007 between KCRC and the Company. KCRC is obliged to act on the Company's instructions, and pay to the Company any distributions, or proceeds of sale, relating to its shareholding in the property management company The Metropolis Management Company Limited ("Metropolis"). The issued share capital of Metropolis is 25,500 A shares (which are held by KCRC) and 24,500 B shares (which are held by Cheung Kong Property Management Limited). Metropolis' business is property management.

F Application of Merger-related Waiver

In relation to the Operating Agreement and the Service Concession Agreement, pursuant to paragraph A of the Merger-related Waiver, the Stock Exchange granted a waiver to the Company from strict compliance with all the continuing connected transaction requirements of Chapter 14A of the Listing Rules.

Business Ethics

Please refer to page 120.

Policies

The Board has adopted the following risk management strategies and policies:

- A** Construction and Insurance Risk Management Strategy;
- B** Finance Risk Management Strategy;
- C** Treasury Risk Management Strategy;
- D** Safety Risk Management Strategy;
- E** Enterprise Risk Management Strategy;
- F** Security Risk Management Policy; and
- G** Environmental Risk Management Policy.

In addition, the Board has also adopted a Shareholders' Communication Policy and a Board Diversity Policy.

Computer Processing

There are defined procedures, controls and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2008. Disaster recovery rehearsal on critical applications is conducted annually. In addition, the Company has been certified with ISO 27001:2013 on the Information Security Management System that complies with the required standard for the comprehensive scope of IT services operation.

Internal Audit

The Company's Internal Audit Department provides independent, objective assurance and consulting services designed to add value and improve the Company's operations. Key responsibilities of the Department include:

- Carrying out the analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Company;
- Recommending improvements to existing management controls and resources utilisation; and

- Performing special reviews, investigations, and consulting and advisory services related to corporate governance and controls as commissioned by management or the Audit Committee of the Company.

The Head of Internal Audit reports directly to the Chief Executive Officer and the Audit Committee.

Capital and Revenue Expenditure

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. All project expenditures over 0.2% of the net assets of the Company and the employment of consultancy services over 0.1% of the net assets of the Company require the approval of the Board.

Reporting and Monitoring

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board. Monthly results of the Company's operations, businesses and projects are reported against the budget to the Board and updated forecasts for the year are prepared regularly.

Treasury Management

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt profile with reference to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debt, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's financing requirements and the market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's exposure to interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

Major financing transactions and guidelines for derivatives transactions, including the credit risk management framework, are approved at the Board level.

Permitted Indemnity Provision

Pursuant to the Articles of Association, subject to the statutes, the Company will indemnify every Director of the Company out of its own assets against any liability incurred by him/her in the execution of his/her office in defending any civil or criminal proceedings. The relevant Article was in force during the year ended 31 December 2015 and on 11 March 2016 when this Report was approved. To ensure sufficient coverage is provided, the Company undertakes an annual review of the Directors' and Officers' liability insurance policy of the Company (the "D&O Insurance Policy") in light of recent trends in the insurance market and other relevant factors. The D&O Insurance Policy also indemnifies the other directors within the Group.

Going Concern

The Accounts on pages 171 to 262 have been prepared on a going concern basis. The Board has reviewed the Group's budget for 2016, together with the longer-term forecast for the following five years and is satisfied that the Group has sufficient resources to continue as a going concern for the foreseeable future.

Auditors

The retiring auditors, KPMG, have signified their willingness to continue in office. A resolution will be proposed at the forthcoming AGM to reappoint them and to authorise the Directors to fix their remuneration.

By order of the Board

Gillian Elizabeth Meller
Secretary to the Board
Hong Kong, 11 March 2016

Report of the Members of the Board

Directors of Subsidiaries

The names of all directors of the subsidiaries of the Company during the year and up to the date of this Report (unless otherwise stated) are listed below:

Name	Director	Alternate Director
Baal, Elisabeth	√(Resigned)	
Beacham, Alan Edward*	√	
Bråten, Tomm Otto	√(Resigned)	
Chan Chi-kun*	√	√(Resigned)
Chan Chun-tai	√(Resigned)	
Chan Hin-fu*	√	
Chan Wai-man, Raymond*	√	
Cheng Kin-wai	√	
Cheung Siu-wa, Morris*	√	
Chow Chiu-wai		√
Chu Fung-kuen, Margaret	√	
Collis, Charles G.	√	
Donelly, Allen Ross		√(Resigned)
Downie, Brian Francis*	√	√
Drake, Richard Francis*	√	
Fung Wai-yee*	√	
Hales, Rodney*		√(Resigned)
Hammarström, Stig Christer	√	√
Heyliger, J. Oliver	√(Resigned)	
Holmberg Wallberg, Lena Cecilia*	√	
Hundersmarck, Henrik	√(Resigned)	
Jerbi, Mohamed Moncef	√(Resigned)	
Jim Kwok-wah		√
Johns, Phillip Neil*	√(Resigned)	√(Resigned)
Johnson, Glenn H.		√
Jones, Niel L.		√
Kam Chak-pui, Jacob*	√	√
Keefe, Richard Michael*	√	
Kwan Mun-yee, Stella*	√	
Kwan Wai-hung	√	
Kwok Lai-kay, Lena*		√
Kwong Chung-hing*		√
Lai Ching-kai		√
Lai Kai-shing	√	
Lau Cheuk-man, Wilfred*		√
Lau Tin-shing*	√	
Lau Wai-ming	√	
Law Cheuk-kin, Stephen*	√	
Lee Kar-yun*	√	
Leong Kwok-kuen, Lincoln*	√	
Leong Sin-ling, Betty*	√	

Name	Director	Alternate Director
Leung Ching-man, Annie*	√(Resigned)	
Leung Chuen-choi, David Raymond	√(Resigned)	
Leung Yiu-fai, David*	√	
Lezala, Andrew Peter	√	√
Li Sau-lin, Linda*	√	√
Li Shing-kee	√	
Lo, Julian		√
Long, Jeremy Paul Warwick*	√	
Lundqvist, Curt Ove	√(Resigned)	
McCusker, Andrew*	√	
McLean, Neil Lauchlan McCreadie*		√
Meller, Gillian Elizabeth*	√	
Meyer, Peter*	√	√
Mociak, Karl Heinz*	√	√
Moros, Tony Antonio*	√	
Murphy, Stephen John	√	
Nilsen, Silje	√(Resigned)	
Norris, Mark Frederick*	√	
Pira, Thomas*	√	
Seto Siu-wah, Lisa*	√	√
Söör, Karl Johan	√	
Suen Yiu-tat	√	
Tang Chi-fai, David*	√	
Tong Ying-fai		√
Viinapuu, Hans Peter*	√	
Walker, Phillip Graeme	√	
Warmazyar, Mohammed		√
Warren, Nicholas P.	√	
Wennerberg, Matti Sigfrid Hasse	√	
Wong Nai-keung, Philco*	√	
Wong Ping-sau*	√	√(Resigned)
Wong Shiu-ki	√	
Wong Wing-kin	√	
Woo Shui-wah*	√	
Yam Pak-nin*	√	
Yan Po-wa	√	
Yeung Mei-chun, Jeny*	√	
Yi Min*	√	
Yong Kin-shing*	√(Resigned)	
Yu Ka-yin*	√	√
Yuen Lai-ki*	√	

* Person who serves as a director and/or an alternate director in more than one subsidiary.

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Independent Auditor's Report

Independent Auditor's Report to the Members of MTR Corporation Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of MTR Corporation Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 171 to 262 which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Accounts

The directors of the Company are responsible for the preparation of consolidated accounts that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated accounts that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
11 March 2016

Consolidated Profit and Loss Account

for the year ended 31 December in HK\$ million	Note	2015	2014
Revenue from Hong Kong transport operations	4	16,916	16,223
Revenue from Hong Kong station commercial businesses	5	5,380	4,963
Revenue from Hong Kong property rental and management businesses	6	4,533	4,190
Revenue from Mainland of China and international subsidiaries	7	12,572	12,627
Revenue from other businesses	8	2,300	2,153
		41,701	40,156
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses	9A	(4,906)	(4,450)
– Energy and utilities		(1,482)	(1,409)
– Operational rent and rates		(231)	(269)
– Stores and spares consumed		(557)	(540)
– Maintenance and related works	9B	(1,324)	(1,361)
– Railway support services		(274)	(253)
– General and administration expenses		(610)	(640)
– Other expenses		(318)	(314)
		(9,702)	(9,236)
Expenses relating to Hong Kong station commercial businesses		(550)	(515)
Expenses relating to Hong Kong property rental and management businesses		(865)	(747)
Expenses relating to Mainland of China and international subsidiaries	7	(11,986)	(11,821)
Expenses relating to other businesses		(2,174)	(1,960)
Project study and business development expenses	9C	(304)	(454)
Operating expenses before depreciation, amortisation and variable annual payment	9D,E&F	(25,581)	(24,733)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment			
– Arising from recurrent businesses		16,260	15,478
– Arising from Mainland of China property development		(140)	(55)
		16,120	15,423
Profit on Hong Kong property development	11	2,891	4,216
Operating profit before depreciation, amortisation and variable annual payment		19,011	19,639
Depreciation and amortisation	12	(3,849)	(3,485)
Variable annual payment		(1,649)	(1,472)
Operating profit before interest and finance charges		13,513	14,682
Interest and finance charges	13	(599)	(545)
Investment property revaluation	19	2,100	4,035
Share of profit or loss of associates	28	361	121
Profit before taxation		15,375	18,293
Income tax	14A	(2,237)	(2,496)
Profit for the year		13,138	15,797
Attributable to:			
– Equity shareholders of the Company		12,994	15,606
– Non-controlling interests		144	191
Profit for the year		13,138	15,797
Profit for the year attributable to equity shareholders of the Company:			
– Arising from underlying businesses before property development		8,565	8,024
– Arising from property development		2,329	3,547
– Arising from underlying businesses		10,894	11,571
– Arising from investment property revaluation		2,100	4,035
		12,994	15,606
Earnings per share:	16		
– Basic		HK\$2.22	HK\$2.69
– Diluted		HK\$2.22	HK\$2.68

The notes on pages 176 to 262 form part of the accounts.

Consolidated Statement of Comprehensive Income

for the year ended 31 December in HK\$ million	Note	2015	2014
Profit for the year		13,138	15,797
Other comprehensive income for the year (after taxation and reclassification adjustments):	18		
Item that will not be reclassified to profit or loss:			
– Surplus on revaluation of self-occupied land and buildings		271	116
– Remeasurement of net liability of defined benefit plans		(580)	(370)
		(309)	(254)
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of overseas subsidiaries and associates		(570)	(95)
– non-controlling interests		(28)	(26)
– Cash flow hedges: net movement in hedging reserve		(134)	37
		(732)	(84)
		(1,041)	(338)
Total comprehensive income for the year		12,097	15,459
Attributable to:			
– Equity shareholders of the Company		11,981	15,294
– Non-controlling interests		116	165
Total comprehensive income for the year		12,097	15,459

The notes on pages 176 to 262 form part of the accounts.

Consolidated Statement of Financial Position

in HK\$ million	Note	At 31 December 2015	At 31 December 2014
Assets			
Fixed assets			
– Investment properties	19	68,388	65,679
– Other property, plant and equipment	20	79,576	78,279
– Service concession assets	21	27,755	26,698
		175,719	170,656
Property management rights	22	28	30
Railway construction in progress	23	19,064	16,229
Property development in progress	25A	17,983	7,490
Deferred expenditure	26	288	64
Interests in associates	28	5,912	5,797
Deferred tax assets	43B	91	50
Investments in securities	29	336	527
Properties held for sale	30	1,139	1,076
Derivative financial assets	31	81	105
Stores and spares	32	1,373	1,365
Debtors, deposits and payments in advance	33	5,135	3,797
Amounts due from related parties	34	1,636	1,073
Cash, bank balances and deposits	35	12,318	18,893
		241,103	227,152
Liabilities			
Bank overdrafts	36A	50	46
Short-term loans	36A	1,599	500
Creditors and accrued charges	37	22,860	16,421
Current taxation	43A	953	996
Contract retentions	38	994	1,094
Amounts due to related parties	39	1,858	1,607
Loans and other obligations	36A	19,162	19,961
Obligations under service concession	40	10,564	10,614
Derivative financial liabilities	31	830	565
Loan from holders of non-controlling interests	41	110	124
Deferred income	42	743	765
Deferred tax liabilities	43B	11,209	10,977
		70,932	63,670
Net assets			
		170,171	163,482
Capital and reserves			
Share capital	44	46,317	45,280
Shares held for Share Incentive Scheme	44	(151)	–
Other reserves	44	123,889	118,045
Total equity attributable to equity shareholders of the Company		170,055	163,325
Non-controlling interests		116	157
Total equity		170,171	163,482

Approved and authorised for issue by the Members of the Board on 11 March 2016

Frederick S H Ma
Chairman

Lincoln K K Leong
Chief Executive Officer

Stephen C K Law
Finance Director

The notes on pages 176 to 262 form part of the accounts.

Consolidated Statement of Changes in Equity

for the year ended 31 December in HK\$ million	Note	Share capital	Share premium	Capital reserve	Shares held for Share Incentive Scheme	Other reserves				Retained profits	Total equity attributable to equity shareholders of the Company	Non-controlling interests	Total equity
						Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve				
2015													
Balance as at 1 January 2015		45,280	-	-	-	2,641	(91)	214	418	114,863	163,325	157	163,482
Changes in equity for the year ended 31 December 2015:													
- Profit for the year		-	-	-	-	-	-	-	-	12,994	12,994	144	13,138
- Other comprehensive income for the year	18	-	-	-	-	271	(134)	-	(570)	(580)	(1,013)	(28)	(1,041)
- Total comprehensive income for the year		-	-	-	-	271	(134)	-	(570)	12,414	11,981	116	12,097
- 2014 final dividend	15	-	-	-	-	-	-	-	-	(4,673)	(4,673)	-	(4,673)
- Shares issued in respect of scrip dividend of 2014 final dividend	44A	242	-	-	-	-	-	-	-	-	242	-	242
- Shares purchased for Share Incentive Scheme		-	-	-	(150)	-	-	-	-	-	(150)	-	(150)
- 2015 interim dividend	15	-	-	-	-	-	-	-	-	(1,461)	(1,461)	-	(1,461)
- Shares issued in respect of scrip dividend of 2015 interim dividend	44A	145	-	-	(1)	-	-	-	-	-	144	-	144
- Dividends paid to holders of non-controlling interests		-	-	-	-	-	-	-	-	-	-	(157)	(157)
- Employee share-based payments		-	-	-	-	-	-	78	-	-	78	-	78
- Employee share options exercised	44A	650	-	-	-	-	-	(81)	-	-	569	-	569
- Employee share options forfeited		-	-	-	-	-	-	(1)	-	1	-	-	-
Balance as at 31 December 2015		46,317	-	-	(151)	2,912	(225)	210	(152)	121,144	170,055	116	170,171
2014													
Balance as at 1 January 2014		5,798	11,456	27,188	-	2,525	(128)	240	513	104,965	152,557	145	152,702
Changes in equity for the year ended 31 December 2014:													
- Profit for the year		-	-	-	-	-	-	-	-	15,606	15,606	191	15,797
- Other comprehensive income for the year	18	-	-	-	-	116	37	-	(95)	(370)	(312)	(26)	(338)
- Total comprehensive income for the year		-	-	-	-	116	37	-	(95)	15,236	15,294	165	15,459
- Employee share options exercised before 3 March 2014	44A	1	3	-	-	-	-	-	-	-	4	-	4
- Transition to no-par value regime on 3 March 2014	44A	38,647	(11,459)	(27,188)	-	-	-	-	-	-	-	-	-
- 2013 final dividend	15	-	-	-	-	-	-	-	-	(3,886)	(3,886)	-	(3,886)
- Shares issued in respect of scrip dividend of 2013 final dividend	44A	335	-	-	-	-	-	-	-	-	335	-	335
- 2014 interim dividend	15	-	-	-	-	-	-	-	-	(1,455)	(1,455)	-	(1,455)
- Shares issued in respect of scrip dividend of 2014 interim dividend	44A	61	-	-	-	-	-	-	-	-	61	-	61
- Dividends paid to holders of non-controlling interests		-	-	-	-	-	-	-	-	-	-	(153)	(153)
- Employee share-based payments		-	-	-	-	-	-	42	-	-	42	-	42
- Employee share options exercised on or after 3 March 2014	44A	438	-	-	-	-	-	(65)	-	-	373	-	373
- Employee share options forfeited		-	-	-	-	-	-	(3)	-	3	-	-	-
Balance as at 31 December 2014		45,280	-	-	-	2,641	(91)	214	418	114,863	163,325	157	163,482

The notes on pages 176 to 262 form part of the accounts.

Consolidated Cash Flow Statement

for the year ended 31 December in HK\$ million	Note	2015	2014
Cash flows from operating activities			
Cash generated from operations	45	16,289	16,519
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		653	652
Current tax paid			
– Hong Kong Profits Tax paid		(1,800)	(954)
– Mainland of China and overseas tax paid		(369)	(173)
Net cash generated from operating activities		14,773	16,044
Cash flows from investing activities			
Capital expenditure			
– Purchase of assets for Hong Kong transport and related operations		(4,216)	(2,889)
– Shenzhen Metro Longhua Line Project and related operations		(553)	(471)
– Island Line Extension Project		(1,255)	(2,760)
– South Island Line (East) Project		(2,227)	(2,611)
– Kwun Tong Line Extension Project		(1,278)	(969)
– Shenzhen Longhua Line Depot property development		(1,121)	(681)
– Hong Kong property development		(10,253)	(410)
– Investment property projects and fitting out work		(609)	(1,497)
– Other capital projects		(158)	(71)
Fixed annual payment		(750)	(750)
Variable annual payment		(1,472)	(1,247)
Receipts in respect of Hong Kong property development		2,707	9,176
Receipts in respect of Shenzhen Longhua Line Depot property development		5,527	–
(Increase)/decrease in bank deposits with more than three months to maturity when placed or pledged		(2,607)	6,607
Purchase of investments in securities		(219)	(177)
Proceeds from sale or redemption of investments in securities		407	122
Proceeds from disposal of fixed assets		4	10
Investment in an associate		(61)	(294)
Loan to an associate		(91)	–
Dividends received from associates		179	43
Net cash (used in)/generated from investing activities		(18,046)	1,131
Cash flows from financing activities			
Proceeds from shares issued under share option schemes		569	377
Purchase of shares for Share Incentive Scheme		(150)	–
Drawdown of loans		7,473	11,171
Proceeds from issuance of capital market instruments		1,176	543
Repayment of loans		(7,999)	(10,205)
Repayment of capital market instruments		(500)	(5,158)
Interest paid		(691)	(791)
Interest received		136	218
Finance charges paid		(22)	(29)
Dividends paid to equity shareholders of the Company		(5,748)	(4,944)
Dividends paid to holders of non-controlling interests		(157)	(153)
Net cash used in financing activities		(5,913)	(8,971)
Net (decrease)/increase in cash and cash equivalents		(9,186)	8,204
Cash and cash equivalents at 1 January		15,413	7,209
Cash and cash equivalents at 31 December	35	6,227	15,413

The notes on pages 176 to 262 form part of the accounts.

Notes to the Accounts

1 Statement of Compliance

These accounts have been prepared in compliance with the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These accounts have also been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The HKFRSs are fully converged with International Financial Reporting Standards in all material respects. A summary of the principal accounting policies adopted by the Group is set out in note 2.

The HKICPA has issued certain new and revised HKFRSs that are first effective for accounting periods beginning on or after 1 January 2015. Changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts are disclosed in note 2A(iii).

2 Principal Accounting Policies

A Basis of Preparation of the Accounts

(i) The measurement basis used in the preparation of the accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (note 2E(i));
- self-occupied land and buildings (note 2E(ii));
- financial instruments classified as investments in securities other than those intended to be held to maturity (note 2L); and
- derivative financial instruments (note 2S).

(ii) The preparation of the accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and estimations about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates are discussed in note 54.

(iii) The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's accounts:

- Amendments to HKAS 19, *Defined Benefit Plans: Employee Contributions*
- Amendments to HKFRSs, *Annual Improvements to HKFRSs 2010 – 2012 Cycle*
- Amendments to HKFRSs, *Annual Improvements to HKFRSs 2011 – 2013 Cycle*

The application of these amendments to HKFRSs in the current accounting period does not have an impact on the Group's consolidated accounts.

The Group has not applied any new or revised standard or interpretation that is not yet effective for the current accounting period (note 55).

B Basis of Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates (note 2D) made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate.

C Subsidiaries and Non-controlling Interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group or other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2 Principal Accounting Policies *(continued)*

C Subsidiaries and Non-controlling Interests *(continued)*

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated profit and loss account and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (note 2D).

Investments in subsidiaries are carried in the Company's statement of financial position at cost less any impairment losses (note 2G(ii)).

D Associates

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated accounts of the Group using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets. The Group's share of the post-acquisition results of the investees for the year is recognised in the consolidated profit and loss account, whereas the Group's share of the post-acquisition items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (note 2G(ii)).

E Fixed Assets

(i) Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include properties that are being constructed or developed for future use as investment properties.

Investment properties are stated on the statement of financial position at fair value as measured semi-annually by independent professionally qualified valuers. Gains or losses arising from changes in the fair value are recognised in the consolidated profit and loss account in the period in which they arise.

(ii) Leasehold land registered and located in the Hong Kong Special Administrative Region is accounted for as being held under a finance lease and is stated at cost less accumulated depreciation and impairment losses (note 2G(ii)). Land held for own use under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at inception of the lease, are accounted for as being held under a finance lease, unless the buildings are also clearly held under an operating lease. For these purposes, inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. The self-occupied land and buildings are stated on the statement of financial position at their fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers semi-annually, with changes in the fair value arising on revaluations recorded as movements in the fixed assets revaluation reserve, except:

(a) where the balance of the fixed assets revaluation reserve relating to a self-occupied land and building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the profit and loss account; and

(b) where a revaluation deficit had previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is firstly credited to the profit and loss account to the extent of the deficit previously charged to the profit and loss account, and thereafter taken to the fixed assets revaluation reserve.

Notes to the Accounts

2 Principal Accounting Policies *(continued)*

E Fixed Assets *(continued)*

(iii) Civil works and plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2G(ii)).

(iv) Assets under construction are stated at cost less impairment losses (note 2G(ii)). Cost comprises direct costs of construction, such as materials, staff costs and overheads, together with interest expense capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate fixed assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

(v) Leased Assets

(a) Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments (computed using the rate of interest implicit in the lease), of such assets are included in fixed assets and the corresponding liabilities, net of finance charges are recorded as obligations under finance leases. Depreciation and impairment losses are accounted for in accordance with the accounting policy as set out in notes 2H(iv) and 2G(ii) respectively. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(b) Leases of assets, other than that mentioned in note 2E(ii), under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as operating leases. Where the Group leases out assets under operating leases, the assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Impairment losses are accounted for in accordance with the accounting policies on impairment of assets (note 2G(ii)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in note 2Y(ii).

(vi) Subsequent expenditure relating to the replacement of certain parts of an existing fixed asset is recognised in the carrying amount of the asset if it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised, with any gain or loss arising therefrom being dealt with in the profit and loss account.

Expenditure on repairs or maintenance of an existing fixed asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense in the profit and loss account when incurred.

Gains or losses arising from the retirement or disposal of a fixed asset or an investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed assets revaluation reserve to retained profits and is not re-classified to profit and loss account.

(vii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services, upfront payments and expenditure directly attributable to the acquisition of the service concession up to inception of the service concession are capitalised as service concession assets and amortised on a straight-line basis over the period of the service concession. Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at their present value, calculated using the incremental long term borrowing rate determined at inception as the discount rate, as service concession assets and amortised on a straight-line basis over the period of the service concession, with a corresponding liability recognised as obligations under service concession. Annual payments for the service concession which are not fixed or determinable at inception and are contingent on future revenue are charged to the profit and loss account in the period when incurred.

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenue and costs are recognised in the profit and loss account by reference to the stage of completion at the end of reporting period while the fair value of construction service is capitalised initially as service concession assets in the statement of financial position and amortised on a straight-line basis over the shorter of the assets' useful lives and the period in which the service concession assets are expected to be available for use by the Group.

Expenditure for the replacement and/or upgrade of the assets subject to service concession is capitalised and amortised on a straight-line basis over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried on the statement of financial position as an intangible asset at cost less accumulated amortisation and impairment losses, if any (note 2G(ii)).

Income and expenditure and assets and liabilities in relation to the operation of the service concessions are accounted for in the Group's and the Company's profit and loss accounts and statements of financial position.

F Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated on the statement of financial position at cost less accumulated amortisation and impairment losses (note 2G(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

2 Principal Accounting Policies *(continued)*

G Impairment of Assets

(i) Impairment of Debtors and Other Receivables

Debtors and other current and non-current receivables are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases, the impairment loss is reversed through the profit and loss account.

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including service concession assets but other than assets carried at revalued amounts);
- property management rights;
- railway construction in progress;
- property development in progress;
- deferred expenditure; and
- investments in subsidiaries and associates.

If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

H Depreciation and Amortisation

(i) Investment properties are not depreciated.

(ii) Fixed assets other than investment properties, assets under construction and service concession assets which are amortised over the entire or remaining period of the service concession (note 2E(vii)) are depreciated or amortised on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

Land and Buildings

Self-occupied land and buildings the shorter of 50 years and the unexpired term of the lease
Leasehold land the unexpired term of the lease

Civil Works

Excavation and boring Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes 100 years
Station building structures 100 years
Depot structures 80 years
Kiosk structures 20 – 30 years
Cableway station tower and theme village structures 27 – 30 years

Notes to the Accounts

2 Principal Accounting Policies *(continued)*

H Depreciation and Amortisation *(continued)*

Plant and Equipment

Rolling stock and components	4 – 42 years
Platform screen doors	10 – 35 years
Rail track	7 – 50 years
Environmental control systems, lifts and escalators, fire protection and drainage system	7 – 30 years
Power supply systems	7 – 40 years
Aerial ropeway and cabin	5 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	20 – 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 28 years
Station architectural finishes	8 – 30 years
Fixtures and fittings	4 – 25 years
Maintenance equipment	4 – 40 years
Office furniture and equipment	2 – 15 years
Computer software licences and applications	2 – 10 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	4 – 8 years

Where parts of an item of property, plant and equipment have different useful lives, each part is depreciated or amortised separately. The useful lives of the various categories of fixed assets are reviewed annually in the light of actual asset condition, usage experience and the current asset replacement programme.

- (iii) No depreciation or amortisation is provided on assets under construction until the construction is completed and the assets are ready for their intended use.
- (iv) Depreciation on assets held under finance leases is provided at rates designed to write off the cost of the asset in equal annual amounts over the shorter of the lease term or the anticipated useful life of the asset as set out above, except in cases where title to the asset will be acquired by the Group at the end of the lease where depreciation is provided at rates designed to write off the cost of the asset in equal amounts over the anticipated useful life of the asset.

