Hong Kong Station Commercial Businesses

MTR

Mainland of China and International Businesses

Hong Kong Transport Operations

ANNUAL REPORT 2017

Stock Code: 66

Hong Kong Network Expansion

Hong Kong Property and Other Businesses

CONNECTING FORWARD

VISION

We aim to be a leading multinational company that connects and grows communities with caring service.

CORPORATE STRATEGY

Enhancing our corporate reputation

- Deepen engagement with customers
- Become the pride of Hong Kong
- Build global brand

Strengthening and growing the Hong Kong business

- Expand the network
- Grow non-fare businesses
- Modernise MTR

Accelerating Mainland China and International Business growth

- Deepen presence in existing hubs
- Develop new hubs
- Explore property development opportunities in hubs

VALUES

- Excellent Service
- Mutual Respect
- Value Creation
- Enterprising Spirit

CONTENTS

Overview

Business Review and Analysis

Corporate Governance

Financials and Other Information

HIGHLIGHTS

PERFORMANCE

99.9%

Passenger Journeys on-time

Safety

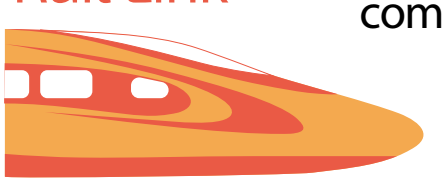
5.5%

fewer reportable events

Express Rail Link

98