I Construction Costs

- (i) Costs incurred by the Group in respect of feasibility studies on proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:
- where the proposed projects are at a preliminary review stage with no certainty of materialising, the costs concerned are charged to the profit and loss account; and
 - where the proposed projects are at a detailed study stage, having been agreed in principle by the Members of the Board based on a feasible financial plan, the costs concerned are recorded as deferred expenditure until such time as a project agreement is reached, whereupon the costs are transferred to railway construction in progress.
- (ii) After entering into a project agreement, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

J Property Development

- (i) Costs incurred by the Group in respect of site preparation, land costs, acquisition of development rights, aggregate cost of development, borrowing costs capitalised, provisions and other direct expenses are dealt with as property development in progress.
- (ii) Payments received from developers in respect of property developments are offset against the amounts in property development in progress attributable to that development. Any surplus amounts of payments received from developers in excess of the balance in property development in progress are transferred to deferred income. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

2 Principal Accounting Policies *(continued)*

J Property Development *(continued)*

(iii) Profits arising from the development of properties in Hong Kong undertaken in conjunction with property developers are recognised in the profit and loss account as follows:

- where the Group receives payments from developers, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
- where the Group receives a right to a share of the net surplus from sale of the development and interests in any unsold units, income is initially recognised by the Group upon the issue of occupation permits provided the amounts of revenue and costs can be estimated reliably. The interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2J(v); and
- where the Group receives a distribution of the assets of the development, profit is recognised based on the fair value of such assets at the time of receipt and after taking into account any outstanding risks and obligations retained by the Group in connection with the development.

Upon recognition of profit, the balance of deferred income or property development in progress relating to that development is credited or charged to the profit and loss account, as the case may be.

(iv) Revenue arising from sales of properties in Mainland of China is recognised when the risks and rewards associated with ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under creditors and accrued charges.

(v) Where properties are received as a profit distribution upon completion of development and are held for sale, those properties are stated at fair value upon receipt as their cost and subsequently carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. When properties are sold, the carrying amount of those properties is recognised as cost of properties sold in the period in which the related revenue is recognised. The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

(vi) Where properties under construction are received from a development for investment purpose, these properties are recognised as investment properties at fair value. Further costs incurred in the construction of those assets and the related fitting out costs are capitalised in investment properties.

K Joint Operations

A joint operation is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The arrangements entered into by the Group with developers for Hong Kong property development without establishing separate entities are considered to be joint operations in accordance with HKFRS 11, *Joint Arrangements*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. Such costs are deductible from the proceeds of sale before surplus proceeds are shared. In respect of its interests in such operations, the Group accounts for the purchase consideration of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) paid net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the profit and loss account on the basis of note 2J(iii) after netting off any related balance in property development in progress at that time.

L Investments in Securities

The Group's policies for investments in securities (other than investments in its subsidiaries and associates) are as follows:

- (i) Investments in securities held for trading purpose are initially stated at fair value. At the end of each reporting period, the fair value is remeasured with any resultant unrealised gain or loss being recognised in the profit and loss account.
- (ii) Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.
- (iii) Interest income in relation to investment in securities is recognised as it accrues using the effective interest method.
- (iv) Profit or loss on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

Notes to the Accounts

2 Principal Accounting Policies *(continued)*

M Stores and Spares

Stores and spares used for business operation are categorised as either revenue or capital. Revenue spares are stated in the statement of financial position at cost, using the weighted average cost method and are recognised as expenses in the period in which the consumption occurs. Provision is made for obsolescence where appropriate. Capital spares are included in fixed assets and stated at cost less accumulated depreciation and impairment losses (note 2G(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

N Long-term Contracts

The accounting policy for contract revenue is set out in note 2Y(iii). When the outcome of a fixed-price long-term contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a long-term contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

Long-term contracts in progress at the end of reporting period are recorded in the statement of financial position at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the statement of financial position as "Gross amount due from customers for contract work" (as an asset) or "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the statement of financial position under "Debtors, deposits and payments in advance". Amounts received before the related work is performed are included in the statement of financial position as a liability under "Creditors and accrued charges".

O Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value with a maturity at acquisition within three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

P Debtors, Deposits and Payments in Advance

Debtors, deposits and payments in advance are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less impairment losses for bad and doubtful debts (note 2G(i)), except where the effect of discounting would be immaterial or the discount is not measurable as the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Q Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value net of transaction costs incurred. The interest-bearing borrowings not subject to fair value hedges are subsequently stated at amortised costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Subsequent to initial recognition, the carrying amount of interest-bearing borrowings subject to fair value hedges is remeasured and the change in fair value attributable to the risk being hedged is recognised in the profit and loss account to offset the effect of the gain or loss on the related hedging instrument.

R Creditors and Accrued Charges

Creditors and accrued charges are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

S Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on the Group's policies, these instruments are used solely for reducing or eliminating financial risks associated with the Group's investments and liabilities and not for trading or speculation purposes.

Derivatives are initially recognised at fair value and are subsequently remeasured at their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; or (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

2 Principal Accounting Policies *(continued)*

S Derivative Financial Instruments and Hedging Activities *(continued)*

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income which is accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the profit and loss account in the periods when the hedged item is recognised in the profit and loss account. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the profit and loss account.

(iii) Derivatives That Do Not Qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

T Employee Benefits

(i) Salaries, annual leave, other allowances, contributions to defined contribution retirement plans, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and other costs of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where these benefits are incurred for staff relating to construction projects, capital works and property developments, they are capitalised as part of the cost of the qualifying assets. In other cases, they are recognised as expenses in the profit and loss account as incurred.

(ii) The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. Service cost and net interest expense/income on the net defined benefit liability/asset are recognised either as an expense in the profit and loss account, or capitalised as part of the cost of the relevant construction projects, capital works or property developments, as the case may be. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in the profit and loss account or capitalised at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/income for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the weighted average duration of the plan's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise of actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/asset) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/asset).

(iii) Equity-settled share-based payments are measured at fair value at the date of grant.

- For share options, the fair value determined at the grant date is recognised as staff costs, unless the relevant employee expenses qualify for recognition as an asset, on a straight-line basis over the vesting period and taking into account the probability that the options will vest, with a corresponding increase in the employee share-based capital reserve within equity. Fair value is measured by use of the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit and loss account in the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based capital reserve). The equity amount is recognised in the employee share-based capital reserve until either the option is exercised which is transferred to the share capital account or the option is lapsed (on expiry of the share options)/forfeited (when the vesting conditions are not fulfilled) which is released directly to retained profits.

Notes to the Accounts

2 Principal Accounting Policies *(continued)*

T Employee Benefits *(continued)*

- For award shares under the 2014 Share Incentive Scheme, the amounts to be expensed as staff costs are determined by reference to the fair value of the award shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the relevant vesting periods, with a corresponding credit to the employee share-based capital reserve under equity.

For those award shares which are amortised over the vesting periods, the Group reviews its estimates of the number of award shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss account in the year of the review, with a corresponding adjustment to the employee share-based capital reserve. Upon vesting of award shares, the related costs of the vested award shares purchased from the market (the "purchased shares") and shares received in relation to scrip dividend and shares purchased from the proceeds of cash dividends received (the "dividend shares") are credited to Shares held for Share Incentive Scheme, with a corresponding decrease in employee share-based compensation reserve for the purchased shares, and decrease in retained earnings for the dividend shares.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the fair value of the shares determined at the end of each reporting period.

- (iv) Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

U Retirement Schemes

The Group operates both defined contribution and defined benefit retirement schemes.

Employer's contributions to defined contribution retirement schemes including MPF Schemes are recognised in the accounts in accordance with the policy set out in note 2T(i).

Employer's contributions paid and payable in respect of employees of defined benefit retirement schemes are calculated annually by independent actuaries in accordance with the Retirement Scheme Rules and provisions of the Occupational Retirement Schemes Ordinance. The pension expenses recognised in the accounts are dealt with in accordance with note 2T(ii).

V Income Tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried backward or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to the recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2E(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 Principal Accounting Policies *(continued)*

V Income Tax *(continued)*

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

W Financial Guarantee Contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment to the holder when due in accordance with the original or modified terms of a debt instrument.

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee, after netting off any consideration received or receivable at inception, is initially debited to the profit and loss account and recognised as deferred income within creditors and accrued charges. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2X if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors and accrued charges in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

X Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Y Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits associated with the transactions will flow to the Group and the amount of revenue can be measured reliably, revenue is recognised in the profit and loss account as follows:

- (i) Fare revenue is recognised when the journey is provided.
- (ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is accounted for in accordance with the terms of the leases. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.
- (iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recovered.
- (iv) Incomes from other railway and station commercial businesses, property management, railway franchises and service concessions are recognised when the services are provided.

Z Operating Lease Charges

Rentals payable under operating leases are charged on a straight-line basis over the period of the lease to the profit and loss account, except for rentals payable in respect of railway construction, property development in progress and proposed capital projects which are capitalised as part of railway construction in progress, property development in progress and deferred expenditure respectively.

Notes to the Accounts

2 Principal Accounting Policies *(continued)*

AA Interest and Finance Charges

Interest income and expense directly attributable to the financing of capital projects prior to their completion or commissioning are capitalised. Exchange differences arising from foreign currency borrowings relating to the acquisition of assets are capitalised to the extent that they are regarded as an adjustment to capitalised interest costs. Interest expense attributable to other purposes is charged to the profit and loss account.

Finance charges implicit in the lease payments on assets held under finance leases are charged to the profit and loss account over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

BB Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in the profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year. Statement of financial position items are translated into Hong Kong dollars at the closing exchange rates at the end of reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

CC Segment Reporting

Operating segments, and the amounts of each segment item reported in the accounts, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of businesses and operations in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services and products, the type or class of customers, the methods used to provide the services or distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

DD Related Parties

For the purposes of these accounts, a person, or a close member of that person's family, is related to the Group if that person is a member of the key management personnel of the Group.

An entity is related to the Group if (i) the entity and the Group are members of the same group; (ii) the entity is an associate of the Group; (iii) the entity is a post-employment benefit plans for the benefit of employee of the Group or of any entity that is a related party of the Group; (iv) an individual who is a related party of the Group has control, joint control, significant influence over that entity or is a member of the key management personnel of that entity; or (v) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

EE Government Grants

Government grants are assistance by governments in the form of transfer of resources in return for the Group's compliance to the conditions attached thereto. Government grants which represent compensation for the cost of an asset are deducted from the cost of the asset in arriving at its carrying value to the extent of the amounts received and receivable as at the date of the statement of financial position. Government grants which represent compensation for expenses or losses are deducted from the related expenses. Any excess of the amount of grant received or receivable over the cost of the asset or the expenses or losses at the end of reporting period are carried forward as advance receipts or deferred income to set off against the future cost of the asset or future expenses or losses.

3 Rail Merger with Kowloon-Canton Railway Corporation

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

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), extendable pursuant to the provisions of the MTR Ordinance (note 51C);
- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay variable annual payments to KCRC, calculated on a tiered basis by reference to the revenue generated from the KCRC system above certain thresholds;
- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;

3 Rail Merger with Kowloon-Canton Railway Corporation *(continued)*

- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted; and
- Property Package Agreements and Merger Framework Agreement setting out the acquisition of certain properties, property management rights and property development rights by the Company as well as the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK\$ million	2015	2014
Fare Revenue:		
– Domestic Service	11,819	11,318
– Cross-boundary Service	3,172	3,049
– Airport Express	950	915
– Light Rail and Bus	671	639
– Intercity Service	142	145
	16,754	16,066
Other rail-related income	162	157
	16,916	16,223

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan Lines. Other rail-related income includes mainly ancillary service income from Intercity Service, by-law infringement surcharge and Octopus load agent fees.

The Island Line Extension opened on 28 December 2014 with Kennedy Town and HKU stations operating, followed by Sai Ying Pun Station on 29 March 2015.

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK\$ million	2015	2014
Duty free shops and kiosks rental	3,540	3,197
Advertising	1,109	1,118
Telecommunication income	548	479
Other station commercial income	183	169
	5,380	4,963

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK\$ million	2015	2014
Property rental income from:		
– Elements	1,101	1,021
– Telford Plaza	863	811
– Maritime Square	528	504
– Luk Yeung Galleria	205	177
– Citylink Plaza	168	157
– PopCorn	172	160
– Paradise Mall	152	143
– International Finance Centre	633	547
– Other properties	445	425
	4,267	3,945
Property management income	266	245
	4,533	4,190

Notes to the Accounts

7 Revenue and Expenses Relating to Mainland of China and International Subsidiaries

Revenue and expenses relating to Mainland of China and international subsidiaries comprise:

in HK\$ million	Railway-related subsidiaries outside of Hong Kong							Property rental and management businesses in Mainland of China	Property development in Mainland of China	Total Mainland of China and international subsidiaries
	Stockholm Metro	Melbourne Train	Shenzhen Metro Longhua Line	Sydney Metro Northwest*	London Crossrail	MTR Express	Total			
2015										
Revenue	2,714	7,755	665	493	713	78	12,418	154	-	12,572
Expenses	2,603	7,293	528	491	666	138	11,719	127	140	11,986
2014										
Revenue	3,347	8,476	601	48	-	-	12,472	155	-	12,627
Expenses	3,220	7,896	455	50	-	17	11,638	128	55	11,821

* Formerly Sydney North West Rail Link

MTR Express commenced operation on the route between Stockholm and Gothenburg on 21 March 2015.

London Crossrail commenced train services between Liverpool Street Station and Shenfield Station in London on 31 May 2015.

8 Revenue from Other Businesses

Revenue from other businesses comprises incomes from:

in HK\$ million	2015	2014
Ngong Ping 360	347	375
Consultancy business	189	180
Project management for HKSAR Government	1,736	1,561
Miscellaneous businesses	28	37
	2,300	2,153

9 Operating Expenses

A Total staff costs include:

in HK\$ million	2015	2014
Amounts charged to profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	4,906	4,450
– maintenance and related works for Hong Kong transport operations	86	80
– other expense line items for Hong Kong transport operations	89	65
– expenses relating to Hong Kong station commercial businesses	80	74
– expenses relating to Hong Kong property rental and management businesses	110	94
– expenses relating to Mainland of China and international subsidiaries	5,224	5,468
– expenses relating to other businesses	1,901	1,694
– project study and business development expenses	225	244
– profit on Hong Kong property development	9	6
Amounts capitalised under:		
– railway construction in progress before offset by government grant	465	569
– property development in progress	135	136
– assets under construction and other projects	411	363
– service concession assets	346	294
Amounts recoverable	545	496
Total staff costs	14,532	14,033

Amounts recoverable relate to property management, entrustment works and other agreements.

9 Operating Expenses (continued)

A Total staff costs include: (continued)

The following expenditures are included in total staff costs:

in HK\$ million	2015	2014
Share-based payments	78	43
Contributions to defined contribution retirement plans and Mandatory Provident Fund	650	619
Amounts recognised in respect of defined benefit retirement plans	406	348
	1,134	1,010

B The costs of maintenance and related works for Hong Kong transport operations relate mainly to contracted maintenance and revenue works. Other routine repairs and maintenance works are performed by in-house operations and the costs of which are included under staff costs and related expenses as well as stores and spares consumed.

C Project study and business development expenses comprise:

in HK\$ million	2015	2014
Business development expenses	272	427
Miscellaneous project study expenses	32	27
	304	454

Business development expenses relate mainly to new business opportunities in the Mainland of China, Europe and Australia.

D Auditors' remuneration charged to the consolidated profit and loss account include:

in HK\$ million	2015	2014
Audit services	15	12
Tax services	1	1
Other audit related services	6	6
Non-audit services	13	16
	35	35

E The following charges are included in operating expenses:

in HK\$ million	2015	2014
Loss on disposal of fixed assets	44	36
Derivative financial instruments – transferred from hedging reserve (note 18B)	20	–
Unrealised loss on revaluation of investments in securities	1	1

F Operating lease expenses charged to the consolidated profit and loss account comprise:

in HK\$ million	2015	2014
Shopping centre, office building, staff quarters and bus depot	85	92
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for subsidiaries	913	1,004
Amount capitalised	–	(7)
	998	1,089

Notes to the Accounts

10 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of Members of the Board and the Executive Directorate of the Company were as follows:

in HK\$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2015					
Members of the Board					
– Raymond Ch'ien Kuo-fung (up to 31 December 2015)	1.2	–	–	–	1.2
– Pamela Chan Wong Shui	0.3	–	–	–	0.3
– Dorothy Chan Yuen Tak-fai	0.4	–	–	–	0.4
– Vincent Cheng Hoi-chuen	0.3	–	–	–	0.3
– Christine Fang Meng-sang (up to 10 August 2015)	0.2	–	–	–	0.2
– Eddy Fong Ching (appointed on 13 January 2015)	0.4	–	–	–	0.4
– Edward Ho Sing-tin	0.4	–	–	–	0.4
– James Kwan Yuk-choi	0.3	–	–	–	0.3
– Kaizer Lau Ping-cheung (appointed on 11 August 2015)	0.1	–	–	–	0.1
– Lucia Li Li Ka-lai	0.3	–	–	–	0.3
– Alasdair George Morrison	0.4	–	–	–	0.4
– Frederick Ma Si-hang	0.4	–	–	–	0.4
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.3	–	–	–	0.3
– T. Brian Stevenson (up to 20 May 2015)	0.2	–	–	–	0.2
– Benjamin Tang Kwok-bun	0.3	–	–	–	0.3
– Allan Wong Chi-yun (appointed on 11 August 2015)	0.1	–	–	–	0.1
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Anthony Cheung Bing-leung	0.3	–	–	–	0.3
– Wai Chi-sing (up to 6 April 2015)	0.1	–	–	–	0.1
– Hon Chi-keung (appointed on 7 April 2015)	0.2	–	–	–	0.2
– Ingrid Yeung Ho Poi-yan	0.3	–	–	–	0.3
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen	–	8.4	1.2	4.5	14.1
– Morris Cheung Siu-wa	–	4.1	0.6	1.2	5.9
– Jacob Kam Chak-pui	–	5.5	0.8	2.0	8.3
– Stephen Law Cheuk-kin	–	5.0	0.7	1.3	7.0
– Gillian Elizabeth Meller	–	3.8	0.6	1.3	5.7
– Linda So Ka-pik (appointed on 16 September 2015)*	–	1.0	0.1	0.3	1.4
– David Tang Chi-fai	–	4.2	0.6	1.5	6.3
– Philco Wong Nai-keung	–	5.1	0.8	1.7	7.6
– Jeny Yeung Mei-chun	–	4.1	0.6	1.6	6.3
	7.1	41.2	6.0	15.4	69.7

10 Remuneration of Members of the Board and the Executive Directorate (continued)

A Remuneration of Members of the Board and the Executive Directorate (continued)

in HK\$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2014					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.2	–	–	–	1.2
– Pamela Chan Wong Shui	0.3	–	–	–	0.3
– Dorothy Chan Yuen Tak-fai	0.3	–	–	–	0.3
– Vincent Cheng Hoi-chuen	0.3	–	–	–	0.3
– Christine Fang Meng-sang	0.3	–	–	–	0.3
– Edward Ho Sing-tin	0.4	–	–	–	0.4
– James Kwan Yuk-choi (appointed on 14 October 2014)	0.1	–	–	–	0.1
– Lucia Li Li Ka-lai (appointed on 14 October 2014)	0.1	–	–	–	0.1
– Alasdair George Morrison	0.3	–	–	–	0.3
– Frederick Ma Si-hang	0.3	–	–	–	0.3
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.3	–	–	–	0.3
– T. Brian Stevenson	0.4	–	–	–	0.4
– Benjamin Tang Kwok-bun (appointed on 14 October 2014)	0.1	–	–	–	0.1
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Anthony Cheung Bing-leung	0.3	–	–	–	0.3
– Wai Chi-sing (appointed on 14 October 2014)	0.1	–	–	–	0.1
– Ingrid Yeung Ho Poi-yan	0.3	–	–	–	0.3
Members of the Executive Directorate					
– Jay H Walder (up to 15 August 2014)	–	5.8	–**	–	5.8
– Lincoln Leong Kwok-kuen	–	7.0	1.1	2.3	10.4
– Morris Cheung Siu-wa	–	4.0	0.2	0.7	4.9
– Chew Tai-chong (up to 27 October 2014)	–	4.9	0.6	0.4	5.9
– Jacob Kam Chak-pui	–	5.0	0.8	1.8	7.6
– Stephen Law Cheuk-kin	–	4.8	0.7	1.3	6.8
– Gillian Elizabeth Meller	–	3.7	0.5	1.3	5.5
– David Tang Chi-fai	–	4.0	0.6	1.4	6.0
– Philco Wong Nai-keung (appointed on 28 October 2014) ***	–	0.9	0.1	0.2	1.2
– Jeny Yeung Mei-chun	–	3.9	0.6	1.4	5.9
	5.7	44.0	5.2	10.8	65.7

* Linda K P So was appointed as a Member of the Executive Directorate on 16 September 2015. The amount of her emoluments shown in the above table covers the period from the date of her appointment to 31 December 2015.

** The total contributions paid by the Company attributable to the financial year ended 31 December 2014 for Jay H Walder, who participated in the MTR MPF Scheme, was HK\$10,750.

*** Philco N K Wong was appointed as a Member of the Executive Directorate on 28 October 2014. The amount of his emoluments shown in the above table covers the period from the date of his appointment to 31 December 2014.

Mr. Jay H Walder received a contractual settlement amount of HK\$15.7 million, of which HK\$725,428 was the equivalent value in cash of 24,378 shares as referred to in Note 47(B), from the Company upon his stepping down as Chief Executive Officer of the Company on 15 August 2014. Both amounts are not reflected in the above table.

The above emoluments do not include the fair value of share options granted under 2007 Share Option Scheme as well as Award Shares granted under 2014 Share Incentive Scheme.

Notes to the Accounts

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

The director's fees in respect of the office of the Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung), the office of the Permanent Secretary for Development (Works) (Hon Chi-keung) and the office of the Commissioner for Transport (Ingrid Yeung Ho Poi-yan), each of whom was appointed Director by the Chief Executive of the HKSAR pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong), were received by the HKSAR Government rather than by the individuals concerned.

The director's fee in respect of Professor Chan Ka-keung, Ceajer, the Secretary for Financial Services and the Treasury of the HKSAR Government, was received by the HKSAR Government rather than by Professor Chan personally.

Alternate Directors were not entitled to director's fees.

Dr. Peter R Ewen was appointed as the Engineering Director and a member of the Executive Directorate with effect from 22 February 2016.

Share options were granted to Members of the Executive Directorate under the Company's 2007 Share Option Scheme, which were offered to them on 10 December 2007, 8 December 2008, 12 June 2009, 8 December 2009, 28 June 2010, 16 December 2010, 23 March 2012, 26 April 2013 and 25 October 2013. The entitlements of each of the Members are as follows:

- Lincoln K K Leong was granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010, 201,000 shares on 30 March 2012 and 256,000 shares on 6 May 2013, of which 152,500 options were vested in 2015 (2014:152,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.3 million);
- Morris S W Cheung was granted options in respect of 65,000 shares each on 12 December 2007, 10 December 2008 and 11 December 2009, 35,000 shares on 21 July 2010, 65,000 shares on 20 December 2010, 122,000 shares on 30 March 2012 and 180,500 shares on 6 May 2013, of which 100,500 options were vested in 2015 (2014: 101,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.2 million);
- Jacob C P Kam was granted options in respect of 75,000 shares on 13 December 2007, 65,000 shares each on 8 December 2008 and 14 December 2009, 50,000 shares on 21 July 2010, 170,000 shares on 17 December 2010, 172,000 shares on 30 March 2012 and 202,500 shares on 6 May 2013, of which 124,500 options were vested in 2015 (2014: 125,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.3 million);
- Stephen C K Law was granted options in respect of 196,000 shares on 1 November 2013, of which 65,500 options were vested in 2015 (2014: 65,500), and the fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.3million);
- Gillian E Meller was granted options in respect of 55,000 shares on 12 December 2007, 70,000 shares on 11 December 2008, 65,000 shares on 10 December 2009, 90,000 shares on 17 December 2010, 158,500 shares on 30 March 2012 and 184,000 shares on 6 May 2013, of which 114,000 options were vested in 2015 (2014: 114,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.2 million);
- David C F Tang was granted options in respect of 65,000 shares each on 13 December 2007, 12 December 2008, 15 December 2009 and 17 December 2010, 163,500 shares on 30 March 2012 and 182,500 shares on 6 May 2013, of which 115,500 options were vested in 2015 (2014: 115,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.2 million);
- Philco N K Wong was granted options in respect of 70,500 shares on 30 March 2012, 81,000 shares on 6 May 2013 and 83,000 shares on 30 May 2014, of which 78,500 options were vested in 2015 (2014: 50,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.2 million);
- Jeny M C Yeung was granted options in respect of 75,000 shares on 12 December 2007 and 65,000 shares each on 10 December 2008, 10 December 2009 and 17 December 2010, 161,000 shares on 30 March 2012 and 187,000 shares on 6 May 2013, of which 115,500 options were vested in 2015 (2014: 116,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.2 million);
- Jay H Walder was granted options in respect of 391,500 shares on 30 March 2012 and 497,000 shares on 6 May 2013, of which 296,500 options were vested in 2014. The respective fair value of the share-based payments recognised for the year ended 31 December 2014 was HK\$0.6 million; and
- T C Chew was granted options in respect of 85,000 shares on 18 June 2009, 170,000 shares each on 10 December 2009 and 17 December 2010, 184,500 shares on 30 March 2012 and 225,500 shares on 6 May 2013, of which 137,000 options were vested in 2014. The respective fair value of the share-based payments recognised for the year ended 31 December 2014 was HK\$0.3 million.

Restricted Shares and Performance Shares were granted to Members of the Executive Directorate under the Company's 2014 Share Incentive Scheme on 27 April 2015. Performance Shares offered to Members of the Executive Directorate under such grants covered the period from 2015 to 2017. The entitlements of each of the Members are as follows:

- Lincoln K K Leong was granted 60,200 Restricted Shares and 255,000 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$3.3 million;
- Morris S W Cheung was granted 28,800 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.3 million;
- Jacob C P Kam was granted 22,050 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.9 million;

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

- Stephen C K Law was granted 16,700 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.8 million;
- Gillian E Meller was granted 16,950 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.8 million;
- David C F Tang was granted 18,450 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.8 million;
- Philco N K Wong was granted 21,700 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.9 million; and
- Jeny M C Yeung was granted 19,350 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.8 million.

None of the Restricted Shares or Performance Shares awarded to the Members of the Executive Directorate were vested in 2015.

The details of Board Members' and Executive Directorate's interest in the Company's shares are disclosed in the Report of the Members of the Board and note 47.

For the year ended 31 December 2015, three (2014: four) Members of the Executive Directorate of the Company, whose emoluments are shown above, were among the five individuals whose emoluments were the highest. The total remuneration of the five highest paid individuals for the year is shown below:

in HK\$ million	2015	2014
Base pay, allowances and benefits in kind	30.0	25.9
Variable remuneration related to performance	12.0	9.7
Retirement scheme contributions	3.5	3.3
	45.5	38.9

The emoluments of the top 5 highest paid individuals for the year is within the following bands:

	2015	2014
HK\$5,500,001 – HK\$6,000,000	–	1
HK\$6,500,001 – HK\$7,000,000	–	1
HK\$7,000,001 – HK\$7,500,000	1	–
HK\$7,500,001 – HK\$8,000,000	1	1
HK\$8,000,001 – HK\$8,500,000	2	1
HK\$10,000,001 – HK\$10,500,000	–	1
HK\$13,500,001 – HK\$14,500,000	1	–
	5	5

(ii) Jay H Walder was granted a derivative interest in respect of 300,000 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance. On appointment as the Chief Executive Officer of the Company, the derivative interest represents his entitlement to be paid an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office expired. Accordingly, an amount of HK\$8,805,000 was paid to him on 2 July 2014 (at a price of HK\$29.35 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 30 June 2014).

On 30 August 2013, he was re-appointed as the Chief Executive Officer until 31 August 2015. He was granted a derivative interest in respect of 230,000 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance. The derivative interest represents his entitlement to be paid an equivalent value in cash of 230,000 shares in the Company upon completion of his extended term of office on 31 August 2015. Jay H Walder stepped down as the Chief Executive Officer of the Company from 15 August 2014. On 15 August 2014, an amount of HK\$725,428, forming part of the contractual settlement amount referred to in section (i) of this Note 10A, was paid to him, being the equivalent value in cash of 24,378 shares (at a price of HK\$29.7575 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 25 July 2014). His remaining derivative interest in 205,622 shares in the Company lapsed on 15 August 2014.

(iii) The aggregate emoluments of Members of the Board and the Executive Directorate for the year was HK\$79.1 million (2014: HK\$93.0 million).

Notes to the Accounts

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

(iv) The Company has a service contract with each of the independent non-executive Directors ("INED")/non-executive Directors ("NED") (including Dr. Raymond Ch'ien Kuo-fung, Professor Frederick Ma Si-hang (re-designated from INED to NED on 30 November 2015) and Professor Ceajer Chan Ka-keung but excluding three additional directors appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) specifying the terms of his/her continuous appointments as an INED/a NED and a Member of the relevant Board Committees, for a period not exceeding three years. He/she is also subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 91 and 92(a) of the Company's Articles of Association. Dr. Raymond Ch'ien Kuo-fung, a Member of the Board and the non-executive Chairman of the Company since 1998 and 2003 respectively, was re-appointed by the HKSAR Government on 29 October 2012 as the non-executive Chairman of the Company until 31 December 2015. Professor Frederick Ma Si-hang was appointed by the HKSAR government as the new non-executive Chairman of the Company for a term of three years, effective 1 January 2016.

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2015 are set out in the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

2007 Share Option Scheme

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 47A(i), all Members of the Executive Directorate were granted options to acquire shares in each year from 2007 to 2010 and from 2012 to 2013 (note 10A(i)).

Under the vesting terms of the options, options granted will be evenly vested in respect of their underlying shares over a period of three years from the date of offer to grant such options.

C Award Shares

Award Shares outstanding in respect of each Member of the Executive Directorate as at 31 December 2015 are set out in the Report of the Members of the Board. Details of the award shares granted to Members of the Executive Directorate are as follows:

Under the 2014 Share Incentive Scheme as described in note 47A(ii), all Members of the Executive Directorate may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded on the basis of individual performance. Performance Shares are awarded which vest subject to the performance of the Company, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions.

An award of Restricted Shares will vest rateably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved.

11 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK\$ million	2015	2014
Share of surplus from property development	2,898	4,004
Agency fee and other income from West Rail property development (note 25D)	30	234
Other overhead costs net of miscellaneous income	(37)	(22)
	2,891	4,216

12 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK\$ million	2015	2014
Depreciation charge on assets relating to:		
– Hong Kong transport operations	2,891	2,616
– Hong Kong station commercial businesses	114	107
– Hong Kong property rental and management businesses	12	12
– Mainland of China and international subsidiaries	78	66
– Other businesses	66	64
	3,161	2,865
Amortisation charge on:		
– Service concession assets relating to:		
– Rail Merger with KCRC	671	607
– Mainland of China and international subsidiaries	384	349
– Property management rights	2	–
	1,057	956
– Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(369)	(336)
	688	620
	3,849	3,485

13 Interest and Finance Charges

in HK\$ million	2015	2014
Interest expenses in respect of:		
– Bank loans, overdrafts and capital market instruments wholly repayable within 5 years	357	275
– Bank loans and capital market instruments not wholly repayable within 5 years	315	434
– Obligations under service concession	714	717
– Other obligations (note 20F)	19	18
Finance charges	39	36
Exchange gain	(104)	(219)
	1,340	1,261
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(217)	(221)
Derivative financial instruments:		
– Fair value hedges	(12)	(26)
– Cash flow hedges:		
– transferred from hedging reserve to offset interest expenses	22	26
– transferred from hedging reserve to offset exchange gain	123	234
– ineffective portion	–	(1)
– Derivatives not qualified for hedge accounting	4	(1)
	137	232
Interest expenses capitalised	(494)	(497)
	766	775
Interest income in respect of deposits with banks	(167)	(230)
	599	545

Notes to the Accounts

13 Interest and Finance Charges *(continued)*

During the year ended 31 December 2015, interest expenses capitalised were calculated on a monthly basis at the pre-determined cost of borrowings and/or the relevant group companies' borrowing cost which varied from 2.7% to 6.3% per annum (2014: 1.3% to 6.5% per annum).

During the year ended 31 December 2015, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line were HK\$217 million (2014: HK\$221 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2015, the gain resulting from fair value changes of the underlying financial assets and liabilities being hedged was HK\$73 million (2014: HK\$30 million) while the loss resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK\$61 million (2014: HK\$4 million), thus resulting in a net gain of HK\$12 million (2014: HK\$26 million).

14 Income Tax

A Income tax in the consolidated profit and loss account represents:

in HK\$ million	2015	2014
Current tax		
– Hong Kong Profits Tax	1,791	1,583
– Mainland of China and overseas tax	190	205
	1,981	1,788
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(23)	–
	1,958	1,788
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	(36)	(15)
– depreciation allowances in excess of related depreciation	435	760
– provisions and others	(120)	(37)
	279	708
	2,237	2,496

The provision for Hong Kong Profits Tax for the year ended 31 December 2015 is calculated at 16.5% (2014: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current taxes for the Mainland of China and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2014: 16.5%) while that arising in the Mainland of China and overseas is calculated at the appropriate current rates of taxation ruling in the relevant countries.

B Reconciliation between tax expense and accounting profit at applicable tax rates:

	2015		2014	
	HK\$ million	%	HK\$ million	%
Profit before taxation	15,375		18,293	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	2,555	16.6	3,055	16.7
Tax effect of non-deductible expenses	338	2.2	382	2.1
Tax effect of non-taxable revenue	(606)	(3.9)	(932)	(5.1)
Tax effect of unused tax losses not recognised	(27)	(0.2)	(9)	–
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(23)	(0.1)	–	–
Actual tax expenses	2,237	14.6	2,496	13.7

15 Dividends

During the year, dividends paid and proposed to equity shareholders of the Company comprise:

in HK\$ million	2015	2014
Dividends payable attributable to the year		
– Interim dividend declared of HK\$0.25 (2014: HK\$0.25) per share	1,462	1,455
– Final dividend proposed after the end of reporting period of HK\$0.81 (2014: HK\$0.80) per share	4,745	4,661
	6,207	6,116
Dividends paid attributable to the previous year		
– Final dividend of HK\$0.80 (2013: HK\$0.67) per share approved and payable/paid during the year	4,673	3,886

The final dividend proposed after the end of reporting period has not been recognised as a liability at the end of reporting period. Details of dividends paid to the Financial Secretary Incorporated are disclosed in note 51N.

For interim and final dividends, scrip dividend elections were offered to all shareholders except shareholders with registered addresses in the United States of America or any of its territories or possessions.

Pursuant to the agreement entered into between the HKSAR Government and the Company dated 30 November 2015 (the “XRL Agreement”), the Company will pay a special dividend of HK\$4.40 in aggregate per share in two equal tranches (HK\$2.20 per share in cash in each tranche) conditional on satisfaction of the following conditions specified in the XRL Agreement (the “Conditions”):

- (i) independent shareholder approval; and
- (ii) HKSAR Legislative Council approval in respect of the HKSAR Government’s additional funding obligations,

being granted prior to the Back Stop Date (being 30 September 2016 or earlier, if a termination of XRL Entrustment Agreement is commenced prior to that date).

Given the XRL Agreement was approved by the Company’s independent shareholders at the General Meeting held on 1 February 2016 and the approval from HKSAR Legislative Council in respect of the HKSAR Government’s additional funding obligations was obtained on 11 March 2016, the Conditions have been satisfied. It is expected that the first tranche will be paid in the second half of 2016 and the second tranche will be paid in the second half of 2017. There will be no scrip alternative for the special dividend. Details are set out in note 24A.

16 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of HK\$12,994 million (2014: HK\$15,606 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme, which is calculated as follows:

	2015	2014
Issued ordinary shares at 1 January	5,826,534,347	5,798,541,650
Effect of scrip dividend issued	3,861,439	6,084,149
Effect of share options exercised	12,801,362	4,855,401
Less: Shares held for Share Incentive Scheme	(2,355,135)	–
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 31 December	5,840,842,013	5,809,481,200

Notes to the Accounts

16 Earnings Per Share (continued)

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of HK\$12,994 million (2014: HK\$15,606 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option schemes and Share Incentive Scheme, which is calculated as follows:

	2015	2014
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 31 December	5,840,842,013	5,809,481,200
Effect of dilutive potential shares under share option schemes	11,902,289	4,430,330
Effect of shares awarded under Share Incentive Scheme	2,460,621	–
Weighted average number of shares (diluted) at 31 December	5,855,204,923	5,813,911,530

C Basic and diluted earnings per share would have been HK\$1.87 (2014: HK\$1.99) and HK\$1.86 (2014: HK\$1.99) respectively, if the calculation is based on profit attributable to equity shareholders of the Company arising from underlying businesses of HK\$10,894 million (2014: HK\$11,571 million).

17 Segmental Information

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

- (i) Hong Kong transport operations: The provision of passenger operation and related services on the urban mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with the border of Mainland of China at Lo Wu and Lok Ma Chau, light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of China.
- (ii) Hong Kong station commercial businesses: Commercial activities including the letting of advertising, retail and car parking space at railway stations, the provision of telecommunication and bandwidth services in railway premises and other commercial activities within the Hong Kong transport operations network.
- (iii) Hong Kong property rental and management businesses: The letting of retail, office and car parking space and the provision of estate management services in Hong Kong.
- (iv) Hong Kong property development: Property development activities at locations near the railway systems in Hong Kong.
- (v) Railway, property rental and management businesses outside Hong Kong: The construction, operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail spaces and provision of estate management services in the Mainland of China.
- (vi) Mainland of China property development: Property development activities in the Mainland of China.
- (vii) Other businesses: Businesses not directly relating to transport operations or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business and the provision of project management services to the HKSAR Government.

17 Segmental Information (continued)

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

in HK\$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates			Un-allocated amount	Total
					Railway, property rental and management businesses outside Hong Kong	Mainland of China property development	Other businesses		
2015									
Revenue	16,916	5,380	4,533	-	12,572	-	2,300	-	41,701
Operating expenses	(9,702)	(550)	(865)	-	(11,846)	(140)	(2,174)	-	(25,277)
Project study and business development expenses	-	-	-	-	-	-	-	(304)	(304)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	7,214	4,830	3,668	-	726	(140)	126	(304)	16,120
Profit on Hong Kong property development	-	-	-	2,891	-	-	-	-	2,891
Operating profit before depreciation, amortisation and variable annual payment	7,214	4,830	3,668	2,891	726	(140)	126	(304)	19,011
Depreciation and amortisation	(3,534)	(142)	(14)	-	(93)	-	(66)	-	(3,849)
Variable annual payment	(1,187)	(458)	(4)	-	-	-	-	-	(1,649)
Operating profit before interest and finance charges	2,493	4,230	3,650	2,891	633	(140)	60	(304)	13,513
Interest and finance charges	-	-	-	-	4	17	-	(620)	(599)
Investment property revaluation	-	-	2,100	-	-	-	-	-	2,100
Share of profit or loss of associates	-	-	-	-	126	-	235	-	361
Income tax	-	-	-	(475)	(135)	36	-	(1,663)	(2,237)
Profit for the year ended 31 December 2015	2,493	4,230	5,750	2,416	628	(87)	295	(2,587)	13,138
Assets									
Fixed assets	95,936	1,927	68,442	-	8,672	-	742	-	175,719
Other operational assets *	1,947	309	311	2,207	3,481	3,635	1,251	7,402	20,543
Property management rights	-	-	28	-	-	-	-	-	28
Railway construction in progress	19,064	-	-	-	-	-	-	-	19,064
Property development in progress	-	-	-	14,046	-	3,937	-	-	17,983
Deferred expenditure	5	-	14	-	-	-	269	-	288
Deferred tax assets	-	3	-	-	23	65	-	-	91
Investments in securities	-	-	-	-	-	-	336	-	336
Properties held for sale	-	-	-	1,139	-	-	-	-	1,139
Interests in associates	-	-	-	-	5,129	-	783	-	5,912
Total assets	116,952	2,239	68,795	17,392	17,305	7,637	3,381	7,402	241,103
Liabilities									
Segment liabilities	10,453	1,846	1,858	1,270	7,044	5,689	1,805	29,660	59,625
Obligations under service concession	10,392	-	-	-	172	-	-	-	10,564
Deferred income	-	150	-	19	574	-	-	-	743
Total liabilities	20,845	1,996	1,858	1,289	7,790	5,689	1,805	29,660	70,932
Other Information									
Capital expenditure on:									
Fixed assets	4,391	237	614	-	1,048	-	18	-	6,308
Railway construction in progress	3,859	-	-	-	-	-	-	-	3,859
Property development in progress	-	-	-	10,666	569	-	-	-	11,235
Non-cash expenses other than depreciation and amortisation	36	4	-	-	2	-	2	-	44

* Other operational assets include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

Notes to the Accounts

17 Segmental Information (continued)

in HK\$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates			Un-allocated amount	Total
					Railway, property rental and management businesses outside Hong Kong	Mainland of China property development	Other businesses		
2014									
Revenue	16,223	4,963	4,190	–	12,627	–	2,153	–	40,156
Operating expenses	(9,236)	(515)	(747)	–	(11,766)	(55)	(1,960)	–	(24,279)
Project study and business development expenses	–	–	–	–	–	–	–	(454)	(454)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	6,987	4,448	3,443	–	861	(55)	193	(454)	15,423
Profit on Hong Kong property development	–	–	–	4,216	–	–	–	–	4,216
Operating profit before depreciation, amortisation and variable annual payment	6,987	4,448	3,443	4,216	861	(55)	193	(454)	19,639
Depreciation and amortisation	(3,196)	(133)	(13)	–	(79)	–	(64)	–	(3,485)
Variable annual payment	(1,081)	(388)	(3)	–	–	–	–	–	(1,472)
Operating profit before interest and finance charges	2,710	3,927	3,427	4,216	782	(55)	129	(454)	14,682
Interest and finance charges	–	–	–	–	(27)	1	–	(519)	(545)
Investment property revaluation	–	–	4,035	–	–	–	–	–	4,035
Share of profit or loss of associates	–	–	–	–	(105)	–	226	–	121
Income tax	–	–	–	(632)	(197)	17	–	(1,684)	(2,496)
Profit for the year ended 31 December 2014	2,710	3,927	7,462	3,584	453	(37)	355	(2,657)	15,797
Assets									
Fixed assets	93,835	1,807	65,736	1	8,487	–	790	–	170,656
Other operational assets *	1,787	238	317	1,384	3,838	69	957	16,643	25,233
Property management rights	–	–	30	–	–	–	–	–	30
Railway construction in progress	16,229	–	–	–	–	–	–	–	16,229
Property development in progress	–	–	–	3,962	–	3,528	–	–	7,490
Deferred expenditure	39	–	3	–	–	–	22	–	64
Deferred tax assets	–	3	–	–	16	31	–	–	50
Investments in securities	–	–	–	–	–	–	527	–	527
Properties held for sale	–	–	–	1,076	–	–	–	–	1,076
Interests in associates	–	–	–	–	5,105	–	692	–	5,797
Total assets	111,890	2,048	66,086	6,423	17,446	3,628	2,988	16,643	227,152
Liabilities									
Segment liabilities	9,633	1,787	1,742	798	7,421	1,022	2,224	27,664	52,291
Obligations under service concession	10,438	–	–	–	176	–	–	–	10,614
Deferred income	–	174	–	26	565	–	–	–	765
Total liabilities	20,071	1,961	1,742	824	8,162	1,022	2,224	27,664	63,670
Other Information									
Capital expenditure on:									
Fixed assets	2,931	268	372	–	597	–	26	–	4,194
Railway construction in progress	7,947	–	–	–	–	–	–	–	7,947
Property development in progress	–	–	–	437	696	–	–	–	1,133
Non-cash expenses other than depreciation and amortisation	28	5	–	–	–	–	3	–	36

* Other operational assets include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

17 Segmental Information *(continued)*

Unallocated assets and liabilities mainly comprise cash, bank balances and deposits, derivative financial assets and liabilities, interest-bearing loans and borrowings as well as deferred tax liabilities.

For the year ended 31 December 2015, revenue from one customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue (2014: one). Approximately 17.17% (2014: 15.65%) of the Group's total turnover was attributable to this customer.

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, property management rights, railway construction in progress, property development in progress, deferred expenditure and interests in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment, railway construction in progress and property development in progress, the location of the proposed capital project in the case of deferred expenditure, the location of the operation to which they are related in the case of service concession assets and property management rights and the location of operation in the case of interests in associates.

in HK\$ million	Revenue from external customers		Specified non-current assets	
	2015	2014	2015	2014
Hong Kong (place of domicile)	29,070	27,454	201,258	183,144
Australia	8,248	8,524	305	162
Mainland of China	850	792	16,590	16,818
Sweden	2,792	3,347	750	121
Other countries	741	39	91	21
	12,631	12,702	17,736	17,122
	41,701	40,156	218,994	200,266

18 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below:

in HK\$ million	2015			2014		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries and associates	(570)	–	(570)	(95)	–	(95)
– Non-controlling interests	(28)	–	(28)	(26)	–	(26)
	(598)	–	(598)	(121)	–	(121)
Surplus on revaluation of self-occupied land and buildings	325	(54)	271	138	(22)	116
Remeasurement of net liability of defined benefit plans	(694)	114	(580)	(443)	73	(370)
Cash flow hedges: net movement in hedging reserve (note 18B)	(162)	28	(134)	46	(9)	37
Other comprehensive income	(1,129)	88	(1,041)	(380)	42	(338)

Notes to the Accounts

18 Other Comprehensive Income *(continued)*

B The components of other comprehensive income of the Group relating to cash flow hedges are as follows:

in HK\$ million	2015	2014
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	(315)	(216)
Amounts transferred to initial carrying amount of hedged items	(12)	2
Amounts transferred to profit or loss:		
– Interest and finance charges (note 13)	145	260
– Other expenses (note 9E)	20	–
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the year	51	33
– Amounts transferred to initial carrying amount of hedged items	4	–
– Amounts transferred to profit or loss	(27)	(42)
	(134)	37

19 Investment Properties

Movements and analysis of the Group's and the Company's investment properties, all of which being held in Hong Kong and carried at fair value, are as follows:

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Cost or valuation				
At 1 January	65,679	61,285	64,237	59,940
Additions	609	359	597	345
Change in fair value	2,100	4,035	2,066	3,952
At 31 December	68,388	65,679	66,900	64,237
Long leases	20	22	20	22
Medium-term leases	68,368	65,657	66,880	64,215
	68,388	65,679	66,900	64,237

All investment properties of the Group were revalued at 31 December 2015 and 2014. Details of the fair value measurement are disclosed in note 46. The net increase in fair value of HK\$2,100 million (2014: HK\$4,035 million) arising from the revaluation has been credited to the consolidated profit and loss account. Investment properties are revalued semi-annually by Jones Lang LaSalle Limited and future market condition changes may result in further gains or losses to be recognised through profit and loss account in subsequent periods. Cost or valuation as at 31 December 2015 include investment properties under development of HK\$1,949 million (2014: HK\$1,504 million).

The Group's future minimum lease receipts in respect of investment properties under non-cancellable operating leases are disclosed together with those in respect of other properties under note 20D.

20 Other Property, Plant and Equipment

The Group

in HK\$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2015						
Cost or Valuation						
At 1 January 2015	732	3,507	47,101	70,907	1,415	123,662
Additions	-	16	-	934	2,232	3,182
Disposals/write-offs	-	-	-	(533)	(6)	(539)
Surplus on revaluation	-	214	-	-	-	214
Transfer from additional concession property (note 21)	-	-	-	(1)	7	6
Transfer from railway construction in progress (note 23)	-	-	147	801	76	1,024
Other assets commissioned	-	-	160	1,597	(1,757)	-
Exchange differences	-	-	-	(51)	-	(51)
At 31 December 2015	732	3,737	47,408	73,654	1,967	127,498
At Cost	732	-	47,408	73,654	1,967	123,761
At 31 December 2015 Valuation	-	3,737	-	-	-	3,737
Aggregate depreciation						
At 1 January 2015	245	-	7,011	38,127	-	45,383
Charge for the year	13	112	403	2,633	-	3,161
Written back on disposals	-	-	-	(487)	-	(487)
Written back on revaluation	-	(111)	-	-	-	(111)
Exchange differences	-	-	-	(24)	-	(24)
At 31 December 2015	258	1	7,414	40,249	-	47,922
Net book value at 31 December 2015	474	3,736	39,994	33,405	1,967	79,576
2014						
Cost or Valuation						
At 1 January 2014	732	3,474	46,727	67,329	1,171	119,433
Additions	-	-	-	196	1,372	1,568
Capitalisation adjustments *	-	-	(10)	-	-	(10)
Disposals/write-offs	-	-	(1)	(547)	(9)	(557)
Surplus on revaluation	-	33	-	-	-	33
Reclassification within other property, plant and equipment	-	-	16	(16)	-	-
Transfer to additional concession property (note 21)	-	-	-	(5)	3	(2)
Transfer from railway construction in progress (note 23)	-	-	369	2,877	-	3,246
Other assets commissioned	-	-	-	1,122	(1,122)	-
Exchange differences	-	-	-	(49)	-	(49)
At 31 December 2014	732	3,507	47,101	70,907	1,415	123,662
At Cost	732	-	47,101	70,907	1,415	120,155
At 31 December 2014 Valuation	-	3,507	-	-	-	3,507
Aggregate depreciation						
At 1 January 2014	231	-	6,611	36,314	-	43,156
Charge for the year	14	105	401	2,345	-	2,865
Written back on disposals	-	-	(1)	(507)	-	(508)
Written back on revaluation	-	(105)	-	-	-	(105)
Exchange differences	-	-	-	(25)	-	(25)
At 31 December 2014	245	-	7,011	38,127	-	45,383
Net book value at 31 December 2014	487	3,507	40,090	32,780	1,415	78,279

Notes to the Accounts

20 Other Property, Plant and Equipment (continued)

The Company

in HK\$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2015						
Cost or Valuation						
At 1 January 2015	732	3,507	47,101	69,460	1,337	122,137
Additions	-	-	-	174	2,187	2,361
Disposals/write-offs	-	-	-	(518)	(6)	(524)
Surplus on revaluation	-	214	-	-	-	214
Transfer from additional concession property (note 21)	-	-	-	(1)	7	6
Transfer from railway construction in progress (note 23)	-	-	147	801	76	1,024
Other assets commissioned	-	-	160	1,508	(1,668)	-
At 31 December 2015	732	3,721	47,408	71,424	1,933	125,218
At Cost	732	-	47,408	71,424	1,933	121,497
At 31 December 2015 Valuation	-	3,721	-	-	-	3,721
Aggregate depreciation						
At 1 January 2015	245	-	7,011	37,246	-	44,502
Charge for the year	13	111	403	2,511	-	3,038
Written back on disposals	-	-	-	(475)	-	(475)
Written back on revaluation	-	(111)	-	-	-	(111)
At 31 December 2015	258	-	7,414	39,282	-	46,954
Net book value at 31 December 2015	474	3,721	39,994	32,142	1,933	78,264
2014						
Cost or Valuation						
At 1 January 2014	732	3,474	46,727	66,009	1,118	118,060
Additions	-	-	-	93	1,272	1,365
Capitalisation adjustments *	-	-	(10)	-	-	(10)
Disposals/write-offs	-	-	(1)	(545)	(9)	(555)
Surplus on revaluation	-	33	-	-	-	33
Reclassification within other property, plant and equipment	-	-	16	(16)	-	-
Transfer to additional concession property (note 21)	-	-	-	(5)	3	(2)
Transfer from railway construction in progress (note 23)	-	-	369	2,877	-	3,246
Other assets commissioned	-	-	-	1,047	(1,047)	-
At 31 December 2014	732	3,507	47,101	69,460	1,337	122,137
At Cost	732	-	47,101	69,460	1,337	118,630
At 31 December 2014 Valuation	-	3,507	-	-	-	3,507
Aggregate depreciation						
At 1 January 2014	231	-	6,611	35,513	-	42,355
Charge for the year	14	105	401	2,239	-	2,759
Written back on disposals	-	-	(1)	(506)	-	(507)
Written back on revaluation	-	(105)	-	-	-	(105)
At 31 December 2014	245	-	7,011	37,246	-	44,502
Net book value at 31 December 2014	487	3,507	40,090	32,214	1,337	77,635

* Capitalisation adjustments relate to adjustments on the cost of assets to their final contract values after finalisation of contract claims with contractors.

20 Other Property, Plant and Equipment (continued)

A The lease term of the Group's and the Company's leasehold land is analysed as follows:

The Group and the Company

in HK\$ million	2015	2014
At net book value		
– long leases	131	134
– medium-term leases	343	353
	474	487

The lease of the land on which civil works as well as plant and equipment are situated for Hong Kong transport operations was granted to the Company under a running line lease which is coterminous with the Company's franchise to operate the mass transit railway under the Operating Agreement (notes 51A, 51B and 51C).

Under the terms of the lease, the Company undertakes to keep and maintain all the leased areas, including underground and overhead structures, at its own cost. With respect to parts of the railway situated in structures where access is shared with other users, such as the Lantau Fixed Crossing, the Company's obligation for maintenance is limited to the railway only. All maintenance costs incurred under the terms of the lease have been dealt with as expenses relating to Hong Kong transport operations in the consolidated profit and loss account.

B All self-occupied land and buildings of the Group are held in Hong Kong under medium-term leases and carried at fair value. The details of the fair value measurement are disclosed in note 46. The revaluation surplus of HK\$325 million (2014: HK\$138 million) and the related deferred tax expenses of HK\$54 million (2014: HK\$22 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 44F). The carrying amount of the self-occupied land and buildings at 31 December 2015 would have been HK\$774 million (2014: HK\$799 million) had the land and buildings been stated at cost less accumulated depreciation.

C Assets under construction include capital works on operating railway.

D The Group leases out investment properties and station kiosks, including duty free shops, under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date, at which time all terms will be renegotiated. Lease payments are adjusted periodically to reflect market rentals. Certain leases carry additional rental based on turnover, some of which are with reference to thresholds. Lease incentives granted are amortised in the consolidated profit and loss account as an integral part of the net lease payment receivable.

The gross carrying amounts of investment properties of the Group and the Company held for use in operating leases were HK\$66,439 million (2014: HK\$64,175 million) and HK\$64,951 million (2014: HK\$62,733 million) respectively. The costs of station kiosks of the Group and the Company held for use in operating leases were HK\$672 million (2014: HK\$655 million) and the related accumulated depreciation charges were HK\$348 million (2014: HK\$316 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Within 1 year	6,666	6,345	6,355	6,008
After 1 year but within 5 years	7,764	8,670	7,188	8,255
Later than 5 years	329	95	23	46
	14,759	15,110	13,566	14,309

E In addition to the leasehold land classified as being held under a finance lease in note 20A above, the Group leases plant and equipment under finance leases expiring in 2024. At the end of the lease term the Group has the option to purchase the leased equipment at a price deemed to be a bargain purchase option. The lease does not include contingent rental.

During the year ended 31 December 2015, additions to plant and equipment financed by a new finance lease of the Group was HK\$646 million (2014: nil). At the end of the reporting period, the net book value of plant and equipment under finance lease of the Group was HK\$628 million (2014: nil).

Notes to the Accounts

20 Other Property, Plant and Equipment *(continued)*

F In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars ("Lease Transaction") involving a total original cost of HK\$2,562 million and a total net book value of HK\$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors based on terms ranging from 21 to 29 years with an obligation to pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at the expiry of the lease term for fixed amounts. Part of the rental prepayments received from the Investors has been invested in debt securities to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. The Group has an obligation to replace these debt securities with other debt securities in the event those securities do not meet certain credit ratings requirements. In addition, the Group has provided standby letters of credit to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms.

The Group retains legal title to the assets and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, an amount of approximately HK\$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value of approximately HK\$3,533 million in March 2003. This resulted in the Group having received in 2003 an amount of HK\$141 million net of costs. As the Group is not able to control the investment account in pursuit of its own objectives and its obligations to pay the lease payments are funded by the proceeds of the above investments, those obligations and investments in the Defeasance Securities were not recognised in March 2003 as liabilities and assets of the Group. The net amount of cash received was accounted for as deferred income by the Group and amortised to the consolidated profit and loss account over the lease period until 2008, when credit ratings of some of these Defeasance Securities were downgraded and subsequently replaced by standby letters of credit, the charge on which had fully offset the remaining balance of the deferred income.

21 Service Concession Assets

Movements and analysis of the Group and the Company's service concession assets are as follows:

The Group

in HK\$ million	KCRC Rail Merger		Shenzhen Metro Longhua Line	Stockholm Metro	London Crossrail	Total
	Initial concession property	Additional concession property				
2015						
Cost						
At 1 January 2015	15,226	6,390	9,291	71	13	30,991
Net additions during the year	–	2,252	213	–	52	2,517
Disposals	–	(67)	(8)	–	–	(75)
Transfer to other property, plant and equipment (note 20)	–	(6)	–	–	–	(6)
Exchange differences	–	–	(426)	(6)	(1)	(433)
At 31 December 2015	15,226	8,569	9,070	65	64	32,994
Accumulated amortisation						
At 1 January 2015	2,157	967	1,121	48	–	4,293
Charge for the year	304	367	372	7	5	1,055
Written-off on disposals	–	(40)	(4)	–	–	(44)
Exchange differences	–	–	(61)	(4)	–	(65)
At 31 December 2015	2,461	1,294	1,428	51	5	5,239
Net book value at 31 December 2015	12,765	7,275	7,642	14	59	27,755
2014						
Cost						
At 1 January 2014	15,226	4,693	8,977	85	–	28,981
Net additions during the year	–	1,729	525	–	13	2,267
Disposals	–	(34)	(2)	–	–	(36)
Transfer from other property, plant and equipment (note 20)	–	2	–	–	–	2
Exchange differences	–	–	(209)	(14)	–	(223)
At 31 December 2014	15,226	6,390	9,291	71	13	30,991
Accumulated amortisation						
At 1 January 2014	1,852	683	806	46	–	3,387
Charge for the year	305	302	338	11	–	956
Written-off on disposals	–	(18)	(2)	–	–	(20)
Exchange differences	–	–	(21)	(9)	–	(30)
At 31 December 2014	2,157	967	1,121	48	–	4,293
Net book value at 31 December 2014	13,069	5,423	8,170	23	13	26,698

21 Service Concession Assets *(continued)*

The Company

in HK\$ million	Initial concession property	Additional concession property	Total
2015			
Cost			
At 1 January 2015	15,226	6,390	21,616
Net additions during the year	–	2,252	2,252
Disposals	–	(67)	(67)
Transfer to other property, plant and equipment (note 20)	–	(6)	(6)
At 31 December 2015	15,226	8,569	23,795
Accumulated amortisation			
At 1 January 2015	2,157	967	3,124
Charge for the year	304	367	671
Written-off on disposals	–	(40)	(40)
At 31 December 2015	2,461	1,294	3,755
Net book value at 31 December 2015	12,765	7,275	20,040
2014			
Cost			
At 1 January 2014	15,226	4,693	19,919
Net additions during the year	–	1,729	1,729
Disposals	–	(34)	(34)
Transfer from other property, plant and equipment (note 20)	–	2	2
At 31 December 2014	15,226	6,390	21,616
Accumulated amortisation			
At 1 January 2014	1,852	683	2,535
Charge for the year	305	302	607
Written-off on disposals	–	(18)	(18)
At 31 December 2014	2,157	967	3,124
Net book value at 31 December 2014	13,069	5,423	18,492

Initial concession property relates to the payments recognised at inception of the Rail Merger with KCRC while additional concession property relates to the expenditures for the replacement and/or upgrade of the initial concession property after inception of the Rail Merger.

On 30 July 2014, the Group entered into a concession agreement with Transport for London to operate the London Crossrail train service for an eight-year period with a two-year extension option, with passenger operation expected to commence in phases from 2015 to 2019. Service concession assets in respect of London Crossrail relate to the costs incurred between the signing of concession agreement on 30 July 2014 and prior to the commencement of the franchise period for preparing the Group to operate London Crossrail. The concession property is amortised and charged to the consolidated profit and loss account over the term of the franchise.

22 Property Management Rights

Property management rights relate to the rights acquired by the Company from KCRC in the Rail Merger in respect of existing and future managed properties on the Appointed Day.

The Group and The Company

in HK\$ million	2015	2014
Cost at 1 January and 31 December	40	40
Accumulated amortisation		
At 1 January	10	9
Charge for the year	2	1
At 31 December	12	10
Net book value at 31 December	28	30

Notes to the Accounts

23 Railway Construction in Progress

The Group and The Company

in HK\$ million	Balance at 1 January	Expenditure	Capitalised on commissioning (note 20)	Balance at 31 December
2015				
Island Line Extension Project				
Construction costs	3,364	479	(3,843)	–
Consultancy fees	149	7	(156)	–
Staff costs and other expenses	230	68	(298)	–
(Interest income)/finance costs	(100)	6	94	–
Principal and interest repaid/repayable in respect of government grant	66	118	(184)	–
Utilisation of government grant	(3,363)	–	3,363	–
	346	678	(1,024)	–
South Island Line (East) Project				
Construction costs	9,740	1,215	–	10,955
Consultancy fees	593	41	–	634
Staff costs and other expenses	1,133	274	–	1,407
Finance costs	552	185	–	737
	12,018	1,715	–	13,733
Kwun Tong Line Extension Project				
Construction costs	2,932	1,256	–	4,188
Consultancy fees	229	25	–	254
Staff costs and other expenses	508	117	–	625
Finance costs	196	68	–	264
	3,865	1,466	–	5,331
Total	16,229	3,859	(1,024)	19,064
2014				
Island Line Extension Project				
Construction costs	10,727	2,927	(10,290)	3,364
Consultancy fees	543	97	(491)	149
Staff costs and other expenses	1,569	315	(1,654)	230
(Interest income)/finance costs	(207)	35	72	(100)
Principal and interest repaid/repayable in respect of government grant	–	238	(172)	66
Utilisation of government grant	(12,632)	(20)	9,289	(3,363)
	–	3,592	(3,246)	346
South Island Line (East) Project				
Construction costs	7,089	2,651	–	9,740
Consultancy fees	530	63	–	593
Staff costs and other expenses	895	238	–	1,133
Finance costs	307	245	–	552
	8,821	3,197	–	12,018
Kwun Tong Line Extension Project				
Construction costs	2,008	924	–	2,932
Consultancy fees	198	31	–	229
Staff costs and other expenses	410	98	–	508
Finance costs	111	85	–	196
	2,727	1,138	–	3,865
Total	11,548	7,927	(3,246)	16,229

23 Railway Construction in Progress *(continued)*

A Island Line Extension Project

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

Pursuant to the agreement, the HKSAR Government provided a grant of HK\$12.3 billion to the Company in March 2010 (having already made HK\$0.4 billion available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism whereby, within 24 months of commercial operations of the extension of Island Line to the Western District, the Company has to pay to the HKSAR Government amounts to reflect the excess of the original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest). During the year ended 31 December 2015, the Company has recognised and prepaid an amount with a principal of HK\$142 million and interest of HK\$44 million to the HKSAR Government under the repayment mechanism (2014: principal of HK\$187 million and interest of HK\$51 million).

During the year ended 31 December 2015, HK\$1,024 million had been transferred out from Railway Construction in Progress to Other Property, Plant and Equipment upon the opening of the Sai Ying Pun Station on 29 March 2015. As at 31 December 2015, the Company has authorised outstanding commitments on contracts of HK\$25 million (2014: HK\$0.5 billion) for this project (note 52).

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

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

During the year ended 31 December 2015, the project cost estimate was increased from the August 2014 estimate of HK\$15.2 billion (before capitalised interest expense estimate of HK\$1.5 billion) to approximately HK\$16.9 billion (before capitalised interest expense of HK\$0.9 billion) due to the complexity of works and continued labour shortages. The Company continues to monitor and review the project cost estimate. As at 31 December 2015, the Company has incurred cumulative expenditure of HK\$13.7 billion (2014: HK\$12.0 billion) and has authorised outstanding commitments on contracts totalling HK\$0.9 billion (2014: HK\$0.5 billion) for this project (note 52).

C Kwun Tong Line Extension ("KTE") Project

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

During the year ended 31 December 2015, the project cost estimate was increased from the original estimate of HK\$5.9 billion (before capitalised interest expense estimate of HK\$0.3 billion) to approximately HK\$7.2 billion (before capitalised interest expense of HK\$0.3 billion) due to the complexity of works and continued labour shortages. The Company continues to monitor and review the project cost estimate. As at 31 December 2015, the Company has incurred cumulative expenditure of HK\$5.3 billion (2014: HK\$3.9 billion) and has authorised outstanding commitments on contracts totalling HK\$0.2 billion (2014: HK\$0.5 billion) for this project (note 52).

24 Other Railway Construction in Progress under Entrustment by the HKSAR Government

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project

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

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the XRL on the understanding that the Company would subsequently be invited to undertake the operation of the XRL under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the XRL (the "XRL Entrustment Agreement"). Pursuant to the XRL Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the XRL and the HKSAR Government, as owner of XRL, is responsible for bearing and financing the full amount of the total cost of such activities (the "Entrustment Cost") and for paying to the Company a fee in accordance with an agreed payment schedule (the "Project Management Fee"). As at 31 December 2015 and up to the date of this annual report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

Under the XRL Entrustment Agreement, if a material modification to the programme for the execution of the entrustment activities is likely to result in a material increase or decrease in project management responsibilities or costs of the Company, the Company and the HKSAR Government are to negotiate in good faith to agree an increase or, as the case may be, decrease in the Project Management Fee. Further, under the XRL Entrustment Agreement, the maximum aggregated amount payable by the HKSAR Government (including the Project Management Fee) is subject to a maximum annual aggregate limit of HK\$2 billion and a total limit of HK\$10 billion.

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

Notes to the Accounts

24 Other Railway Construction in Progress under Entrustment by the HKSAR Government

(continued)

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project (continued)

In April 2014, the Company announced that the construction period for the XRL project needed to be extended, with the target opening of the line for passenger service revised to the end of 2017. In July 2014, the Company provided to the HKSAR Government a project cost estimate for the XRL project of HK\$71.52 billion, inclusive of future insurance and project management costs.

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

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

The Company advised the HKSAR Government that these revised estimates were based on a number of assumptions including timely funding arrangements and require the cooperation of various parties and certain approvals of the HKSAR Government.

On 30 June 2015, the Company announced that it had reported the above to the HKSAR Government and that the board of directors of the Company (the "Board") had authorised the Chairman and Chief Executive Officer of the Company to engage with the HKSAR Government with a view to enabling the XRL to commence operations in accordance with the XRL Revised Programme and to report further to the Board in due course on the outcome thereof.

Since 30 June 2015, the HKSAR Government and its consultants had reviewed and discussed with the Company these revised estimates. With adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company are now in agreement that the estimated project cost be reduced to HK\$84.42 billion (the "Revised Cost Estimate").

On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "XRL Agreement") relating to the further funding and completion of the XRL. The XRL Agreement contains an integrated package of terms (subject to conditions as set out in note 24A(vi)) and provides that:

- (i) The HKSAR Government will bear and finance the project cost up to HK\$84.42 billion (which includes the original budgeted cost of HK\$65 billion plus the agreed increase in the estimated project cost of HK\$19.42 billion (the portion of the entrustment cost (up to HK\$84.42 billion) that exceeds HK\$65 billion being the "Current Cost Overrun");
- (ii) The Company will, if the project exceeds HK\$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "Further Cost Overrun") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the XRL Agreement);
- (iii) The Company will pay a Special Dividend of HK\$4.40 in aggregate per share in two equal tranches (of HK\$2.20 per share in cash in each tranche). The first tranche will be paid in cash within a reasonable period after the XRL Agreement become fully unconditional and effective (payment is expected to be in the second half of 2016) and the second tranche will be paid in cash approximately 12 months thereafter (which is expected to be in the second half of 2017). There will be no scrip alternative;
- (iv) The HKSAR Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the XRL Preliminary Entrustment Agreement and XRL Entrustment Agreement ("Entrustment Agreements") (including any question the HKSAR Government may have regarding the validity of the Liability Cap). The Entrustment Agreements contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under the XRL Entrustment Agreement, the Liability Cap is equal to the Project Management Cost and any other fees that the Company receives under XRL Entrustment Agreement and certain fees received by the Company under the Preliminary Entrustment Agreement. Accordingly, the Liability Cap is currently up to HK\$4.94 billion and will increase to up to HK\$6.69 billion when the Project Management Cost is increased in accordance with the XRL Agreement (as it will be equal to the increased Project Management Cost under the XRL Entrustment Agreement of HK\$6.34 billion plus the additional fees referred to above). If the arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:
 - bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
 - seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
 - if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government.
- (v) Certain amendments will be made to the XRL Entrustment Agreement to reflect the arrangements contained in the XRL Agreement, including an increase in Project Management Fee payable to the Company under XRL Entrustment Agreement to an aggregate of HK\$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations under XRL Entrustment Agreement in relation to XRL project) and to reflect the XRL Revised Programme;
- (vi) The arrangements under the XRL Agreement (including the payment of the proposed Special Dividend) are conditional on:
 - independent shareholder approval (which was sought at the General Meeting convened on 1 February 2016); and
 - HKSAR Legislative Council approval in respect of the HKSAR Government's additional funding obligations,

being granted prior to the Back Stop Date (being 30 September 2016 or earlier, if a termination of XRL Entrustment Agreement is commenced prior to that date) and will become effective if such conditions are satisfied.

24 Other Railway Construction in Progress under Entrustment by the HKSAR Government

(continued)

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project (continued)

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

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

- (i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe there is any need to revise further the XRL Revised Programme or the Revised Cost Estimate of HK\$84.42 billion;
- (ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in paragraph (iv) above), given that (a) the Company has not received any notification from Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the XRL Agreement, cannot take place until after commencement of commercial operations on the XRL); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the XRL Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and
- (iii) any possible insufficiency of the Project Management Fee to enable the Company to recover fully its internal costs incurred in performing its obligations in relation to the XRL project, given that the Company estimates that the increased Project Management Fee under XRL Agreement should be sufficient to cover such costs (based on current known circumstances),

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

During the year ended 31 December 2015, Project Management Fee of HK\$823 million (2014: HK\$819 million) was recognised in the consolidated profit and loss account.

B Shatin to Central Link ("SCL") Project

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

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

In August 2015, the Company notified the HKSAR Government that the Company estimated that the cost for the works carried out under the SCL Advance Works Entrustment Agreement will exceed the original estimate of HK\$7,350 million in respect thereof by HK\$1,274 million (including contingency). In February 2016, the Company notified the HKSAR Government that the estimated exceedance will be adjusted to HK\$1,267 million (including contingency).

On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("SCL Entrustment Agreement"). Pursuant to the SCL Entrustment Agreement, the HKSAR Government is responsible to bear all the work costs specified in the SCL Entrustment Agreement including costs to contractors and costs to the Company ("Interface Works Costs") except for certain costs of modification, upgrade or expansions of certain assets for which the Company is responsible under the existing service concession agreement with KCRC. The Company is responsible to carry out or procure to the carrying out of the works specified in the SCL Entrustment Agreement (and the SCL Preliminary Entrustment Agreement and SCL Advance Works Entrustment Agreement) for a project management fee of HK\$7,893 million. As at 31 December 2015 and up to the date of this annual report, the Company has received payments of the project management fee from the HKSAR Government in accordance with the original agreed payment schedule.

In May 2014, the Company notified the HKSAR Government of the delays to the completion of the East West Corridor and North South Corridor. In the case of the East West Corridor, this is due to the archaeological finds at a site in the To Kwa Wan area, while for the North South Corridor, it is the result of late site access at the Central-Wan Chai overpass of a construction site for the new Exhibition Station caused by third party infrastructure works.

Notes to the Accounts

24 Other Railway Construction in Progress under Entrustment by the HKSAR Government

(continued)

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

Given the above delays, the Company is reviewing again the project cost estimate and the target completion date. Taking into account the continued difficulties and challenges, including those described above, the Company expects that the cost estimate will be revised upwards and that the review in respect of the project as a whole is expected to be completed later in 2016, after which the Company will formally report the findings to the HKSAR Government. Thereafter, the Company will continue to monitor and review the project cost and completion date.

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

Given (i) the SCL Agreements, provide that the HKSAR Government shall bear and finance the full amount of the relevant costs to the extent described above; and (ii) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company in relation to any SCL Agreement (as of 31 December 2015 and up to the date of this annual report), the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any) arising from the matters described above.

During the year ended 31 December 2015, project management fee of HK\$913 million (2014: HK\$742 million) was recognised in the consolidated profit and loss account. Additionally, during the year ended 31 December 2015, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK\$1,442 million (2014: HK\$1,828 million). As at 31 December 2015, the amount of the SCL Advance Works Costs and the Interface Works Costs which remained to be paid to the Company by the HKSAR Government was HK\$984 million (2014: HK\$685 million).

25 Property Development in Progress

Pursuant to the project agreements in respect of the construction of railway extensions and the Property Package Agreements in respect of the Rail Merger, the HKSAR Government has granted the Company with development rights on the land over the stations along railway lines.

As at 31 December 2015, the outstanding property developments of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung Kwan O Area 86 (LOHAS Park), South Island Line (East) Property Project at a site in Wong Chuk Hang, Kwun Tong Line Extension Property Project at a site in Ho Man Tin and the East Rail Line/Light Rail Property Projects at along the related railway lines.

In 2011, the Company's two wholly owned subsidiaries, MTR Corporation (Shenzhen) Limited and MTR Property (Shenzhen) Company Limited, won the bid for Lot 1 of the Shenzhen Metro Longhua Line Depot Site. On 3 May 2012, the two subsidiaries established a project company in the Mainland of China, MTR Property Development (Shenzhen) Company Limited, to undertake residential and commercial development of the site ("Shenzhen Property Project"). Part of the net profits generated from this property development will be shared with the Shenzhen Municipal Government.

A Property Development in Progress

The Group

in HK\$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Exchange differences	Balance at 31 December
2015						
Airport Railway Property Projects	–	4	(4)	–	–	–
Tseung Kwan O Extension Property Projects	1,240	2,981	(3)	(575)	–	3,643
East Rail Line/Light Rail Property Projects	1,316	7,612	–	–	–	8,928
South Island Line (East) Property Project	1,045	16	–	–	–	1,061
Kwun Tong Line Extension Property Project	361	53	–	–	–	414
Shenzhen Property Project	3,528	569	–	–	(160)	3,937
	7,490	11,235	(7)	(575)	(160)	17,983
2014						
Airport Railway Property Projects	–	4	(4)	–	–	–
Tseung Kwan O Extension Property Projects	1,145	115	(20)	–	–	1,240
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	5,976	126	(4,104)	(682)	–	1,316
South Island Line (East) Property Project	939	106	–	–	–	1,045
Kwun Tong Line Extension Property Project	275	86	–	–	–	361
Shenzhen Property Project	2,898	696	–	–	(66)	3,528
	11,233	1,133	(4,128)	(682)	(66)	7,490

25 Property Development in Progress (continued)

A Property Development in Progress (continued)

The Company

in HK\$ million	Balance at 1 January	Expenditure	Offset against payments received from developers/ investments in subsidiaries	Transfer out to profit or loss	Balance at 31 December
2015					
Airport Railway Property Projects	–	4	(4)	–	–
Tseung Kwan O Extension Property Projects	1,240	2,981	(3)	(575)	3,643
East Rail Line/Light Rail Property Projects	1,316	7,612	–	–	8,928
South Island Line (East) Property Project	1,045	16	–	–	1,061
Kwun Tong Line Extension Property Project	361	53	–	–	414
	3,962	10,666	(7)	(575)	14,046
2014					
Airport Railway Property Projects	–	4	(4)	–	–
Tseung Kwan O Extension Property Projects	1,145	115	(20)	–	1,240
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	5,976	126	(4,104)	(682)	1,316
South Island Line (East) Property Project	939	106	–	–	1,045
Kwun Tong Line Extension Property Project	275	86	–	–	361
	8,335	437	(4,128)	(682)	3,962

The expenditure of Tseung Kwan O Extension Property Projects during the year included HK\$2,440 million in relation to the Company's contribution paid for the Tseung Kwan O Area 86 (LOHAS Park) Package 7 property development project.

The expenditure of East Rail Line/Light Rail Property Projects during the year included HK\$7,500 million in relation to the Company's contribution paid for the Tai Wai Station property development project. Leasehold land in Hong Kong included under property development in progress are held under medium-term leases.

B Deferred Income on Property Development

The Group and The Company

in HK\$ million	Balance at 1 January	Offset against development in progress (note 25A)	Balance at 31 December
2015			
Airport Railway Property Projects	23	(4)	19
Tseung Kwan O Extension Property Projects	3	(3)	–
Total (note 42)	26	(7)	19
2014			
Airport Railway Property Projects	27	(4)	23
Tseung Kwan O Extension Property Projects	23	(20)	3
Total (note 42)	50	(24)	26

Notes to the Accounts

25 Property Development in Progress *(continued)*

C Stakeholding Funds

Being the stakeholder under certain Airport Railway, Tseung Kwan O Extension and East Rail Line/Kowloon Southern Link Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, are to be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the HKSAR Government Consent Schemes and development agreements. Any balance remaining is to be released for distribution only after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the Group's and the Company's statements of financial position. Movements in the stakeholding funds during the year are as follows:

The Group and The Company

in HK\$ million	2015	2014
Balance as at 1 January	8,178	5,184
Stakeholding funds received	15,194	37,828
Add: Interest earned thereon	23	21
	23,395	43,033
Disbursements during the year	(16,620)	(34,855)
Balance as at 31 December	6,775	8,178
Represented by:		
Balances in designated bank accounts as at 31 December	6,773	8,176
Retention receivable	2	2
	6,775	8,178

D West Rail Property Development

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company can receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company can receive 10% of the net profits accrued under the development agreement. The Company can also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During the year ended 31 December 2015, HK\$30 million (2014: HK\$234 million) agency fee and other income in respect of West Rail property development was recognised (note 11). During the year ended 31 December 2015, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK\$88 million (2014: HK\$116 million).

26 Deferred Expenditure

The Group and The Company

in HK\$ million	2015	2014
Balance at 1 January	64	4
Expenditure during the year	224	60
Balance at 31 December	288	64

27 Investments in Subsidiaries

The Company

in HK\$ million	2015	2014
Unlisted shares, at cost	1,295	1,292

27 Investments in Subsidiaries (continued)

The following list contains details of subsidiaries as at 31 December 2015 which have been consolidated into the Group's accounts.

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest			Place of incorporation/ establishment and operation	Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary		
Subsidiaries held throughout 2015						
Glory Goal Limited	HK\$10,000	100%	100%	–	Hong Kong	Investment holding
Hanford Garden Property Management Company Limited	HK\$10,000	100%	100%	–	Hong Kong	Property investment and management
MTR (Estates Management) Limited	HK\$1,000	100%	100%	–	Hong Kong	Investment holding and property management
MTR (Shanghai Project Management) Limited	HK\$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Beijing Line 4 Investment Company Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR Building Works Company Limited	HK\$2	100%	100%	–	Hong Kong	General building, maintenance and engineering works
MTR China Commercial Management No. 1 Holdings Limited	HK\$1,000	100%	100%	–	Hong Kong	Investment holding
MTR China Consultancy Company Limited	HK\$1,000	100%	100%	–	Hong Kong	Railway consultancy services
MTR China Property Holdings Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR China Property Limited	HK\$1,000	100%	100%	–	Hong Kong	Property management and other consultancy services
MTR China Services Holding (Hong Kong) Limited	HK\$10,000	100%	100%	–	Hong Kong	Investment holding
MTR Engineering Services Limited	HK\$1,000	100%	100%	–	Hong Kong	Engineering and other consultancy services
MTR Hangzhou Line 1 Investment Company Limited	HK\$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Information Solutions Company Limited	HK\$1,000	100%	100%	–	Hong Kong	License MTR software to MTR's subsidiaries and associates
MTR Northwest Rapid Transit (Sydney) Company Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR Property Agency Co. Limited	HK\$2	100%	100%	–	Hong Kong	Property broking and administrative services
MTR Property (Beijing) No. 1 Company Limited	HK\$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Property (Shenzhen) Company Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR Property (Tianjin) No. 1 Company Limited	HK\$1	100%	–	100%	Hong Kong	Investment holding
MTR Property (Tianjin) No. 2 Company Limited	HK\$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Rail Transport Training (International) Company Limited	HK\$2,800,000	100%	100%	–	Hong Kong	Provide rail transport training in Mainland of China
MTR Shenyang Holdings Limited	HK\$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Shenyang Investment Holdings Limited*	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR Shenzhen Investment Holding Limited	HK\$400,000	100%	100%	–	Hong Kong	Investment holding
MTR Shenzhen Line 6 Investment Holding (Hong Kong) Limited	HK\$10,000	100%	100%	–	Hong Kong	Investment holding
MTR Telecommunication Company Limited	HK\$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services

Notes to the Accounts

27 Investments in Subsidiaries (continued)

Name of company	Issued and paid up ordinary share capital/registered capital	Proportion of ownership interest			Place of incorporation/establishment and operation	Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary		
MTR Travel Limited	HK\$2,500,000	100%	100%	–	Hong Kong	Tourist services
Ngong Ping 360 Limited	HK\$2	100%	100%	–	Hong Kong	Operate the Tung Chung to Ngong Ping cable car system and Theme Village in Ngong Ping
Pierhead Garden Management Company Limited	HK\$50,000	100%	100%	–	Hong Kong	Property investment
Royal Ascot Management Company Limited	HK\$50,000	100%	100%	–	Hong Kong	Property management
Sun Tuen Mun Centre Management Company Limited	HK\$50,000	100%	100%	–	Hong Kong	Property investment and management
TraxComm Limited	HK\$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network and related services
V-Connect Limited	HK\$1,000	100%	100%	–	Hong Kong	Mobile telecommunication services
360 Holidays Limited	HK\$500,000	100%	–	100%	Hong Kong	Guided tour services
Metro Trains Melbourne Pty. Ltd.*	AUD16,250,000	60% on ordinary shares; 30% on Class A shares	60% on ordinary shares; 30% on Class A shares	–	Australia	Railway operations and maintenance
Metro Trains Sydney Pty. Limited*	AUD100	60%	–	60%	Australia	Pre-operation mobilisation activities, including design approvals and transition planning for the operation and maintenance of the Sydney Metro North West
MTR Corporation (Australia) Pty. Limited	AUD2	100%	100%	–	Australia	Railway related consultancies and businesses
MTR Corporation (Sydney) NRT Pty. Limited*	AUD2	100%	–	100%	Australia	Design and delivery of railway related systems
Sunstone Resources Pty. Ltd.*	AUD10	60%	–	100%	Australia	Labour support for railway operations and maintenance
Fasttrack Insurance Ltd.	HK\$77,500,000	100%	100%	–	Bermuda	Insurance underwriting
Candiman Limited*	US\$1	100%	100%	–	British Virgin Islands	Investment holding
MTR Corporation (C.I.) Limited	US\$1,000	100%	100%	–	Cayman Islands/Hong Kong	Financing
MTR Finance Lease (001) Limited	US\$1	100%	100%	–	Cayman Islands/Hong Kong	Financing
MTR Berlin GmbH	EUR25,000	100%	–	100%	Germany	Project bidding
MTR Beta AB	SEK50,000	100%	–	100%	Sweden	Project bidding
MTR Express (Sweden) AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management
MTR Gamma AB	SEK50,000	100%	–	100%	Sweden	Project bidding

27 Investments in Subsidiaries (continued)

Name of company	Issued and paid up ordinary share capital/registered capital	Proportion of ownership interest			Place of incorporation/establishment and operation	Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary		
MTR Nordic AB	SEK40,050,000	100%	–	100%	Sweden	Railway operations and maintenance through one or more subsidiaries, property investment and management
MTR Stockholm AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR (Beijing) Commercial Facilities Management Co. Ltd.	HK\$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR (Beijing) Property Services Company Limited*	RMB3,000,000	100%	100%	–	The People's Republic of China	Property management
MTR Commercial Management (Beijing) Company Limited	HK\$2,000,000	100%	–	100%	The People's Republic of China	Business management, business consultancy, commercial facilities strategy and consultancy services, and corporate training management
MTR Consultancy (Beijing) Co. Limited	HK\$18,200,000	100%	100%	–	The People's Republic of China	Railway consultancy services, marketing and promotion
MTR Consulting (Shenzhen) Co. Ltd.	HK\$1,000,000	100%	100%	–	The People's Republic of China	Railway consultancy services
MTR Corporation (Shenzhen) Limited	HK\$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operations and management
MTR Corporation (Shenzhen) Training Centre*	RMB2,000,000	100%	–	100%	The People's Republic of China	Provision of rail transport training
MTR Enterprise Management (Shenzhen) Corporation Limited	RMB6,000,000	100%	–	100%	The People's Republic of China	Provision of operation support services
MTR Property Development (Shenzhen) Company Limited	HK\$2,180,000,000	100%	–	100%	The People's Republic of China	Property development, operation, leasing, management and consultancy services
MTR Corporation (Crossrail) Limited	GBP1,000,000	100%	–	100%	United Kingdom	Railway operations and maintenance
MTR Corporation (London Overground) Limited (Formerly MTR Corporation (Essex Thameside) Limited)*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Scotrail) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Silverlink) Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
MTR Corporation (TSGN) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (UK) Limited	GBP29	100%	100%	–	United Kingdom	Provision of railway support services
MTR Corporation (UK) NRT Limited*	GBP1	100%	–	100%	United Kingdom	Investment holding
<u>Subsidiaries established during 2015</u>						
MTR Australia Investment Holdings (Hong Kong) Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR Consultadoria (Macau) Sociedade Unipessoal Lda.*	MOP25,000	100%	–	100%	Macau	Railway consultancy services

On 4 February 2016, MTR Shenyang Investment Holdings Limited changed its name to MTR Macau Investment Holdings (Hong Kong) Limited.

* Subsidiaries not audited by KPMG

MTR Shenyang Property No.1 Limited, MTR Corporation (UK) DRC Limited, MTR Corporation (Melbourne) DRC Pty. Limited and RTC Finance Company Pty. Limited were deregistered during the year ended 31 December 2015. MTR Berlin GmbH started its liquidation process in October 2015. MTR Shenyang Holdings Limited was deregistered in February 2016.

Notes to the Accounts

28 Interests in Associates

The Group

in HK\$ million	2015	2014
Share of net assets	5,912	5,797

The Group and the Company had interests in the following major associates as at 31 December 2015:

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest			Place of incorporation/ establishment and operation	Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary		
<u>Associates held throughout 2015</u>						
Octopus Holdings Limited (note 54B(ii))	HK\$42,000,000	57.4%	57.4%	–	Hong Kong	Investment holding
NRT Holdings 2 Pty. Limited*	–**	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
NRT Holdings Pty. Limited*	AUD100	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
NRT Pty. Limited*	AUD100	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
Tunnelbanan Teknik Stockholm AB	SEK30,000,000	50%	–	50%	Sweden	Railway maintenance
Beijing MTR Corporation Limited	RMB1,480,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Hangzhou MTR Corporation Limited*	RMB4,540,000,000	49%	–	49%	The People's Republic of China	Railway operations and management
Tianjin TJ – Metro MTR Construction Company Limited*	RMB2,273,000,000	49%	–	49%	The People's Republic of China	Property development
London Overground Rail Operations Ltd*	GBP2	50%	–	50%	United Kingdom	Railway operations and management
<u>Associate established during 2015</u>						
Beijing MTR L16 Corporation Limited	RMB500,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction and operations

* Companies not audited by KPMG

** The Group's share of investment in NRT Holdings 2 Pty. Limited is expected to represent additional equity contribution of approximately AUD27.8 million and loans to NRT Holdings 2 Pty. Limited of approximately AUD34.8 million.

All the associates are accounted for using the equity method in the consolidated accounts and considered to be not individually material.

The summary financial information of the Group's effective interests in associates is as follows:

in HK\$ million	2015	2014
Assets	13,257	12,307
Liabilities	(7,345)	(6,510)
Net assets	5,912	5,797
Income	4,426	3,671
Expenses and others	(3,944)	(3,478)
Profit before taxation	482	193
Income tax	(121)	(72)
Net profit	361	121
Other comprehensive income	(240)	(139)
Total comprehensive income	121	(18)

28 Interests in Associates *(continued)*

In November 2014, Beijing MTR Corporation Limited ("Beijing MTR") signed a concession agreement with the Beijing Municipal Government for the public-private-partnership ("PPP") project for the investment, construction and operations of Beijing Metro Line 14. Total capital cost of Beijing Metro Line 14 is approximately RMB50 billion. Beijing Infrastructure Investment Corporation Limited, the other investor of Beijing MTR, undertakes the project's civil construction, which represents about 70% of the total capital cost. Beijing MTR is responsible for the electrical and mechanical systems as well as rolling stock with an investment of approximately RMB15 billion or 30% of the total capital cost. The Group's equity contribution to Beijing MTR in respect of Beijing Metro Line 14 is RMB2.45 billion. The Group contributed equity of RMB49 million, RMB 740 million and RMB 240 million to Beijing MTR in respect of Beijing Metro Line 14 in June 2015, January 2016 and February 2016 respectively. The first three phases of Beijing Metro Line 14 opened in May 2013, December 2014 and December 2015 respectively. The full line will be opened after 2017. In accordance with the Operation & Maintenance Service Agreement, Beijing MTR is assigned the rights to operate Beijing Metro Line 14 from May 2013 to 30 December 2015. As part of the concession agreement, Beijing MTR would also undertake the operations and maintenance of Beijing Metro Line 14 for a term of 30 years effective 31 December 2015.

In July 2015, Beijing MTR has established a wholly owned subsidiary, Beijing MTR L16 Corporation Limited for the investment of Beijing Metro Line 16 with the registered capital of RMB5 billion. In November 2015, Beijing MTR L16 Corporation Limited signed the Concession Agreement for the Beijing L16 PPP project with the Beijing Municipal Government. The Line 16 project has a total capital cost of about RMB47.4 billion. The project is divided into Parts A and B. Part A is for the line's civil construction and the work is being undertaken by Beijing Infrastructure Investment Corporation Limited. Under the PPP arrangement, Beijing MTR L16 Corporation Limited would be responsible for Part B which covers electrical and mechanical systems as well as rolling stock. Part B takes up about 30% or approximately RMB15 billion of the project's capital cost. Under the Concession Agreement, Beijing MTR L16 Corporation Limited would undertake the operations and maintenance of Line 16 for a term of 30 years. The Line 16 will open in two phases. Phase 1 is targeted to open by the end of 2016 while full line operations are expected to commence after 2017.

In February 2013, London Overground Rail Operations ("LOROL") was awarded by Transport for London a two-year extension of the franchise to operate and maintain the London Overground in Greater London until November 2016 after completion of the original seven-year franchise period ended in November 2014.

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

In September 2014, NRT Pty. Limited entered into a contract with New South Wales Government in Australia for the Operations, Trains and Systems ("OTS") contract of the Sydney Metro Northwest. The OTS contract is a PPP project covering major parts of the design, construction and financing of the Sydney Metro Northwest as well as the operations and maintenance of the new line for a period of 15 years. NRT Pty. Limited sub-contracted the design and delivery of electrical and mechanical systems and rolling stock to a joint operation in which MTR Corporation (Sydney) NRT Pty. Limited, a wholly owned subsidiary of the Group, has 60% interest. In addition, NRT Pty. Limited sub-contracted the operations and maintenance of the Sydney Metro Northwest to Metro Trains Sydney Pty. Limited, a 60%-owned subsidiary of the Group.

In November 2015, a 5.7-kilometre 3-station extension of Hangzhou Metro Line 1 ("HZL1") commenced passenger service. After the opening of HZL1 extension, HZL1 now has 34 stations covering 54 km. Hangzhou MTR Corporation Limited ("Hangzhou MTR") was granted the operation and maintenance concession of HZL1 extension.

In January 2016, the Group entered into an agreement to acquire the remaining 50% interests in Tunnelbanan Teknik Stockholm AB ("TBT") from Mantena AS, being the shareholder of the 50% interest in TBT, at a consideration of SEK195 million (approximately HK\$180 million). The consideration will be paid in annual instalments from 2016 to 2024, of which SEK33 million (approximately HK\$30 million) is expected to be paid in 2016. TBT became a wholly owned subsidiary of the Group subsequent to the completion of the acquisition.

During the year ended 31 December 2015, the Group provided staff secondment and other support services to Beijing MTR at a total amount of HK\$48 million (2014: HK\$32 million). The Group provided services in respect of software maintenance to Hangzhou MTR Corporation Limited at a total amount of HK\$1 million (2014: in respect of software licence and maintenance of HK\$11 million). Tunnelbanan Teknik Stockholm AB provided rolling stock maintenance and other supporting services to MTR Stockholm AB at an amount of SEK659 million (HK\$609 million) (2014: SEK587 million or HK\$670 million). MTR Stockholm AB leased depots, depot equipment and provided other supporting services to Tunnelbanan Teknik Stockholm AB at a total amount of SEK125 million (HK\$116 million) (2014: SEK120 million or HK\$137 million). MTR Corporation (Sydney) NRT Pty. Limited, through its joint operation, provided services in respect of the design and delivery of electrical and mechanical systems and rolling stock to NRT Pty. Limited at a total amount of AUD81 million (HK\$468 million) (2014: AUD7 million or HK\$45 million). Metro Trains Sydney Pty. Limited also provided mobilisation services in respect of Sydney Metro Northwest to NRT Pty. Limited at a total amount of AUD4 million (HK\$21 million) (2014: AUD0.4 million or HK\$3 million). LOROL distributed GBP3 million (HK\$35 million) (2014: GBP2 million or HK\$23 million) of dividends to the Group and the Group provided management services to LOROL at a total amount of HK\$17 million (2014: HK\$18 million).

During the year ended 31 December 2015, the Group incurred HK\$141 million (2014: HK\$136 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly-owned subsidiary of Octopus Holdings Limited. OCL incurred HK\$40 million (2014: HK\$36 million) of expenses for the load agent and Octopus card issuance and refund services, computer equipment and relating services as well as warehouse storage space provided by the Group. During the year, OHL distributed HK\$143 million (2014: HK\$20 million) of dividends to the Group.

Notes to the Accounts

29 Investments in Securities

Investments in securities, representing trading securities held by the overseas insurance underwriting subsidiary, comprise:

The Group

in HK\$ million	2015	2014
Trading securities listed overseas, at fair value		
– maturing within 1 year	86	187
– maturing after 1 year	250	340
	336	527

30 Properties Held for Sale

The Group and The Company

in HK\$ million	2015	2014
Properties held for sale		
– at cost	625	555
– at net realisable value	514	521
	1,139	1,076

Properties held for sale at 31 December 2015 comprise mainly residential units and car parking spaces at The Riverpark at Che Kung Temple Station, Lake Silver at Wu Kai Sha Station and Hemera at LOHAS Park Station. They represent either properties received by the Company as sharing in kind or as part of the profit distribution upon completion of the development. The properties are stated on the statement of financial position at the lower of cost, which is deemed to be their fair value upon initial recognition as determined by reference to an independent open market valuation at the date of receipt (notes 2J(iii) and (v)), and their net realisable value at the end of reporting period. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. The net realisable values as at 31 December 2015 and 2014 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value are stated net of provision of HK\$44 million (2014: HK\$30 million) made in order to state these properties at the lower of their cost and estimated net realisable value. Leasehold land in Hong Kong included under properties held for sale are held under medium-term leases.

31 Derivative Financial Assets and Liabilities

A Fair Value

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of derivative financial instruments outstanding are as follows:

The Group

in HK\$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in				Total
			Less than 1 year	1-2 years	2-5 years	Over 5 years	
2015							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– not qualified for hedge accounting:	60	–					
– inflow			60	–	–	–	60
– outflow			(60)	–	–	–	(60)
Cross currency swaps							
– fair value hedges:	2,326	10					
– inflow			34	405	466	306	1,211
– outflow			(23)	(399)	(465)	(310)	(1,197)
– cash flow hedges:	277	16					
– inflow			11	12	35	343	401
– outflow			(7)	(8)	(22)	(352)	(389)
Net settled:							
Interest rate swaps							
– fair value hedges	1,400	55	27	20	24	–	71
	4,063	81	42	30	38	(13)	97
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	3,491	11					
– inflow			–	3,480	–	–	3,480
– outflow			–	(3,491)	–	–	(3,491)
– cash flow hedges:	313	21					
– inflow			132	49	74	35	290
– outflow			(147)	(51)	(76)	(37)	(311)
– not qualified for hedge accounting:	180	5					
– inflow			173	2	–	–	175
– outflow			(178)	(2)	–	–	(180)
Cross currency swaps							
– fair value hedges:	1,193	133					
– inflow			18	598	2	379	997
– outflow			(12)	(810)	–	(388)	(1,210)
– cash flow hedges:	2,437	623					
– inflow			67	67	199	2,490	2,823
– outflow			(92)	(92)	(277)	(3,091)	(3,552)
Net settled:							
Interest rate swaps							
– fair value hedges	2,200	17	1	3	(10)	(9)	(15)
– cash flow hedges	600	17	(9)	(6)	(7)	–	(22)
– not qualified for hedge accounting	100	3	(2)	(1)	(1)	1	(3)
	10,514	830	(49)	(254)	(96)	(620)	(1,019)
Total	14,577						

Notes to the Accounts

31 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group

in HK\$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in				Total
			Less than 1 year	1-2 years	2-5 years	Over 5 years	
2014							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	2,093	2					
– inflow			–	–	2,095	–	2,095
– outflow			–	–	(2,093)	–	(2,093)
– cash flow hedges:	347	15					
– inflow			335	–	–	–	335
– outflow			(320)	–	–	–	(320)
Cross currency swaps							
– fair value hedges:	2,404	20					
– inflow			34	34	876	392	1,336
– outflow			(21)	(33)	(868)	(388)	(1,310)
Net settled:							
Interest rate swaps							
– fair value hedges	900	67	27	20	37	–	84
– not qualified for hedge accounting	100	1	(2)	(1)	–	5	2
	5,844	105	53	20	47	9	129
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	1,398	1					
– inflow			–	–	1,397	–	1,397
– outflow			–	–	(1,398)	–	(1,398)
– cash flow hedges:	195	19					
– inflow			105	56	15	–	176
– outflow			(116)	(64)	(15)	–	(195)
– not qualified for hedge accounting:	146	8					
– inflow			141	–	–	–	141
– outflow			(150)	–	–	–	(150)
Cross currency swaps							
– fair value hedges:	805	92					
– inflow			23	23	707	–	753
– outflow			(11)	(17)	(812)	–	(840)
– cash flow hedges:	2,437	397					
– inflow			74	73	219	2,805	3,171
– outflow			(92)	(92)	(277)	(3,183)	(3,644)
Net settled:							
Interest rate swaps							
– fair value hedges	1,150	32	8	(1)	(20)	(22)	(35)
– cash flow hedges	900	16	(11)	(5)	(6)	–	(22)
	7,031	565	(29)	(27)	(190)	(400)	(646)
Total	12,875						

31 Derivative Financial Assets and Liabilities (continued)

A Fair Value (continued)

The Company

in HK\$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in				Total
			Less than 1 year	1-2 years	2-5 years	Over 5 years	
2015							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– not qualified for hedge accounting:	60	–					
– inflow			60	–	–	–	60
– outflow			(60)	–	–	–	(60)
Cross currency swaps							
– fair value hedges:	2,326	10					
– inflow			34	405	466	306	1,211
– outflow			(23)	(399)	(465)	(310)	(1,197)
– cash flow hedges:	277	16					
– inflow			11	12	35	343	401
– outflow			(7)	(8)	(22)	(352)	(389)
Net settled:							
Interest rate swaps							
– fair value hedges	1,400	55	27	20	24	–	71
	4,063	81	42	30	38	(13)	97
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	3,491	11					
– inflow			–	3,480	–	–	3,480
– outflow			–	(3,491)	–	–	(3,491)
– cash flow hedges:	313	21					
– inflow			132	49	74	35	290
– outflow			(147)	(51)	(76)	(37)	(311)
– not qualified for hedge accounting:	180	5					
– inflow			173	2	–	–	175
– outflow			(178)	(2)	–	–	(180)
Cross currency swaps							
– fair value hedges:	1,193	133					
– inflow			18	598	2	379	997
– outflow			(12)	(810)	–	(388)	(1,210)
– cash flow hedges:	2,437	623					
– inflow			67	67	199	2,490	2,823
– outflow			(92)	(92)	(277)	(3,091)	(3,552)
Net settled:							
Interest rate swaps							
– fair value hedges	2,200	17	1	3	(10)	(9)	(15)
– cash flow hedges	600	17	(9)	(6)	(7)	–	(22)
– not qualified for hedge accounting	100	3	(2)	(1)	(1)	1	(3)
	10,514	830	(49)	(254)	(96)	(620)	(1,019)
Total	14,577						

Notes to the Accounts

31 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Company

in HK\$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in				Total
			Less than 1 year	1-2 years	2-5 years	Over 5 years	
2014							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	2,093	2					
– inflow			–	–	2,095	–	2,095
– outflow			–	–	(2,093)	–	(2,093)
Cross currency swaps							
– fair value hedges:	2,404	20					
– inflow			34	34	876	392	1,336
– outflow			(21)	(33)	(868)	(388)	(1,310)
Net settled:							
Interest rate swaps							
– fair value hedges	900	67	27	20	37	–	84
– not qualified for hedge accounting	100	1	(2)	(1)	–	5	2
	5,497	90	38	20	47	9	114
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	1,398	1					
– inflow			–	–	1,397	–	1,397
– outflow			–	–	(1,398)	–	(1,398)
– cash flow hedges:	195	19					
– inflow			105	56	15	–	176
– outflow			(116)	(64)	(15)	–	(195)
– not qualified for hedge accounting:	146	8					
– inflow			141	–	–	–	141
– outflow			(150)	–	–	–	(150)
Cross currency swaps							
– fair value hedges:	805	92					
– inflow			23	23	707	–	753
– outflow			(11)	(17)	(812)	–	(840)
– cash flow hedges:	2,437	397					
– inflow			74	73	219	2,805	3,171
– outflow			(92)	(92)	(277)	(3,183)	(3,644)
Net settled:							
Interest rate swaps							
– fair value hedges	1,150	32	8	(1)	(20)	(22)	(35)
– cash flow hedges	900	16	(11)	(5)	(6)	–	(22)
	7,031	565	(29)	(27)	(190)	(400)	(646)
Total	12,528						

31 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps, and the relevant interest rate swap curves as of 31 December 2015 and 2014 were used to discount the cash flows of financial instruments. Interest rates used ranged from 0.093% to 2.218% (2014: 0.130% to 2.525%) for Hong Kong dollars, 0.619% to 2.477% (2014: 0.175% to 2.576%) for US dollars, 2.246% to 3.436% (2014: 2.861% to 3.531%) for Australian dollars and 0.039% to 0.760% (2014: 0.110% to 0.885%) for Japanese yen.

The table above details the remaining contractual maturities at the end of reporting period of the Group's and the Company's derivative financial assets and liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay. The details of the fair value measurement are disclosed in note 46.

B Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") is an integral part of its risk management policies. The Model specifies, amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Group's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management policies and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Group are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient cash balance and/or undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 12 to 24 months of projected cash requirements as specified in the Model. The Group also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

The following table details the remaining contractual maturities at the end of reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

in HK\$ million	2015				2014			
	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	7,415	2,687	1,114	11,216	7,137	3,118	615	10,870
Amounts repayable within a period of between 2 and 5 years	3,546	1,775	145	5,466	7,391	2,280	3	9,674
Amounts repayable within a period of between 1 and 2 years	5,390	469	44	5,903	1,615	1,338	–	2,953
Amounts repayable within 1 year	1,646	2,138	32	3,816	928	1,270	–	2,198
	17,997	7,069	1,335	26,401	17,071	8,006	618	25,695

Notes to the Accounts

31 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Company

in HK\$ million	2015				2014			
	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	1,583	–	605	2,188	1,689	–	615	2,304
Amounts repayable within a period of between 2 and 5 years	590	507	3	1,100	634	629	3	1,266
Amounts repayable within a period of between 1 and 2 years	69	9	–	78	69	11	–	80
Amounts repayable within 1 year	69	1,655	–	1,724	69	685	–	754
	2,311	2,171	608	5,090	2,461	1,325	618	4,404

Others represent obligations under lease out/lease back transaction (note 20F).

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities at the parent company level (including its financing vehicles). Borrowings based on fixed and floating rates expose the Group to fair value and cash flow interest rate risk respectively due to fluctuations in market interest rates. The Group manages and controls its interest rate risk exposure at the parent company level by maintaining a level of fixed rate debt between 55% and 75% (2014: 40% and 65%) of total debt outstanding as specified by the Model. Should the actual fixed rate debt level deviate substantially from the Model, derivative financial instruments such as interest rate swaps would be procured to align the fixed and floating mix with the Model. As at 31 December 2015, 56% (2014: 52%) of the Company's (including financing vehicles) total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps. Interest rate risk at subsidiary and associate companies are managed separately based on their own borrowing requirement, circumstances and market practice.

The Group's exposure due to its floating rate borrowings is offset by the floating rate interest income it earns from its cash balances, bank deposits and other investment instruments. As at 31 December 2015, the Group had total cash, bank balances and deposits of HK\$10,961 million (2014: HK\$18,358 million) from which it derived floating rate interest income, compared with total floating rate borrowings of HK\$11,002 million (2014: HK\$9,908 million).

As at 31 December 2015, it is estimated that a 100 basis points increase / 100 basis points decrease in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately HK\$82 million/HK\$78 million. Other components of consolidated equity would increase/decrease by approximately HK\$84 million/HK\$93 million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The interest rate assumptions represent management's assessment of a reasonable possible change in interest rates over the period until the next annual financial period.

In 2014, a similar analysis was performed based on the assumption of a 100 basis points increase / 100 basis points decrease in interest rates, which would increase/decrease the Group's profit after tax and retained profits by approximately HK\$112 million/HK\$98 million. Other components of consolidated equity would increase/decrease by approximately HK\$81 million/HK\$86 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency other than the functional currency of the Group's companies to which they relate. For the Group, it arises principally from its borrowing as well as overseas investment and procurement activities.

The Group manages and controls its foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt as specified by the Model, and minimal foreign exchange open positions created by its investments and procurements overseas. Where the currency of a borrowing is not matched with that of the expected cash flows for servicing the debt, the Group would convert its foreign currency exposure resulting from the borrowing to Hong Kong dollar exposure through cross currency swaps. For investment and procurement in foreign currencies, the Group would purchase the foreign currencies in advance or enter into foreign exchange forward contracts to secure the necessary foreign currencies at pre-determined exchange rates for settlement.

The Group's exposure to US dollars due to its foreign currency borrowings is also offset by the amount of US dollar cash balances, bank deposits and investments that it maintains.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars, British Pound or Swedish Krona) or United States dollars (with which Hong Kong dollars are pegged) and most of its payment commitments denominated in foreign currencies are covered by foreign exchange forward contracts, management does not expect that there will be any significant currency risk associated with them.

31 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

(iv) Credit Risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from the deposits it maintains and the derivative financial instruments that it has entered into with various banks and counterparties as well as from the Defeasance Securities it procured under the lease out/lease back transaction (note 20F). The Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings or guarantee, and diversifying its exposure to various counterparties.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce counterparty risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits and investments are similarly subject to a separate maximum counterparty/issuer limit based on the respective counterparty/issuer's credit ratings and/or status as Hong Kong's note-issuing banks. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty or investment from an issuer based upon the counterparty/issuer's credit ratings. Deposit/investment outstanding and maturity profile are monitored regularly to ensure they are within the limits established for the counterparties/issuers. In addition, the Group actively monitors the credit default swap levels of counterparties/issuers and their daily changes, and may on the basis of the observed levels and other considerations adjust its exposure and/or maximum counterparty/issuer limit to the relevant counterparty.

As at the end of reporting period, the maximum exposure to credit risk of the Group with respect to derivative financial assets and bank deposits is represented respectively by the carrying amount of the derivative financial assets and the aggregate amount of deposits on its statement of financial position. As at the end of reporting period, there was no significant concentration risk to a single counterparty.

In addition, the Company also manages and controls its exposure to credit risks in respect of receivables as stated in note 33.

32 Stores and Spares

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Stores and spares expected to be consumed:				
– within 1 year	967	944	760	701
– after 1 year	413	427	348	364
	1,380	1,371	1,108	1,065
Less: Provision for obsolete stock	(7)	(6)	(7)	(6)
	1,373	1,365	1,101	1,059

Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

33 Debtors, Deposits and Payments in Advance

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Debtors, deposits and payments in advance relate to:				
– Property development projects	2,197	1,363	2,197	1,363
– Railway-related subsidiaries outside of Hong Kong	1,313	1,308	–	–
– Hong Kong operations and others	1,625	1,126	1,013	964
	5,135	3,797	3,210	2,327

Notes to the Accounts

33 Debtors, Deposits and Payments in Advance *(continued)*

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

- (i) The majority of fare revenue from Hong Kong transport operation is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.
- (ii) Fare revenue from Shenzhen Metro Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTR Express is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month.
- (iii) Franchise revenue in Melbourne is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue in Stockholm is collected in the transaction month with the remainder being collected in the following month. Franchise revenue for MTR Crossrail is collected once every 4 weeks.
- (iv) Rentals, advertising and telecommunications service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.
- (v) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.
- (vi) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.
- (vii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.
- (viii) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing of debtors is analysed as follows:

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Amounts not yet due	3,816	2,913	2,982	2,099
Overdue by 30 days	388	149	65	65
Overdue by 60 days	53	24	16	16
Overdue by 90 days	8	26	24	24
Overdue by more than 90 days	18	17	13	13
Total debtors	4,283	3,129	3,100	2,217
Deposits and payments in advance	852	668	110	110
	5,135	3,797	3,210	2,327

Included in amounts not yet due as at 31 December 2015 was HK\$2,197 million (2014: HK\$1,363 million) in respect of property development, comprising receivable on profits distributable based on the terms of the development agreements and sales and purchase agreements, receivable from certain stakeholding funds (note 25C) awaiting finalisation of the respective development accounts as well as other receivables on miscellaneous recoverable expenses.

As at 31 December 2015, all debtors, deposits and payments in advance were expected to be recovered within one year except for amounts relating to deposits and receivables of HK\$543 million (2014: HK\$102 million) and of HK\$25 million (2014: HK\$18 million) respectively in the Group and the Company which were expected to be recovered after more than one year. The nominal values less impairment losses for bad and doubtful debts are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors, deposits and payments in advance are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	The Group		The Company	
	2015	2014	2015	2014
United States dollars	2	3	2	3

34 Amounts Due from Related Parties

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Amounts due from:				
– HKSAR Government	1,462	1,028	1,462	1,028
– KCRC	10	5	10	5
– associates	164	40	38	40
– subsidiaries (net of impairment losses)	–	–	10,769	10,722
	1,636	1,073	12,279	11,795

As at 31 December 2015, the amount due from HKSAR Government mainly related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the South Island Line (East) and Kwun Tong Line Extension projects, reimbursement of the fare revenue difference in relation to the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, agency fee receivables and reimbursable costs in respect of West Rail property development (note 25D), as well as receivables and retention for other entrustment and maintenance works.

The amount due from KCRC related to the recoverable cost for certain capital works and property enabling works in accordance with the agreements in relation to the Rail Merger.

The amounts due from associates as at 31 December 2015 included the outstanding balance of loan to Tianjin TJ – Metro MTR amounting to RMB80 million (HK\$100 million) (2014: nil) which bears an interest rate of 5.885% per annum with repayment due by 19 March 2016.

All contract retentions on the entrusted works mentioned above were due for release within one year. All amounts due from the HKSAR Government and other related parties were expected to be received within 24 months. The nominal values of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

35 Cash, Bank Balances and Deposits

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Deposits with banks and other financial institutions	7,558	16,765	7,036	16,244
Cash at banks and on hand	4,760	2,128	268	288
Cash, bank balances and deposits	12,318	18,893	7,304	16,532
Less: Bank deposits with more than three months to maturity when placed or pledged (note 36E)	(6,041)	(3,434)	(5,829)	(3,110)
Less: Bank overdrafts (note 36A)	(50)	(46)	(50)	(46)
Cash and cash equivalents in the cash flow statement	6,227	15,413	1,425	13,376

Included in cash, bank balance and deposits in the statement of financial position are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	The Group		The Company	
	2015	2014	2015	2014
Australian dollars	59	22	57	22
Euros	7	19	7	19
Japanese yen	242	25	242	25
New Taiwan dollars	16	16	16	16
Pound sterling	10	2	10	2
Renminbi	2,460	2,451	2,460	2,451
United States dollars	286	532	284	530

Notes to the Accounts

36 Loans and Other Obligations

A By Type

The Group

in HK\$ million	2015			2014		
	Carrying amount	Fair value	Repayable amount	Carrying amount	Fair value	Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2017 to 2043 (2014: due during 2017 to 2043)	5,198	5,518	5,307	5,271	5,592	5,307
Unlisted:						
Debt issuance programme notes due during 2016 to 2055 (2014: due during 2015 to 2043)	8,898	9,892	9,424	8,346	9,139	8,727
Total capital market instruments	14,096	15,410	14,731	13,617	14,731	14,034
Bank loans	4,145	4,145	4,147	5,949	5,949	5,954
Finance leases	508	655	508	–	–	–
Others	413	517	413	395	497	395
Loans and others	19,162	20,727	19,799	19,961	21,177	20,383
Bank overdrafts	50	50	50	46	46	46
Short-term loans	1,599	1,599	1,599	500	500	500
Total	20,811	22,376	21,448	20,507	21,723	20,929

The Company

in HK\$ million	2015			2014		
	Carrying amount	Fair value	Repayable amount	Carrying amount	Fair value	Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due in 2043 (2014: due in 2043)	647	843	698	665	833	698
Unlisted:						
Debt issuance programme notes due during 2018 to 2028 (2014: due during 2018 to 2028)	782	909	857	787	934	857
Total capital market instruments	1,429	1,752	1,555	1,452	1,767	1,555
Bank loans	498	498	500	727	727	732
Others	413	517	413	395	497	395
Loans and others	2,340	2,767	2,468	2,574	2,991	2,682
Bank overdrafts	50	50	50	46	46	46
Short-term loans	1,599	1,599	1,599	500	500	500
Total	3,989	4,416	4,117	3,120	3,537	3,228

Others include non-defeased obligations under lease out/lease back transaction (note 20F).

As at 31 December 2015, the Group had a number of uncommitted facilities with undrawn amounts totalling HK\$19,370 million (2014: HK\$20,780 million), comprising a debt issuance programme and short-term bank loan facilities.

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that is available to the Group for similar financial instruments. The carrying amounts of short-term loans and bank overdrafts approximated their fair values. Details of the fair value measurement are disclosed in note 46.

36 Loans and Other Obligations (continued)

A By Type (continued)

The amounts of borrowings, denominated in a currency other than the functional currency of the entity to which they relate, before and after currency hedging activities are as follows:

The Group

in million	Before hedging activities		After hedging activities	
	2015	2014	2015	2014
Australian dollars	280	230	–	–
Japanese yen	15,000	15,000	–	–
United States dollars	700	700	–	40

The Company

in million	Before hedging activities		After hedging activities	
	2015	2014	2015	2014
Japanese yen	5,000	5,000	–	–
United States dollars	150	150	–	40

B By Repayment Terms

The Group

in HK\$ million	2015					2014				
	Capital market instruments	Bank loans and overdrafts	Finance leases	Others	Total	Capital market instruments	Bank loans and overdrafts	Finance leases	Others	Total
Long-term loans and others										
Amounts repayable beyond 5 years	5,532	2,296	413	411	8,652	5,635	2,688	–	395	8,718
Amounts repayable within a period of between 2 and 5 years	2,815	1,311	66	2	4,194	6,699	1,762	–	–	8,461
Amounts repayable within a period of between 1 and 2 years	5,184	270	20	–	5,474	1,200	1,089	–	–	2,289
Amounts repayable within 1 year	1,200	270	9	–	1,479	500	415	–	–	915
	14,731	4,147	508	413	19,799	14,034	5,954	–	395	20,383
Bank overdrafts	–	50	–	–	50	–	46	–	–	46
Short-term loans	–	1,599	–	–	1,599	–	500	–	–	500
	14,731	5,796	508	413	21,448	14,034	6,500	–	395	20,929
Less: Unamortised discount/premium/finance charges outstanding	(61)	(2)	–	–	(63)	(39)	(5)	–	–	(44)
Adjustment due to fair value change of financial instruments	(574)	–	–	–	(574)	(378)	–	–	–	(378)
Total carrying amount of debt	14,096	5,794	508	413	20,811	13,617	6,495	–	395	20,507

Notes to the Accounts

36 Loans and Other Obligations (continued)

B By Repayment Terms (continued)

The Company

in HK\$ million	2015				2014			
	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Long-term loans and others								
Amounts repayable beyond 5 years	1,090	–	411	1,501	1,090	–	395	1,485
Amounts repayable within a period of between 2 and 5 years	465	500	2	967	465	600	–	1,065
Amounts repayable within a period of between 1 and 2 years	–	–	–	–	–	–	–	–
Amounts repayable within 1 year	–	–	–	–	–	132	–	132
	1,555	500	413	2,468	1,555	732	395	2,682
Bank overdrafts	–	50	–	50	–	46	–	46
Short-term loans	–	1,599	–	1,599	–	500	–	500
	1,555	2,149	413	4,117	1,555	1,278	395	3,228
Less: Unamortised discount/premium/finance charges outstanding	(34)	(2)	–	(36)	(36)	(5)	–	(41)
Adjustment due to fair value change of financial instruments	(92)	–	–	(92)	(67)	–	–	(67)
Total carrying amount of debt	1,429	2,147	413	3,989	1,452	1,273	395	3,120

The amounts repayable within 1 year in respect of capital market instruments and bank loans are included in long-term loans as these amounts are intended to be refinanced on a long-term basis.

C Bonds and Notes Issued and Redeemed

Notes issued during the years ended 31 December 2015 and 2014 comprise:

The Group

in HK\$ million	2015		2014	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	1,197	1,176	550	544

During the year ended 31 December 2015, notes of HK\$920 million and AUD50 million (or HK\$277 million) (2014: AUD80 million (or HK\$550 million)) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited while the Company did not issue any debt securities (2014: nil). The notes issued by the subsidiary are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the year ended 31 December 2015, the Group redeemed HK\$500 million of its unlisted debt securities (2014: HK\$500 million) and did not redeem any of its listed debt securities (2014: US\$600 million (or HK\$4,658 million)).

36 Loans and Other Obligations *(continued)*

D Obligations Under Finance Leases

At 31 December 2015, the Group had obligations under finance leases repayable as follows:

in HK\$ million	2015		2014	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	9	33	–	–
After 1 year but within 2 years	20	43	–	–
After 2 years but within 5 years	66	138	–	–
After 5 years	413	492	–	–
	499	673	–	–
	508	706	–	–
Less: total future interest expenses		(198)		–
Present value of lease obligations		508		–

E Guarantees and Pledges

(i) There were no guarantees given by the HKSAR Government in respect of the loan facilities of the Group as at 31 December 2015 and 2014.

(ii) As at 31 December 2015, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for a RMB3,053 million (2014: RMB3,280 million) bank loan facility granted to it.

(iii) As at 31 December 2015, MTR Property Development (Shenzhen) Company Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged its accounts receivable in relation to the property development project at Shenzhen Metro Longhua Line Depot Site Lot 1 as security for the outstanding amount on a RMB1,950 million (2014: RMB1,950 million) bank loan facility, with RMB1,216 million available and nil outstanding (2014: RMB1,356 million available and RMB594 million outstanding), granted to it.

Save as disclosed above and those disclosed elsewhere in the accounts, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2015.

37 Creditors and Accrued Charges

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Creditors and accrued charges				
– Island Line Extension Project	989	1,350	989	1,350
– South Island Line (East) Project	443	1,057	443	1,057
– Kwun Tong Line Extension Project	600	314	600	314
– Shenzhen Metro Longhua Line Project	305	676	–	–
– Hong Kong property development projects	1,261	704	1,261	704
– Mainland of China property development project	5,527	165	–	–
– Railway subsidiaries outside of Hong Kong	2,120	1,949	–	–
– Hong Kong operations and others	11,615	10,206	11,113	9,678
	22,860	16,421	14,406	13,103

Notes to the Accounts

37 Creditors and Accrued Charges *(continued)*

The analysis of creditors by due dates is as follows:

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Due within 30 days or on demand	4,098	3,998	2,185	1,875
Due after 30 days but within 60 days	3,493	3,783	3,204	3,590
Due after 60 days but within 90 days	1,035	613	586	561
Due after 90 days	8,279	3,019	2,697	2,323
	16,905	11,413	8,672	8,349
Rental and other refundable deposits	2,818	2,739	2,745	2,665
Accrued employee benefits	3,137	2,269	2,989	2,089
	22,860	16,421	14,406	13,103

Creditors and accrued charges were expected to be settled within one year except for HK\$10,718 million (2014: HK\$4,861 million) in the Group and HK\$5,774 million (2014: HK\$4,619 million) in the Company which were expected to be settled after one year. The amounts due after one year for the Group are mainly advance receipt for sales proceeds of property development in Shenzhen, which would be transferred as income in 2017, others relate to rental deposits received from investment property and station kiosk tenants and advance income received from telecommunication service operators, majority of which are due to be repaid within three years. The Group considers the effect of discounting these deposits would be immaterial.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

Included in creditors and accrued charges are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	The Group		The Company	
	2015	2014	2015	2014
Australian dollars	7	5	2	–
Euros	18	17	18	17
Japanese yen	169	303	146	280
Pound sterling	3	–	3	–
Swiss franc	1	–	1	–
United States dollars	8	5	3	2

38 Contract Retentions

The Group

in HK\$ million	Due for release within 12 months	Due for release after 12 months	Total
2015			
Hong Kong railway extension projects	120	181	301
Hong Kong businesses	139	289	428
Mainland of China and international subsidiaries	172	93	265
	431	563	994
2014			
Hong Kong railway extension projects	92	474	566
Hong Kong businesses	111	176	287
Mainland of China and international subsidiaries	159	82	241
	362	732	1,094

38 Contract Retentions *(continued)*

The Company

in HK\$ million	Due for release within 12 months	Due for release after 12 months	Total
2015			
Hong Kong railway extension projects	120	181	301
Hong Kong businesses	139	289	428
	259	470	729
2014			
Hong Kong railway extension projects	92	474	566
Hong Kong businesses	111	176	287
	203	650	853

The effect of discounting these contract retentions is considered immaterial as these amounts are substantially due to be released within 24 months.

39 Amounts Due to Related Parties

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Amounts due to:				
– HKSAR Government	25	3	25	3
– KCRC	1,714	1,597	1,714	1,597
– associates	119	7	–	–
– subsidiaries	–	–	13,100	12,596
	1,858	1,607	14,839	14,196

The amount due to the HKSAR Government relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2015 relates to the accrued portion of the fixed annual payment and variable annual payment that is expected to be settled within 12 months.

The amount due to associates mainly related to the amount payable for the equity contribution to NRT Holding 2 Pty. Limited.

The amount due to the Company's subsidiaries included HK\$12,746 million (2014: HK\$12,242 million) due to MTR Corporation (C.I.) Limited in respect of the proceeds from and accrued interest on bonds and notes issued by the subsidiary and on-lent to the Company for its general corporate purposes with specified repayment dates and interest rates (note 36C). The remaining balance of the amount due to subsidiaries is non-interest bearing and has not been discounted as it does not have any fixed repayment terms and is not material. Out of the total amount due to subsidiaries as at 31 December 2015, HK\$11,463 million (2014: HK\$11,371 million) is expected to be settled after one year.

40 Obligations under Service Concession

Movements of the Group's and the Company's obligations under service concessions are as follows:

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Balance as at 1 January	10,614	10,658	10,438	10,480
Add: Net increase in interest payable	3	3	–	–
Less: Amount repaid/payable during the year	(45)	(42)	(46)	(42)
Exchange difference	(8)	(5)	–	–
Balance as at 31 December	10,564	10,614	10,392	10,438

Notes to the Accounts

40 Obligations under Service Concession *(continued)*

The outstanding balances as at 31 December 2015 and 2014 are repayable as follows:

The Group

in HK\$ million	2015			2014		
	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	10,286	17,720	28,006	10,354	18,423	28,777
Amounts repayable within a period of between 2 and 5 years	177	2,091	2,268	166	2,103	2,269
Amounts repayable within a period of between 1 and 2 years	52	704	756	49	707	756
Amounts repayable within 1 year	49	707	756	45	711	756
	10,564	21,222	31,786	10,614	21,944	32,558

The Company

in HK\$ million	2015			2014		
	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	10,114	17,573	27,687	10,177	18,260	28,437
Amounts repayable within a period of between 2 and 5 years	177	2,073	2,250	166	2,084	2,250
Amounts repayable within a period of between 1 and 2 years	52	698	750	49	701	750
Amounts repayable within 1 year	49	701	750	46	705	751
	10,392	21,045	31,437	10,438	21,750	32,188

41 Loan from Holders of Non-controlling Interests

Loan from holders of non-controlling interests represents that portion of total shareholder loan of AUD48.75 million (HK\$276 million) granted to Metro Trains Melbourne Pty. Ltd. ("MTM") by the holders of its non-controlling interests. The loan carries an interest rate of 7.5% (2014: 7.5%) per annum and is repayable at the discretion of MTM or on the expiry of the operation and maintenance franchise on 29 November 2017, whichever is earlier.

42 Deferred Income

Movements of deferred income are as follows:

The Group

in HK\$ million	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange difference	Balance at 31 December
2015						
Deferred income on property development (note 25B)	26	-	(7)	-	-	19
Deferred income on transfer of assets from customers	174	3	-	(27)	-	150
Deferred income on government subsidy for Shenzhen Metro Longhua Line operation	565	653	-	(609)	(35)	574
	765	656	(7)	(636)	(35)	743
2014						
Deferred income on property development (note 25B)	50	-	(24)	-	-	26
Deferred income on transfer of assets from customers	96	102	-	(24)	-	174
Deferred income on government subsidy for Shenzhen Metro Longhua Line operation	477	652	-	(557)	(7)	565
	623	754	(24)	(581)	(7)	765

42 Deferred Income (continued)

The Company

in HK\$ million	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange difference	Balance at 31 December
2015						
Deferred income on property development (note 25B)	26	–	(7)	–	–	19
2014						
Deferred income on property development (note 25B)	50	–	(24)	–	–	26

43 Income Tax in the Statements of Financial Position

A Current taxation in the consolidated statement of financial position comprises provision for Hong Kong Profits Tax for the Company and certain subsidiaries for the year ended 31 December 2015, chargeable at Hong Kong Profits Tax Rate at 16.5% (2014: 16.5%) and after netting off provisional tax paid, and Mainland of China and overseas tax chargeable at the appropriate current rates of taxation ruling in the relevant countries.

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Provision for Hong Kong Profits Tax for the year (note 14)	1,791	1,583	1,745	1,541
Hong Kong Provisional Profits Tax paid	(877)	(665)	(844)	(633)
	914	918	901	908
Balance relating to Mainland of China and overseas tax	39	78	1	8
	953	996	902	916

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the statements of financial position and the movements during the year are as follows:

The Group

in HK\$ million	Deferred tax arising from					
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2015						
Balance as at 1 January 2015	10,592	520	(139)	(15)	(31)	10,927
Charged/(credited) to consolidated profit and loss account	435	–	(120)	–	(36)	279
Charged/(credited) to reserves	–	54	(114)	(28)	–	(88)
Exchange difference	(3)	–	1	–	2	–
Balance as at 31 December 2015	11,024	574	(372)	(43)	(65)	11,118
2014						
Balance as at 1 January 2014	9,833	498	(30)	(24)	(17)	10,260
Charged/(credited) to consolidated profit and loss account	760	–	(37)	–	(15)	708
Charged/(credited) to reserves	–	22	(73)	9	–	(42)
Exchange difference	(1)	–	1	–	1	1
Balance as at 31 December 2014	10,592	520	(139)	(15)	(31)	10,927

Notes to the Accounts

43 Income Tax in the Statements of Financial Position *(continued)*

B Deferred Tax Assets and Liabilities Recognised *(continued)*

The Company

in HK\$ million	Deferred tax arising from				Total
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	
2015					
Balance as at 1 January 2015	10,535	520	(147)	(19)	10,889
Charged/(credited) to profit and loss account	425	–	(86)	–	339
Charged/(credited) to reserves	–	54	(114)	(24)	(84)
Balance as at 31 December 2015	10,960	574	(347)	(43)	11,144
2014					
Balance as at 1 January 2014	9,778	498	(34)	(24)	10,218
Charged/(credited) to profit and loss account	757	–	(40)	–	717
Charged/(credited) to reserves	–	22	(73)	5	(46)
Balance as at 31 December 2014	10,535	520	(147)	(19)	10,889

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Net deferred tax assets	(91)	(50)	–	–
Net deferred tax liabilities	11,209	10,977	11,144	10,889
	11,118	10,927	11,144	10,889

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK\$70 million (2014: HK\$237 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities.

44 Share Capital, Shares Held for Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management

A Share Capital

	2015		2014	
	Number of shares	HK\$ million	Number of shares	HK\$ million
Ordinary shares, issued and fully paid:				
At 1 January	5,826,534,347	45,280	5,798,541,650	5,798
Shares issued under share option schemes before 3 March 2014	–	–	143,500	1
Transition to no-par value regime on 3 March 2014 (note)	–	–	–	38,647
Shares issued in respect of scrip dividend of 2014/2013 final dividend	6,468,200	242	11,595,971	335
Shares issued in respect of scrip dividend of 2015/2014 interim dividend	4,191,789	145	1,934,026	61
Shares issued under share option schemes on or after 3 March 2014	21,033,900	650	14,319,200	438
At 31 December	5,858,228,236	46,317	5,826,534,347	45,280

Note: The transition to the no-par value regime under the new Hong Kong Companies Ordinance (Cap. 622) ("Ordinance") occurred automatically on 3 March 2014. On that date, the share premium account and the capital reserve were subsumed into share capital in accordance with section 37 of Schedule 11 to the Ordinance. These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been made in accordance with the requirements of Parts 4 and 5 of the Ordinance.

44 Share Capital, Shares Held for Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management *(continued)*

B Shares Held for Share Incentive Scheme

On 20 April 2015, the Company offered to award Performance Shares and Restricted Shares under the Company's 2014 Share Incentive Scheme to certain eligible employees of the Company (note 47A(ii)). In this regard, a total of 1,681,050 Performance Shares and 2,348,150 Restricted Shares were accepted by the grantees on 27 April 2015. The fair value of these Award Shares was HK\$38.60 per share.

During the year ended 31 December 2015, the Trustee of the 2014 Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the 2014 Share Incentive Scheme, purchased on Hong Kong Stock Exchange a total of 4,029,200 shares of the Company for a total consideration of approximately HK\$150 million.

During the year ended 31 December 2015, 40,903 shares were issued to 2014 Share Incentive Scheme in relation to scrip dividend issued amounting to HK\$1 million.

C New shares issued and fully paid up during the year comprise:

	Number of shares	Weighted average exercise price HK\$
Employee share options exercised:		
– 2007 Share Option Scheme	21,033,900	27.07

An analysis of the Company's outstanding share options as at 31 December 2015 is disclosed in note 47.

D The fixed assets revaluation reserve is used to deal with the surpluses or deficits arising from the revaluation of self-occupied land and buildings (note 2E(ii)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as explained in note 2S(ii).

The employee share-based capital reserve comprises the fair value of share options granted which are yet to be exercised, as explained in the accounting policy under note 2T(iii). The amount will either be transferred to the share capital account when the option is exercised, or be released directly to retained profits if the option is lapsed or forfeited.

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign enterprises. The reserve is dealt with in accordance with the accounting policy set out in note 2BB.

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties of HK\$48,023 million (2014: HK\$45,957 million) included in retained profits are non-distributable as they do not constitute realised profits. As at 31 December 2015, the Company considers that the total amount of reserves available for distribution to equity shareholders amounted to HK\$70,478 million (2014: HK\$66,622 million).

Included in the Group's retained profits as at 31 December 2015 is an amount of HK\$877 million (2014: HK\$695 million), being the retained profits attributable to the associates.

E Capital Management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide an adequate return to its shareholders.

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of the HKSAR Government is the majority shareholder of the Company holding 4,434,552,207 shares as at 31 December 2015, representing 75.7% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt-to-equity ratio, which is calculated on net borrowings as a percentage of the total equity, where net borrowings are represented by the aggregate of loans and other obligations, bank overdrafts, obligations under service concession and loan from holders of non-controlling interests net of cash and cash equivalents and bank medium term notes. The Group's net debt-to-equity ratios over the past years had been trending downward since the Rail Merger from 46.5% at 31 December 2007 to 11.3% at 31 December 2015.

Fasttrack Insurance Ltd. is required to maintain a minimum level of shareholders' fund based on the Bermuda Insurance Act. MTR Corporation (Shenzhen) Limited is required to maintain a registered capital at or above 40% of the total investment for the Shenzhen Metro Longhua Line project in accordance with the concession agreement. MTR Property Development (Shenzhen) Company Limited is required to maintain a registered capital at or above 50% of the total investment based on Jianzhufang [2006] No. 171. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. MTR Stockholm AB, MTR Beta AB, MTR Express (Sweden) AB and MTR Nordic AB are required to maintain total shareholders' fund at or above 50% of their respective registered share capital based on the Swedish Companies Act. MTR Travel Limited is required to maintain a certain level of paid-up capital in order to maintain membership of the Travel Industry Council of Hong Kong. As at 31 December 2015, all these capital requirements were met. Apart from these, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

Notes to the Accounts

44 Share Capital, Shares Held for Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management *(continued)*

F Company-level Movements in Components of Equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

in HK\$ million	Note	Share Capital	Share Premium	Capital Reserve	Shares held for Share Incentive Scheme	Other reserves			Retained profits	Total equity
						Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve		
2015										
Balance as at 1 January 2015	53	45,280	-	-	-	2,641	(102)	214	112,681	160,714
Profit for the year		-	-	-	-	-	-	-	12,758	12,758
Other comprehensive income for the year		-	-	-	-	271	(123)	-	(580)	(432)
Total comprehensive income for the year		-	-	-	-	271	(123)	-	12,178	12,326
2014 final dividend		-	-	-	-	-	-	-	(4,673)	(4,673)
Shares issued in respect of scrip dividend of 2014 final dividend		242	-	-	-	-	-	-	-	242
Shares purchased for Share Incentive Scheme		-	-	-	(150)	-	-	-	-	(150)
2015 interim dividend		-	-	-	-	-	-	-	(1,461)	(1,461)
Shares issued in respect of scrip dividend of 2015 interim dividend		145	-	-	(1)	-	-	-	-	144
Employee share-based payments		-	-	-	-	-	-	78	-	78
Employee share options exercised		650	-	-	-	-	-	(81)	-	569
Employee share options forfeited		-	-	-	-	-	-	(1)	1	-
Balance as at 31 December 2015	53	46,317	-	-	(151)	2,912	(225)	210	118,726	167,789
2014										
Balance as at 1 January 2014		5,798	11,456	27,188	-	2,525	(128)	240	103,057	150,136
Profit for the year		-	-	-	-	-	-	-	15,332	15,332
Other comprehensive income for the year		-	-	-	-	116	26	-	(370)	(228)
Total comprehensive income for the year		-	-	-	-	116	26	-	14,962	15,104
Employee share options exercised before 3 March 2014		1	3	-	-	-	-	-	-	4
Transition to no-par value regime on 3 March 2014		38,647	(11,459)	(27,188)	-	-	-	-	-	-
2013 final dividend		-	-	-	-	-	-	-	(3,886)	(3,886)
Shares issued in respect of scrip dividend of 2013 final dividend		335	-	-	-	-	-	-	-	335
2014 interim dividend		-	-	-	-	-	-	-	(1,455)	(1,455)
Shares issued in respect of scrip dividend of 2014 interim dividend		61	-	-	-	-	-	-	-	61
Employee share-based payments		-	-	-	-	-	-	42	-	42
Employee share options exercised on or after 3 March 2014		438	-	-	-	-	-	(65)	-	373
Employee share options forfeited		-	-	-	-	-	-	(3)	3	-
Balance as at 31 December 2014	53	45,280	-	-	-	2,641	(102)	214	112,681	160,714

45 Cash Generated from Operations

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

in HK\$ million	2015	2014
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	16,120	15,423
Adjustments for:		
– Loss on disposal of fixed assets	44	36
– Amortisation of deferred income from transfers of assets from customers	(27)	(24)
– Increase in fair value of derivative instruments	(30)	(1)
– Unrealised loss on revaluation of investment in securities	1	1
– Employee share-based payment expenses	78	43
– Exchange loss	–	35
Operating profit before working capital changes	16,186	15,513
Increase in debtors, deposits and payments in advance	(513)	(538)
Increase in stores and spares	(35)	(102)
Increase in creditors and accrued charges	651	1,646
Cash generated from operations	16,289	16,519

46 Fair Value Measurement

In accordance with HKFRS 13, *Fair Value Measurement*, the level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3: Fair value measured using significant unobservable inputs

A Fair Value Measurements of Fixed Assets

All of the Group's investment properties measured at fair value on a recurring basis are categorised as Level 3 of the fair value hierarchy.

During the year ended 31 December 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 in respect of the Group's investment properties and self-occupied land and buildings. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All the Group's investment properties and self-occupied land and buildings were revalued as at 31 December 2015 and 2014 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The Group's senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The fair value of all the Group's self-occupied land and buildings is determined on a recurring basis using primarily the direct comparison approach assuming sale of properties in their existing state with vacant possession.

The property interests of all the shopping malls and office accommodation held by the Group as investment properties have been valued using the income capitalisation approach. Under this approach, the market value is derived from the capitalisation of the rental revenue to be received under existing tenancies and the estimated full market rental value to be received upon expiry of the existing tenancies with reference to the market rental levels prevailing as at the date of valuation by an appropriate single market yield rate. The range of market yield rate adopted for the valuation of major investment properties as at 31 December 2015 was 4.25% – 7.50% (2014: 4.25% – 7.50%) with a weighted average of 5.4% (2014: 5.4%). The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2015 are shown in note 19. All the fair value adjustment related to investment properties held as at 31 December 2015 and was recognised under investment property revaluation in the consolidated profit and loss account.

Notes to the Accounts

46 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments

(i) Financial Assets and Liabilities Carried at Fair Value

The level of fair value hierarchy within which the recurring fair value measurements are categorised is analysed below:

The Group

in HK\$ million	Fair value at 31 December 2015	Fair value measurements as at 31 December 2015	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Cross currency swaps	26	–	26
– Interest rate swaps	55	–	55
	81	–	81
Investments in securities	336	336	–
	417	336	81
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	37	–	37
– Cross currency swaps	756	–	756
– Interest rate swaps	37	–	37
	830	–	830

in HK\$ million	Fair value at 31 December 2014	Fair value measurements as at 31 December 2014	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	17	–	17
– Cross currency swaps	20	–	20
– Interest rate swaps	68	–	68
	105	–	105
Investments in securities	527	527	–
	632	527	105
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	28	–	28
– Cross currency swaps	489	–	489
– Interest rate swaps	48	–	48
	565	–	565

46 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

The Company

in HK\$ million	Fair value at 31 December 2015	Fair value measurements as at 31 December 2015	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Cross currency swaps	26	–	26
– Interest rate swaps	55	–	55
	81	–	81
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	37	–	37
– Cross currency swaps	756	–	756
– Interest rate swaps	37	–	37
	830	–	830

in HK\$ million	Fair value at 31 December 2014	Fair value measurements as at 31 December 2014	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	2	–	2
– Cross currency swaps	20	–	20
– Interest rate swaps	68	–	68
	90	–	90
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	28	–	28
– Cross currency swaps	489	–	489
– Interest rate swaps	48	–	48
	565	–	565

There are no Level 3 measurements of financial instruments. During the years ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments. For interest rate swaps, cross currency swaps and foreign exchange forward contracts, the discount rates used were derived from the swap curves of the respective currencies at the end of reporting period. Closing exchange rates at the end of reporting period were used to convert value in foreign currency to local currency.

Notes to the Accounts

46 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

(ii) Financial Assets and Liabilities Not Carried at Fair Value

The carrying amounts of the Group's and the Company's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 31 December 2015 and 2014 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

The Group

in HK\$ million	At 31 December 2015		At 31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	14,096	15,410	13,617	14,731
Other obligations	921	1,172	395	497

The Company

in HK\$ million	At 31 December 2015		At 31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	1,429	1,752	1,452	1,767
Other obligations	413	517	395	497

The above fair value measurement is categorised as Level 2. The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's capital market instruments and other obligations. The discount rates used were derived from the swap curves of the respective currencies at the end of reporting period. Closing exchange rates at the end of reporting period were used to convert value in foreign currency to local currency.

47 Share-based Payments

A Equity-settled Share-based Payments

The Group granted share options under share option scheme and share awards under share incentive scheme to its Members of the Executive Directorate and certain employees. As at 31 December 2015, the Company maintained the 2007 Share Option Scheme and 2014 Share Incentive Scheme. Details of the schemes are as follows:

(i) 2007 Share Option Scheme

Following the expiry of the New Joiners Share Option Scheme (the "New Option Scheme") in May 2007, the 2007 Share Option Scheme (the "2007 Option Scheme") was submitted and approved at the 2007 Annual General Meeting to enhance the Company's ability to attract the best available personnel, to retain and motivate critical and key employees, to align their interest to the long-term success of the Company and to provide them with fair and market competitive remuneration. Under the Rules of the 2007 Option Scheme, a maximum of 277,461,072 shares, may be issued pursuant to the exercise of options granted after 7 June 2007 under all share option schemes of the Company including the 2007 Option Scheme. Options granted will be vested in respect of their underlying shares not less than 1 year from the date on which the relevant option is offered. The exercise price of any option granted under the 2007 Option Scheme is to be determined by the Company upon the offer of grant of the option and the exercise price should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option; (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day; and (iii) the nominal value of an MTR share.

Subject to the rules of the 2007 Option Scheme, the Company may, from time to time during the scheme period, offer to grant share options to any eligible employees at its absolute discretion. Under the 2007 Option Scheme, the date of grant is defined as the date of acceptance of the offer to grant the option. The 2007 Option Scheme expired in June 2014.

47 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

As at 31 December 2015, the following awards of share options were offered to Members of the Executive Directorate and selected employees of the Company under the 2007 Option Scheme:

Awards of share options	Date of offer	Number of share options offered and accepted	Date of acceptance
2008 Award	10 December 2007 26 March 2008	8,273,000 2,749,000	11 December 2007 to 7 January 2008 28 March 2008 to 23 April 2008
2009 Award	8 December 2008 12 June 2009	12,712,000 345,000	8 December 2008 to 30 December 2008 18 June 2009 to 9 July 2009
2010 Award	8 December 2009 28 June 2010	15,718,000 355,000	9 December 2009 to 22 December 2009 21 July 2010
2011 Award	16 December 2010 27 June 2011	15,546,500 215,000	16 December 2010 to 23 December 2010 7 July 2011
2012 Award	23 March 2012	16,917,000	30 March 2012
2013 Award	26 April 2013 25 October 2013	21,605,000 384,500	6 May 2013 1 November 2013
2014 Award	23 May 2014	19,895,500	30 May 2014

The following table summarises the outstanding share options as at 31 December 2015 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK\$	Exercisable period
<u>2010 Award</u>			
9 December 2009	470,000	26.85	on or prior to 8 December 2016
10 December 2009	1,026,000	26.85	on or prior to 8 December 2016
11 December 2009	645,500	26.85	on or prior to 8 December 2016
12 December 2009	135,000	26.85	on or prior to 8 December 2016
14 December 2009	579,000	26.85	on or prior to 8 December 2016
15 December 2009	575,000	26.85	on or prior to 8 December 2016
16 December 2009	373,500	26.85	on or prior to 8 December 2016
17 December 2009	167,000	26.85	on or prior to 8 December 2016
18 December 2009	108,000	26.85	on or prior to 8 December 2016
19 December 2009	70,000	26.85	on or prior to 8 December 2016
20 December 2009	75,000	26.85	on or prior to 8 December 2016
21 December 2009	158,000	26.85	on or prior to 8 December 2016
22 December 2009	122,000	26.85	on or prior to 8 December 2016
21 July 2010	106,000	27.73	on or prior to 28 June 2017
<u>2011 Award</u>			
16 December 2010	55,000	28.84	on or prior to 16 December 2017
17 December 2010	2,909,000	28.84	on or prior to 16 December 2017
18 December 2010	389,500	28.84	on or prior to 16 December 2017
19 December 2010	25,000	28.84	on or prior to 16 December 2017
20 December 2010	1,696,000	28.84	on or prior to 16 December 2017
21 December 2010	1,171,500	28.84	on or prior to 16 December 2017
22 December 2010	486,000	28.84	on or prior to 16 December 2017
23 December 2010	75,000	28.84	on or prior to 16 December 2017
7 July 2011	35,000	26.96	on or prior to 27 June 2018
<u>2012 Award</u>			
30 March 2012	8,328,500	27.48	on or prior to 23 March 2019
<u>2013 Award</u>			
6 May 2013	16,910,500	31.40	on or prior to 26 April 2020
1 November 2013	384,500	29.87	on or prior to 25 October 2020
<u>2014 Award</u>			
30 May 2014	17,959,000	28.65	on or prior to 23 May 2021

Notes to the Accounts

47 Share-based Payments (continued)

A Equity-settled Share-based Payments (continued)

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2015		2014	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at 1 January	76,785,400	28.624	73,001,100	28.151
Granted during the year	–	–	19,895,500	28.650
Exercised during the year	(21,033,900)	27.074	(14,378,200)	26.114
Forfeited during the year	(717,000)	29.860	(1,648,000)	29.939
Lapsed during the year	–	–	(85,000)	27.600
Outstanding at 31 December	55,034,500	29.200	76,785,400	28.624
Exercisable at 31 December	35,900,500	28.997	38,331,400	27.782

The weighted average closing price in respect of the share options exercised during the year was HK\$36.244 (2014: HK\$30.622).

Share options outstanding at 31 December 2015 had the following exercise prices and remaining contractual lives:

Exercise price	2015		2014	
	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK\$26.52	–	–	1,067,000	–
HK\$18.30	–	–	2,567,400	1
HK\$24.50	–	–	175,000	1
HK\$26.85	4,504,000	1	8,115,500	2
HK\$27.73	106,000	1	130,000	2
HK\$28.84	6,807,000	2	10,714,000	3
HK\$26.96	35,000	2	123,000	3
HK\$27.48	8,328,500	3	13,564,000	4
HK\$31.40	16,910,500	4	20,311,000	5
HK\$29.87	384,500	5	384,500	6
HK\$28.65	17,959,000	5	19,634,000	6
	55,034,500		76,785,400	

During the year ended 31 December 2015, the equity-settled share-based payments relating to the 2007 Share Option Scheme recognised as an expense amounted to HK\$25 million (2014: HK\$42 million).

(ii) 2014 Share Incentive Scheme

On 15 August 2014, the Board of the Company approved the adoption of the 2014 Share Incentive Scheme ("2014 Scheme"), following the expiry of the 2007 Option Scheme on 6 June 2014. The purposes of the 2014 Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company. The 2014 Scheme took effect on 1 January 2015 for a term of 10 years, under which an award holder may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded on the basis of individual performance. Performance Shares are awarded which vest subject to the performance of the Company, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions.

Subject to the Scheme Rules, the Remuneration Committee shall determine from time to time the vesting criteria and conditions or periods for the Award Shares to be vested. An award of Restricted Shares will vest rateably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved. The 2014 Scheme will be administered by the Company in accordance with the Scheme Rules and the Company has entered into a Trust deed with the Trustee for the purpose of implementing the Scheme. The number of Award Shares will be acquired in the market at the cost of the Company by the Trustee. Award Shares will be held on trust by the Trustee until the end of each vesting period.

47 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

As at 31 December 2015, the following awards of shares were offered to Members of the Executive Directorate and selected employees of the Company under the 2014 Share Incentive Scheme:

Date of award	Number of Award Shares granted		Average fair value per share HK\$	Vesting period
	Restricted Shares	Performance Shares		
27 April 2015	2,348,150	1,681,050	38.60	20 April 2015 to 20 April 2018

Movement in the number of Award Shares outstanding was as follows:

	2015
	Number of Award Shares
Outstanding at 1 January	–
Awarded during the year	4,029,200
Vested during the year	(8,533)
Forfeited during the year	(89,067)
Outstanding at 31 December	3,931,600

Award Shares outstanding at 31 December 2015 had the following remaining vesting periods:

Award Shares	2015	
	Remaining vesting period years	Number of Award Shares
Restricted Shares		
27 April 2015	2.30	2,287,500
Performance Shares		
27 April 2015	2.30	1,644,100

The details of the 2014 Scheme are also disclosed in the Remuneration Report.

During the year ended 31 December 2015, the equity-settled share-based payments relating to the 2014 Share Incentive Scheme recognised as an expense amounted to HK\$53 million (2014: nil).

B Cash-settled Share-based Payments

Jay H Walder is entitled to an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office expired. An amount of HK\$8,805,000 was paid to him on 2 July 2014 (at a price of HK\$29.35 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 30 June 2014). On 30 August 2013, Jay H Walder was re-appointed as the Chief Executive Officer until 31 August 2015. He is entitled to an equivalent value in cash of 230,000 shares in the Company upon completion of his extended term of office on 31 August 2015. Jay H Walder stepped down as the Chief Executive Officer of the Company from 15 August 2014. On 15 August 2014, an amount of HK\$725,428, forming part of the contractual settlement amount referred to in section (i) of Note 10A, was paid to him, being the equivalent value in cash of 24,378 shares (at a price of HK\$29.7575 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 25 July 2014). His remaining derivative interest in 205,622 shares in the Company lapsed on 15 August 2014. For the year ended 31 December 2014, HK\$1.3 million was recorded as share-based payment expense.

Notes to the Accounts

48 Retirement Schemes

The Group operates a number of retirement schemes in Hong Kong, the Mainland of China, United Kingdom, Sweden and Australia. The assets of these schemes are held under the terms of separate trust arrangements so that the assets are kept separate from those of the Group. The majority of the Group's employees are covered by the retirement schemes operated by the Company.

A Retirement Schemes Operated by the Company in Hong Kong

The Company operated four retirement schemes under trust in Hong Kong during the year ended 31 December 2015, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme".

Currently, new eligible employees can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme while the MTR MPF Scheme covers employees who did not opt for or who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) ("ORSO") and has been granted with an MPF Exemption by the Mandatory Provident Fund Schemes Authority ("MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administered in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management, employee representatives and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined with reference to an actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2015, the total membership was 4,276 (2014: 4,460). In 2015, members contributed HK\$75 million (2014: HK\$75 million) and the Company contributed HK\$208 million (2014: HK\$127 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contribution as at 31 December 2015 was HK\$8,131 million (2014: HK\$8,866 million).

The actuarial valuations as at 31 December 2014 and 2015 to determine the accounting obligations in accordance with Revised HKAS 19, *Employee benefits*, were carried out by an independent actuarial consulting firm, Willis Towers Watson, using the Projected Unit Credit Method. The results of the valuation are shown in note 49.

The actuarial valuations as at 31 December 2014 and 2015 to determine the cash funding requirements were also carried out by Willis Towers Watson using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2015 included a long-term rate of investment return net of salary increases of 1.0% (2014: 1.4%) per annum, together with appropriate allowances for expected rates of mortality, turnover and retirement. Willis Towers Watson confirmed that, as at the valuation date of 31 December 2015:

- (a) the MTR Retirement Scheme was insolvent, covering 95.3% of the aggregate vested liability had all members left service with their leaving service benefits secured, resulting in a solvency deficit of HK\$410 million; and
- (b) in the normal course of events, and provided that the MTR Retirement Scheme is funded in accordance with the minimum required composite Company contribution rate determined by the actuarial review as at 31 December 2015, together with the members' contributions, it is expected that the Scheme's assets would be sufficient to meet the aggregate vested liability within a period of 3 years from date of valuation.

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and granted with MPF Exemption by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated with reference to the Company's contributions and members' own contributions, together with investment returns on these contributions. Both the Company's and members' contributions are based on fixed percentages of members' base salary.

As at 31 December 2015, the total number of employees participating in the MTR Provident Fund Scheme was 8,688 (2014: 8,133). In 2015, total members' contributions were HK\$100 million (2014: HK\$87 million) and total contribution from the Company was HK\$262 million (2014: HK\$236 million). The net asset value as at 31 December 2015 was HK\$4,798 million (2014: HK\$4,805 million).

(iii) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the MPF Ordinance. The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

As at 31 December 2015, the total number of employees of the Company participating in the MTR MPF Scheme was 5,951 (2014: 5,556). In 2015, total members' contributions were HK\$50 million (2014: HK\$45 million) and total contribution from the Company was HK\$55 million (2014: HK\$49 million).

48 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

(iv) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF Scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPF Ordinance.

As at 31 December 2015, the total number of employees of the Company participating in the KCRC MPF Scheme was 642 (2014: 695). In 2015, total members' contributions were HK\$6 million (2014: HK\$6 million) and total contribution from the Company was HK\$7 million (2014: HK\$7 million).

B Retirement Schemes for Employees of Mainland of China and Overseas Offices and Subsidiaries

Employees not eligible for joining the retirement schemes operated by the Company in Hong Kong are covered by the retirement schemes established by their respective subsidiary companies or in accordance with respective applicable labour regulations.

(i) Defined Benefit Plan

Certain employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2015, total number of the Group's employees participating in this scheme was 922 (2014: 734). In 2015, total members' contributions were HK\$33 million (2014: HK\$31 million) and total contribution from the Group was HK\$44 million (2014: HK\$43 million).

(ii) Defined Contribution Plans

Except for the defined benefit plan stated in note 48B(i), all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland of China or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPF Ordinance in Hong Kong. For the Mainland of China or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2015, the total number of employees of the Group participating in these schemes was 9,297 (2014: 8,516). In 2015, total members' contributions were HK\$90 million (2014: HK\$106 million) and total contribution from the Group was HK\$326 million (2014: HK\$340 million).

49 Defined Benefit Retirement Plan

During the year ended 31 December 2015, the Company makes contributions to and recognises defined benefit liabilities in respect of MTR Retirement Scheme which provides employees with benefits upon retirement or termination of services for other reasons (note 48). This defined benefit scheme expose the Group to actuarial risks, such as interest rate, salary increase and investment risks. The information about the MTR Retirement Scheme is summarised as below:

A The amounts recognised in the consolidated statement of financial position are as follows:

The Group and The Company

in HK\$ million	2015	2014
Present value of defined benefit obligations	(10,408)	(10,295)
Fair value of plan assets	8,131	8,866
Net liabilities	(2,277)	(1,429)

A portion of the above liabilities is expected to be paid after more than one year. However, it is not practicable to segregate this amount from the amounts to be paid in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK\$478 million (2014: HK\$207 million) in contribution to the MTR Retirement Scheme in 2016.

Notes to the Accounts

49 Defined Benefit Retirement Plan *(continued)*

B Plan assets consist of the following:

The Group and The Company

in HK\$ million	2015	2014
Equity securities		
– Financial institutions	742	713
– Non-financial institutions	3,598	3,967
	4,340	4,680
Bonds		
– Government	1,513	1,471
– Non-government	2,097	2,515
	3,610	3,986
Cash	309	321
	8,259	8,987
Voluntary units	(128)	(121)
	8,131	8,866

The plan assets include an amount of HK\$3 million invested in the ordinary shares of the Company as at 31 December 2015 (2014: nil). Other than this, there were no investment in other shares and debt securities of the Company as at 31 December 2015 and 2014. All of the equity securities and bonds have quoted prices in active markets.

An asset-liability modelling review is performed periodically to analyse the strategic investment policies of the MTR Retirement Scheme. Based on the latest study, the strategic asset allocation of the MTR Retirement Scheme is 52.5% in equities and 47.5% in bonds and cash as at 31 December 2015 (2014: 52.5% in equities and 47.5% in bonds and cash).

C Movements in the Present Value of the Defined Benefit Obligations

The Group and The Company

in HK\$ million	2015	2014
At 1 January	10,295	9,839
Remeasurements:		
– Actuarial (gains)/losses arising from changes in liability experience	(267)	(97)
– Actuarial losses/(gains) arising from changes in demographic assumptions	–	20
– Actuarial losses/(gains) arising from changes in financial assumptions	353	455
	86	378
Members' contributions paid to the scheme	75	75
Benefits paid by the scheme	(683)	(607)
Current service cost	315	275
Interest cost	320	335
At 31 December	10,408	10,295

The weighted average duration of the present value of the defined benefit obligations is 7.5 years (2014: 7.9 years).

49 Defined Benefit Retirement Plan (continued)

D Movements in Plan Assets

The Group and The Company

in HK\$ million	2015	2014
At 1 January	8,866	9,031
Company's contributions paid to the scheme	208	127
Members' contributions paid to the scheme	75	75
Benefits paid by the scheme	(683)	(607)
Administrative expenses paid from plan assets	(5)	(5)
Interest income	278	310
Return on plan assets, excluding interest income	(608)	(65)
At 31 December	8,131	8,866

E Expenses recognised in the profit and loss and other comprehensive income are as follows:

in HK\$ million	2015	2014
Current service cost	315	275
Net interest on net defined benefit liability	42	25
Administrative expenses paid from plan assets	5	5
	362	305
Less: Amount capitalised	(55)	(51)
Net amount recognised in profit or loss	307	254
Actuarial losses	86	378
Return on plan assets, excluding interest income	608	65
Amount recognised in other comprehensive income	694	443

The retirement scheme expense is recognised under staff costs and related expenses in the consolidated profit and loss account.

F The significant actuarial assumptions (expressed as weighted average) and sensitivity analysis are as follows:

	2015	2014
Discount rate	2.6%	3.2%
Future salary increases	4.5%	4.6%
Unit value increase	5.5%	6.0%

The below analysis shows how the present value of the defined benefit obligations as at 31 December 2015 would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2015		2014	
	Increase in 0.25% HK\$ million	Decrease in 0.25% HK\$ million	Increase in 0.25% HK\$ million	Decrease in 0.25% HK\$ million
Discount rate	(187)	193	(192)	199
Future salary increases	157	(147)	114	(100)
Unit value increase	37	(31)	91	(78)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

Notes to the Accounts

50 Interests in Joint Operations in Respect of Hong Kong Property Development

The Group has the following joint operations in respect of its awarded property development projects in Hong Kong as at 31 December 2015:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Hong Kong Station	Office/Retail/Hotel	415,894	Completed by phases from 1998–2005
Kowloon Station			
Package One	Residential	147,547	Completed in 2000
Package Two	Residential	210,319	Completed by phases from 2002–2003
Package Three	Residential/Cross Border Bus Terminus	105,113	Completed in 2005
Package Four	Residential	128,845	Completed in 2003
Package Five, Six and Seven	Residential/Office/Retail/Hotel/ Service Apartment/Kindergarten	504,345	Completed by phases from 2006–2010
Olympic Station			
Package One	Residential/Office/Retail/ Indoor Sports Hall	309,069	Completed in 2000
Package Two	Residential/Retail/Market	268,650	Completed in 2001
Package Three	Residential/Kindergarten	104,452	Completed in 2006
Tsing Yi Station	Residential/Retail/Kindergarten	292,795	Completed in 1999
Tung Chung Station			
Package One	Residential/Office/Retail/Hotel/ Kindergarten	361,531	Completed by phases from 1999–2005
Package Two	Residential/Retail/Kindergarten	255,949	Completed by phases from 2002–2008
Package Three	Residential/Retail/Wet Market/ Kindergarten	413,154	Completed by phases from 2002–2008
Hang Hau Station	Residential/Retail	142,152	Completed in 2004
Tiu Keng Leng Station	Residential/Retail	253,765	Completed by phases from 2006–2007
Tseung Kwan O Station			
Area 55b	Residential/Retail	96,797	Completed in 2006
Area 57a	Residential/Retail	29,642	Completed in 2005
Area 56	Residential/Hotel/Retail/Office	163,130	Completed by phases from 2011–2012
Tseung Kwan O Area 86 (LOHAS Park)			
Package One	Residential/Retail/ Residential Care Home for the Elderly	139,840	Completed in 2008
Package Two	Residential/Kindergarten	310,496	Completed by phases from 2010–2012
Package Three	Residential/Kindergarten	129,544	Completed in 2014
Package Four	Residential	122,302	2020
Package Five	Residential	102,336	2020
Package Six	Residential	136,970	2021
Package Seven	Residential/Retail/Kindergarten	115,920	2022
Package Eight	Residential	97,000	2021
Package Nine	Residential/Kindergarten	104,920	2022
Choi Hung Park-and-Ride	Residential/Retail	21,574	Completed in 2005
Che Kung Temple Station	Residential/Retail/Kindergarten	90,655	Completed in 2012
Austin Station			
Sites C & D	Residential	119,116	Completed in 2014
Tai Wai Station	Residential/Retail/Bicycle Park	252,480	2022
Tin Wing Stop	Residential/Retail	91,256	2021

* Completion based on issuance of occupation permit

50 Interests in Joint Operations in Respect of Hong Kong Property Development *(continued)*

The Group's assets held in relation to these joint operations include various site foundation works and related staff and overhead costs, land costs, acquisition cost of development rights and interest expense. These are set off against any payments received from developers in relation to that development package, and the balance is shown on the statement of financial position either as property development in progress (note 25) or deferred income (note 42) as the case may be. As at 31 December 2015, total property development in progress in respect of these joint operations was HK\$11,990 million (2014: HK\$1,336 million) and total deferred income was HK\$19 million (2014: HK\$26 million).

During the year ended 31 December 2015, profits attributable to joint operations of HK\$2,898 million (2014: HK\$4,004 million) were recognised (note 11).

In connection with the Rail Merger, the Company entered into agreements with KCRC relating to the property development projects on the following three awarded sites:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Fo Tan Station			
Ho Tung Lau	Residential/Retail	122,900	Completed in 2008
Wu Kai Sha Station			
	Residential/Retail/Kindergarten	172,650	Completed in 2009
Tai Wai Maintenance Centre			
	Residential	313,955	Completed by phases from 2010–2011

* Completion based on issuance of occupation permit

Under these agreements, the Company was appointed as KCRC's agent to exercise the rights and to perform the obligations of KCRC as stipulated in the agreements. The Company received a right to share the net surplus from the sale of these property development projects.

51 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 75.7% of the Company's issued share capital on trust for the HKSAR Government, is the majority shareholder of the Company. Transactions between the Group and the HKSAR Government departments or agencies, or entities controlled by the HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised), *Related party disclosures*, and are identified separately in these accounts.

Members of the Board and Members of the Executive Directorate and parties related to them, including their close family members, are also considered to be related parties of the Group. Transactions with these parties, except for those involving a Member of the Board or his/her related parties where the relevant Member abstains from voting, are separately disclosed in the accounts.

Major related party transactions entered into by the Group which are relevant for the current year include:

A On 30 June 2000, the Company was granted by the HKSAR Government a franchise, for an initial period of 50 years, to operate the then existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company and the HKSAR Government entered into an Operating Agreement ("OA") which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. Pursuant to the terms of the OA, the Company's franchise will be extended for further periods of 50 years upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The OA also provides that upon extension of the franchise and subject to the HKSAR Government's prevailing land policy on the date on which the franchise is extended, certain consequential amendments will be made to agreements between the HKSAR Government and the Company in relation to the mass transit railway, including the renewal of various railway running line leases and land leases at nominal cost. With the Rail Merger, the OA was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 51C below.

B On 14 July 2000, the Company received a comfort letter from the HKSAR Government pursuant to which the HKSAR Government agreed to extend the period of certain of the Company's land interests so that they are coterminous with the Company's franchise period. To prepare for the Rail Merger, on 3 August 2007, the HKSAR Government wrote to KCRC confirming that, subject to all necessary approvals being obtained, the period of certain of KCRC's land interests (which are the subject of the service concession under the Rail Merger) will be extended so that they are coterminous with the concession period of the Rail Merger.

C In connection with the Rail Merger (note 3), on 9 August 2007, the Company and the HKSAR Government entered into a new operating agreement ("new OA"), which is based on the then existing OA referred to in note 51A above. On the Appointed Day, the Company's then existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the then existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). The new OA detailed the design, construction, maintenance and operation of the railways under the expanded franchise. Pursuant to the terms of the new OA and the MTR Ordinance, the Company's franchise may be extended for further periods of 50 years (from the date of the extension) upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The new OA also sets out a framework for the award of new railway projects in Hong Kong and introduces a fare adjustment mechanism which is subject to review periodically. A detailed description of the new OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger. Such transaction is considered to be a related party transaction and also constitute continuing connected transaction as defined under the Listing Rules.

Notes to the Accounts

51 Material Related Party Transactions *(continued)*

D Other than the new OA described in note 51C above, the Company also entered into the following principal agreements with KCRC and the HKSAR Government in connection with the Rail Merger:

- (i) Merger Framework Agreement, which was entered into on 9 August 2007, contains provisions for the overall structure and certain specific aspects of the Rail Merger;
- (ii) Service Concession Agreement, which was entered into on 9 August 2007, contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company;
- (iii) Sale and Purchase Agreement, which was entered into on 9 August 2007, sets out the terms pursuant to which the Company acquired certain assets and contracts from KCRC;
- (iv) West Rail Agency Agreement, which was entered into on 9 August 2007, sets out the terms on which the Company was appointed to act as KCRC's agent to exercise certain rights and perform certain obligations relating to specified development sites along the West Rail;
- (v) Property Package Agreements, which were entered into on 9 August 2007, set out the arrangements in respect of the acquisition of the property package; and
- (vi) US Cross Border Lease ("CBL") Assumption Agreements, which were entered into with KCRC on 30 November 2007, and US CBL Allocation Agreement, which was entered into with KCRC and KCRC's subsidiaries on 2 December 2007, set out the terms on which the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs, and delineate and allocate the obligations and responsibility for risks relating to the CBLs. Details of the commitment of the Company in connection with these agreements are specified in note 52E.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" of the Report of the Members of the Board.

E The Company entered into project agreements with the HKSAR Government for the design, construction, financing and operation of new railway extensions and, where applicable, the granting of land for commercial and residential property developments along these railway extensions. Project agreements on railway extensions that are still under construction or the property developments in respect of which have not been completed in the current year include:

- (i) TKE Project Agreement in respect of the Tseung Kwan O Extension, which was signed on 4 November 1998 and includes the granting of property development rights at four sites along the extension;
- (ii) Preliminary Project Agreement, which was signed on 6 February 2008, and Project Agreement, which was signed on 13 July 2009 in respect of the Island Line Extension to the Western District. Pursuant to the agreements, the Company has received from the HKSAR Government a total of HK\$12,652 million of government grant as funding support subject to a repayment mechanism (note 23A). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of the above agreement is contained under the paragraph "Continuing Connected Transactions" of the Report of the Members of the Board;
- (iii) Project Agreement in respect of the SIL(E), which was signed on 17 May 2011 and includes the granting of property development rights at a site in Wong Chuk Hang (note 23B). The transaction constitutes a continuing connected transaction as defined under the Listing Rules. However it is exempt from the disclosure requirements under Chapter 14A of the Listing Rules pursuant to the waiver granted by The Stock Exchange of Hong Kong Limited on 21 December 2004 (as amended from time to time); and
- (iv) Project Agreement in respect of the KTE, which was signed on 17 May 2011 and includes the granting of property development rights at a site in Ho Man Tin (note 23C). The transaction constitutes a continuing connected transaction as defined under the Listing Rules. However it is exempt from the disclosure requirements under Chapter 14A of the Listing Rules pursuant to the waiver granted by The Stock Exchange of Hong Kong Limited on 21 December 2004 (as amended from time to time).

51 Material Related Party Transactions *(continued)*

F The Company entered into entrustment agreements with the HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of new railway extensions, pursuant to which the HKSAR Government funds the costs of such activities while the Company is paid a fee for its project management service. Entrustment agreements on railway extensions that are still under construction in the year ended 31 December 2015 include:

(i) The XRL Preliminary Entrustment Agreement, which was signed on 24 November 2008, and the XRL Entrustment Agreement, which was signed on 26 January 2010, in respect of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL"). The two agreements together entrust the Company with the project management of activities leading to the completion of XRL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2015 are provided in note 24A; and

(ii) The SCL Preliminary Entrustment Agreement, which was signed on 24 November 2008, the SCL Advance Works Entrustment Agreement, which was signed on 17 May 2011, and the SCL Entrustment Agreement, which was signed on 29 May 2012, in respect of the Shatin to Central Link ("SCL"). The three agreements together entrust the Company with the project management of activities leading to the completion of SCL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2015 are provided in note 24B.

On 30 November 2015, the HKSAR Government and the Company entered into the deed of agreement relating to the further funding and completion of XRL project. Detailed description of the agreement is provided in note 24A.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" of the Report of the Members of the Board.

G On 19 November 2003, the Company entered into a project agreement with the HKSAR Government to develop the Tung Chung Cable Car system together with a Theme Village at Ngong Ping on the Lantau Island under a franchise granted by the HKSAR Government for a period of 30 years commencing 24 December 2003. The project was completed with operation commencement on 18 September 2006.

H In connection with the construction of various railway projects, certain essential project works are embedded within the infrastructure works to be undertaken by the HKSAR Government or certain of its related parties. These works have been entrusted to the HKSAR Government and its related parties and are payable on an actual cost basis according to architectural certifications. The HKSAR Government and certain of its related parties, on the other hand, have entered into entrustment agreements with the Company for the construction of various other infrastructure works that are also reimbursable according to actual costs certified. Details of the amounts receivable and the amounts paid and payable as at 31 December 2015 are provided in notes 34 and 39 respectively.

I In connection with certain property developments along the railway system, the Company has been granted land lots by the HKSAR Government in respect of the following sites during the year:

Property development site	Land grant acceptance date	Total land premium in HK\$ million	Land premium settlement date
Sha Tin Town Lot No. 520	27 October 2014	1,036 9,320 <hr/> 10,356	27 October 2014 19 January 2015
Site N of The Remaining Portion of Tseung Kwan O Town Lot No. 70	23 January 2015	3,345	26 March 2015
Tin Shui Wai Town Lot No. 23	3 March 2015	152 1,367 <hr/> 1,519	3 March 2015 2 June 2015
Site C1 of The Remaining Portion of Tseung Kwan O Town Lot No. 70	11 June 2015	3,888	15 July 2015
Site H of The Remaining Portion of Tseung Kwan O Town Lot No. 70	8 October 2015	2,955	6 November 2015

In January 2016, the Company accepted a modification of land grant from the HKSAR Government in respect of Site J of The Remaining Portion of Tseung Kwan O Town Lot No. 70 subject to the Company's acceptance of the HKSAR Government's assessment of the land premium amounting to HK\$2,852 million.

During the year, the Company paid premium and administrative fee to the HKSAR Government amounting to HK\$299 million in respect of Telford Plaza II.

Notes to the Accounts

51 Material Related Party Transactions *(continued)*

J On 16 November 2011, the Company and KCRC entered into an Outsourcing Agreement pursuant to which the Company will provide certain administrative and financial activities to KCRC. The Agreement has no specific term but can be terminated by either party giving notice period specified in the Agreement. The fee payable pursuant to the Agreement and the scope of services are to be reviewed on an annual basis and amended upon the mutual agreement of the parties.

K On 5 July 2013, the Company renewed the maintenance agreement with the Hong Kong Airport Authority ("HKAA") in respect of the automatic people mover system serving the Hong Kong International Airport upon the expiry of the previous five-year agreement. The renewed agreement covers a period of seven years effective from 6 July 2013 ("New Maintenance Contract"). On 5 March 2015, the Company entered into a supplemental agreement to the New Maintenance Contract with the HKAA for carrying out the automated people mover service for the testing and commissioning works for track possession. In respect of the services provided, HK\$59 million was recognised as consultancy income during the year ended 31 December 2015 (2014: HK\$64 million). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules.

L Other than those stated in notes 51A to 51K, the Company has business transactions with the HKSAR Government, entities related to the HKSAR Government and the Company's associates in the normal course of business operations. Details of the transactions and the amounts involved for the reporting period are disclosed in notes 28, 34 and 39.

M The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 10A. In addition, Members of the Executive Directorate were granted share options under the Company's 2007 Share Option Scheme and award shares under the Company's 2014 Share Incentive Scheme. Details of the terms are disclosed in notes 10B and 10C and the Report of the Members of the Board. Their gross remuneration charged to the profit and loss account is summarised as follows:

in HK\$ million	2015	2014
Short-term employee benefits	63.7	75.5
Post-employment benefits	6.0	5.2
Equity compensation benefits	9.4	4.1
	79.1	84.8

The above remuneration is included in staff costs and related expenses disclosed in note 9A.

N During the year, the following dividends were paid to the Financial Secretary Incorporated of the HKSAR Government:

in HK\$ million	2015	2014
Cash dividends paid	4,656	4,080

52 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2015 not provided for in the accounts were as follows:

The Group

in HK\$ million	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas operations	Total
2015					
Authorised but not yet contracted for	7,051	–	2,455	2	9,508
Authorised and contracted for	14,270	1,080	5,462	253	21,065
	21,321	1,080	7,917	255	30,573
2014					
Authorised but not yet contracted for	5,114	–	2,550	37	7,701
Authorised and contracted for	5,284	1,505	7,995	1,326	16,110
	10,398	1,505	10,545	1,363	23,811

52 Commitments (continued)

A Capital Commitments (continued)

The Company

in HK\$ million	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Total
2015				
Authorised but not yet contracted for	7,033	–	2,435	9,468
Authorised and contracted for	14,269	1,080	5,459	20,808
	21,302	1,080	7,894	30,276
2014				
Authorised but not yet contracted for	5,091	–	2,539	7,630
Authorised and contracted for	5,282	1,505	7,987	14,774
	10,373	1,505	10,526	22,404

(ii) The commitments under Hong Kong transport, station commercial and other businesses comprise the following:

The Group

in HK\$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
2015				
Authorised but not yet contracted for	3,728	499	2,824	7,051
Authorised and contracted for	10,179	156	3,935	14,270
	13,907	655	6,759	21,321
2014				
Authorised but not yet contracted for	2,398	352	2,364	5,114
Authorised and contracted for	532	191	4,561	5,284
	2,930	543	6,925	10,398

The Company

in HK\$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
2015				
Authorised but not yet contracted for	3,710	499	2,824	7,033
Authorised and contracted for	10,178	156	3,935	14,269
	13,888	655	6,759	21,302
2014				
Authorised but not yet contracted for	2,375	352	2,364	5,091
Authorised and contracted for	530	191	4,561	5,282
	2,905	543	6,925	10,373

Notes to the Accounts

52 Commitments (continued)

B Operating Lease Commitments

The Group had operating leases on office buildings, staff quarters, bus depot as well as a shopping centre in Beijing as at 31 December 2015. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Payable within one year	140	136	18	9
Payable after one but within five years	43	4	40	4
	183	140	58	13

In addition to the above, the Group has future operating lease commitments of HK\$6,986 million (2014: HK\$3,485 million) in respect of railway-related subsidiaries outside of Hong Kong over the respective franchise periods, of which HK\$970 million (2014: HK\$988 million) is payable within one year, HK\$3,434 million (2014: HK\$1,923 million) is payable after one but within five years and HK\$2,582 million (2014: HK\$574 million) is payable over five years. These railway-related subsidiaries generate franchise revenue to the Group.

C Liabilities and Commitments in respect of Property Management Contracts

The Group has, over the years, jointly developed with outside property developers certain properties above or adjacent to railway depots and stations. Under most of the development agreements, the Group retained the right to manage these properties after their completion. The Group, as manager of these properties, enters into service contracts with outside contractors for the provision of security, cleaning, maintenance and other services on behalf of the managed properties. The Group is primarily responsible for these contracts, but any contract costs incurred will be reimbursed by the owners and tenants of the managed properties from the management funds as soon as they are paid.

As at 31 December 2015, the Group had total outstanding liabilities and contractual commitments of HK\$2,026 million (2014: HK\$1,841 million) in respect of these works and services. Cash funds totalling HK\$1,928 million (2014: HK\$1,821 million) obtained through monthly payments of management service charges from the managed properties are held by the Group on behalf of those properties for settlement of works and services provided.

D Material Financial and Performance Guarantees

In respect of the debt securities issued by MTR Corporation (C.I.) Limited (note 36C), the Company has provided guarantees to the investors of approximately HK\$12,663 million (in notional amount) as at 31 December 2015. The proceeds from the debts issued are on lent to the Company. As such, the primary liabilities have been recorded in the Company's statement of financial position.

In respect of the lease out/lease back transaction ("Lease Transaction") (note 20F), the Group has provided standby letters of credit ("standby LC's") to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms, and such standby LC's amounted to US\$104 million (HK\$808 million) as at 31 December 2015. The Group has also provided standby LC's to certain of the Investors under the Lease Transaction to replace some of the Defeasance Securities previously used to support the corresponding long-term lease payments as a result of credit rating downgrades of these securities, and such standby LC's amounted to US\$48 million (HK\$371 million) as at 31 December 2015.

In respect of the operating lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB12.5 million (HK\$15 million) and a parent company guarantee of RMB52.5 million (HK\$63 million) in respect of the quarterly rental payments to the landlord.

In respect of the Melbourne Metropolitan Train Franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), have provided to the Public Transport Victoria a joint and several parent company guarantee of AUD86.46 million (HK\$490 million) and a performance bond of AUD51.9 million (HK\$294 million) for MTM's performance and other obligations under the franchise agreement, with each shareholder bearing its share of liability based on its shareholdings in MTM. In respect of the operating lease on the office premises, MTM has provided bank guarantees of AUD2.6 million (HK\$15 million) for the monthly rental payments to the landlords. In respect of the project activities, MTM has provided a bank guarantee of AUD0.1 million (HK\$0.4 million) to the contractor for contract payments.

52 Commitments *(continued)*

D Material Financial and Performance Guarantees *(continued)*

In respect of the Stockholm Metro Franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK\$922 million), which can be called if the franchise is terminated early as a result of default by MTR Stockholm AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the London Overground Franchise, the Group has provided a performance bond of GBP6.2 million (HK\$71 million) to Transport for London (TfL) which may be called by TfL if the franchise is terminated early as a result of default.

In respect of the Shenzhen property development, the Group has provided a bank guarantee of RMB822.6 million (HK\$982 million) in respect of facilities granted by certain banks relating to the mortgage loans for certain purchasers of properties and a payment guarantees of RMB94.8 million (HK\$113 million) to the counterparties of the construction contracts.

In respect of the London Crossrail Franchise, the Group has provided to the Rail for London Limited a parent company guarantee of GBP80 million (HK\$920 million) and a performance bond of GBP15 million (HK\$172 million) for MTR Corporation (Crossrail) Limited's performance and other obligations under the franchise agreement.

In respect of the Sydney Metro Northwest Franchise, the Group has provided to NRT Pty. Limited, an associate of the Group, several parent company guarantees of AUD109.2 million (HK\$619 million) for the design and construction contract as well as the operations and maintenance contract and a performance bond of AUD53.5 million (HK\$303 million) for the performance and other obligations under the design and construction sub-contract. The Group has also provided standby letters of credit ("standby LC's") amounting to AUD62.6 million (HK\$355 million) as at 31 December 2015 to cover the equity and preferred equity to be invested in the Sydney Metro Northwest project.

E US Cross Border Lease ("CBL") Agreements

In connection with the Rail Merger, the Company entered into a number of agreements ("US CBL Assumption Agreements") with respect to the CBLs that KCRC had entered into with its CBL counterparties in relation to certain of its property and equipment ("CBL Property") between 1998 and 2003. Pursuant to the US CBL Assumption Agreements, the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs.

In addition, the Company has entered into a US CBL Allocation Agreement with KCRC, whereby the rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between the Company and KCRC. Generally, the Company is responsible for operational matters, such as repair, maintenance and insurance of the CBL Property, and KCRC is responsible for all other obligations, including payment of periodic rents and collateral related obligations. Despite this allocation of obligations, the Company is prima facie jointly and severally liable to the CBL counterparties for any failure of KCRC to perform its obligations under the CBLs.

KCRC and the HKSAR Government have agreed to indemnify the Company for its reasonable costs incurred as a result of the due and proper performance by the Company of its obligations under the CBLs (unless such costs would have been incurred in any event). In addition, KCRC has agreed to indemnify the Company for losses and reasonable costs incurred arising from KCRC not complying with its obligations under the CBLs or from any breach of KCRC's representations, covenants and agreements provided for in relation to the CBLs.

The Company has agreed to indemnify each of the HKSAR Government and KCRC for losses and reasonable costs incurred arising from any breach of the Company's representations, covenants and agreements provided for in relation to the CBLs.

F Service Concession in respect of the Rail Merger

Pursuant to the Rail Merger, the Company is obliged under the Service Concession Agreement ("SCA") to pay an annual fixed payment of HK\$750 million to KCRC over the period of the service concession. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds. Furthermore, under the SCA, the Company is obliged to maintain, repair, replace and/or upgrade the KCRC system over the period of the service concession which is to be returned at the expiry of the service concession.

Notes to the Accounts

53 Company-level Statement of Financial Position

in HK\$ million	Note	At 31 December 2015	At 31 December 2014
Assets			
Fixed assets			
– Investment properties	19	66,900	64,237
– Other property, plant and equipment	20	78,264	77,635
– Service concession assets	21	20,040	18,492
		165,204	160,364
Property management rights	22	28	30
Railway construction in progress	23	19,064	16,229
Property development in progress	25A	14,046	3,962
Deferred expenditure	26	288	64
Investments in subsidiaries	27	1,295	1,292
Properties held for sale	30	1,139	1,076
Derivative financial assets	31	81	90
Stores and spares	32	1,101	1,059
Debtors, deposits and payments in advance	33	3,210	2,327
Amounts due from related parties	34	12,279	11,795
Cash, bank balances and deposits	35	7,304	16,532
		225,039	214,820
Liabilities			
Bank overdrafts	36A	50	46
Short-term loans	36A	1,599	500
Creditors and accrued charges	37	14,406	13,103
Current taxation	43A	902	916
Contract retentions	38	729	853
Amounts due to related parties	39	14,839	14,196
Loans and other obligations	36A	2,340	2,574
Obligations under service concession	40	10,392	10,438
Derivative financial liabilities	31	830	565
Deferred income	42	19	26
Deferred tax liabilities	43B	11,144	10,889
		57,250	54,106
Net assets			
		167,789	160,714
Capital and reserves			
Share capital	44	46,317	45,280
Shares held for Share Incentive Scheme	44	(151)	–
Other reserves	44	121,623	115,434
Total equity			
		167,789	160,714

Approved and authorised for issue by the Members of the Board on 11 March 2016

Frederick S H Ma
Chairman

Lincoln K K Leong
Chief Executive Officer

Stephen C K Law
Finance Director

54 Accounting Estimates and Judgements

A Key sources of accounting estimates and estimation uncertainty include the following:

(i) Estimated Useful Life and Depreciation and Amortisation of Property, Plant and Equipment and Service Concession Assets

The Group estimates the useful lives of the various categories of property, plant and equipment and service concession assets on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives (note 2H).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at the end of each reporting period according to accounting policies set out in note 2G(ii). Long-lived assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount of an asset is the greater of the fair value less costs to sell and value in use. In estimating the value in use, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the MTR Retirement Scheme. The determination of the Group's obligation and expense for the defined benefit element of the plan is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 48A(i) and 49F.

(iv) Revenue Recognition on Hong Kong Property Development

Recognition of Hong Kong property development profits requires management's estimation of the final project costs upon completion, assessment of outstanding transactions and market values of unsold units and, in the case of sharing-in-kind properties, the properties' fair value upon recognition. The Group takes into account independent qualified surveyors' reports, past experience on sales and marketing costs when estimating final project costs on completion and makes reference to professionally qualified valuers' reports in determining the estimated fair value of sharing-in-kind properties.

(v) Properties Held for Sale

The Group values unsold properties at the lower of their costs and net realisable values (note 30) at the end of each reporting period. In ascertaining the properties' net realisable values, which are represented by the estimated selling prices less costs to be incurred in relation to the sales, the Group employs independent valuation professionals to assess the properties' estimated selling prices and makes estimations on further selling and property holding costs to be incurred based on past experience and with reference to general market practice.

(vi) Valuation of Investment Properties

The valuation of investment properties requires management's input of various assumptions and factors relevant to the valuation. The Group conducts semi-annual revaluation of its investment properties by independent professionally qualified valuers based on these assumptions agreed with the valuers prior to adoption.

(vii) Franchise in Hong Kong

The current franchise under which the Group is operating in Hong Kong allows the Group to run the mass transit railway system in Hong Kong until 1 December 2057. Pursuant to the terms stipulated in the new Operating Agreement with the HKSAR Government, the Company considers that it has the legal right to extend the franchise for further periods of 50 years upon expiry of each franchise term (note 51C). The Group's depreciation policies (note 2H) in respect of certain assets' lives which extend beyond 2057 are set on this basis.

(viii) Income Tax

Certain treatments adopted by the Group in its Hong Kong Profits Tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the 2015 accounts, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

(ix) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(x) Deferred Expenditure

As disclosed in note 2I(i), the Group capitalises proposed railway and property development project costs in deferred expenditure when the projects are at a detailed study stage and having been approved in principle by the Members of the Board. Such decision involves the Board's judgement on the outcome of the proposed project.

Notes to the Accounts

54 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following: *(continued)*

(xi) Fair Value of Derivatives and Other Financial Instruments

In determining the fair value of financial instruments, the Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For financial instruments that are not traded in active markets, the fair values were derived using the discounted cash flows method which discounts the future contractual cash flows at the current market interest or foreign exchange rates, as applicable, for similar financial instruments that were available to the Group at the time.

(xii) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

B Critical accounting judgements in applying the Group's accounting policies include the following:

(i) Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event (including in relation to those under entrustment arrangements), and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. As at 31 December 2015, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits from the Group.

(ii) Associates

The Group regards Octopus Holdings Limited and its subsidiaries (the "OHL Group") as associates. In determining whether the Group has control over these associates, the Group has taken into account its voting right conferred to it under the Shareholder's Agreement of OHL and the effective influence it may exercise over the decision of OHL's Board. Throughout the year ended 31 December 2015, the Group's appointees to OHL's board of directors have less than 50% of the voting rights at board meetings of OHL, despite an equity interest of 57.4%. As such, the OHL Group was accounted for as associates in the Group's accounts.

55 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2015

Up to the date of issue of these accounts, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and have not been adopted in these accounts. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Annual Improvements to HKFRSs 2012-2014 Cycle	1 January 2016
Amendments to HKFRS 10 and HKAS 28, <i>Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture</i>	1 January 2016
Amendments to HKFRS 11, <i>Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016
Amendments to HKAS 1, <i>Disclosure Initiative</i>	1 January 2016
Amendments to HKAS 16 and 38, <i>Clarification of Acceptance Methods of Depreciation and Amortisation</i>	1 January 2016
HKFRS 15, <i>Revenue from Contracts with Customers</i>	1 January 2018
HKFRS 9, <i>Financial Instruments</i>	1 January 2018

The Group is in the process of making an assessment of what the impact of these new issues or amendments is expected to be in the period of initial application. So far, the Group considers that the adoption of them is unlikely to have a significant impact on the Group's accounts.

56 Approval of Accounts

The accounts were approved by the Board on 11 March 2016.

Glossary

Airport Express	Train Service provided between AsiaWorld-Expo Station and Hong Kong Station
Appointed Day or Merger Date	2 December 2007 when the Rail Merger was completed
Articles of Association	The articles of association of the Company
Board	The board of directors of the Company
Bus	Feeder bus services operated in support of West Rail Line, East Rail Line and Light Rail
Company or MTR Corporation	MTR Corporation Limited 香港鐵路有限公司, a company which was incorporated in Hong Kong under the Companies Ordinance on 26 April 2000
Companies Ordinance	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong or Chapter 32 of the Laws of Hong Kong (as the case may be))
Computershare	Computershare Hong Kong Investor Services Limited, the share registrar of the Company
Cross-boundary Service or Cross-boundary	Journeys with the destination to/commencing from Lo Wu and Lok Ma Chau stations
Customer Service Pledge	Annually published performance targets in accordance with the Operating Agreement
Director or Member of the Board	A member of the Board
Domestic Service	Collective name for Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines
Express Rail Link	Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link
Fare Index	A measure of customer satisfaction for the fares charged for Domestic and Cross-boundary services, Airport Express, Light Rail and Bus based on satisfaction scores for different fare attributes weighted by the corresponding importance rating from the customer research
FSI	The Financial Secretary Incorporated, a corporation solely established under the Financial Secretary Incorporation Ordinance (Chapter 1015 of the Laws of Hong Kong)
Government	The Government of the Hong Kong SAR
Group	The Company and its subsidiaries
HKSE or Stock Exchange	The Stock Exchange of Hong Kong Limited
Heavy Rail	Collective name for Domestic Service, Cross-boundary Service and Airport Express
Hong Kong or Hong Kong SAR or HKSAR	The Hong Kong Special Administrative Region of the People's Republic of China
Intercity	Intercity passenger services operated between Hong Kong and six major cities in the Mainland of China such as Beijing, Shanghai and Guangzhou
Interest Cover	Operating profit before depreciation, amortisation and variable annual payment divided by gross interest and finance charges before capitalisation, utilisation of government subsidy for Shenzhen Metro Longhua Line operation and accreted interest on loan to a property developer

Glossary

KCRC	Kowloon-Canton Railway Corporation
Kowloon Southern Link	Project for extension of the West Rail Line from Nam Cheong Station to East Tsim Sha Tsui Station via Austin Station, providing direct access between the East Rail Line and West Rail Line after the completion of the project
Light Rail	Light rail system serving North West New Territories
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Mainland or Mainland China or Mainland of China	The People's Republic of China excluding Hong Kong SAR
MTR Ordinance	The Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)
Net Debt-to-equity Ratio	Loans and other obligations, bank overdrafts, short-term loans, obligations under service concession and loan from holders of non-controlling interests net of cash, bank balances and deposits, and investment in bank medium term notes in the consolidated balance sheet as a percentage of the total equity
Operating Agreement	The agreement entered into by the Company and the Government on 30 June 2000 for the operation of our rail services before the Rail Merger and a new agreement entered on 9 August 2007 for the operation of all of our rail and bus passenger services after the Rail Merger
Operating Margin	Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment as a percentage of turnover
Ordinary Shares	Ordinary shares in the capital of the Company
Rail Merger or Merger	The merger of the rail operations of MTR Corporation and KCRC and the acquisition of certain property interests by MTR Corporation from KCRC, full details of which are set out in the Rail Merger Circular. The Rail Merger was completed on 2 December 2007
Rail Merger Ordinance	The Rail Merger Ordinance (Ordinance No.11 of 2007)
Rail Merger Circular	Refers to the circular dated 3 September 2007 despatched to the Company's shareholders in connection with the Rail Merger
Return on Average Equity Attributable to Equity Shareholders	Profit attributable to equity shareholders of the Company as a percentage of the average of the beginning and closing total equity attributable to equity shareholders of the Company of the period
Service Concession	A contract to provide services for a particular period which is awarded by a public sector entity to an operator; in the context of concession projects in Hong Kong, service concession refers to the concession granted or to be granted by KCRC and/or Government to the Company to operate, maintain and renew certain railway lines under the Service Concession Agreement or a Supplemental Service Concession Agreement, as more particularly described in the Rail Merger Circular; in the context of concession projects in the Mainland of China and Overseas, service concession refers to the concession granted by the government or relevant public sector entity to a subsidiary or associate of the Company to provide certain specified services for a specified period under a negotiated concession agreement
Service Quality Index	A measure of customer satisfaction for the services provided by Domestic and Cross-boundary services, Airport Express, Light Rail and Bus based on satisfaction scores for different service attributes (excluding fares) weighted by the corresponding importance rating from the customer research

SHAREHOLDER SERVICES

Any matters relating to your shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

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17M Floor, Hopewell Centre,
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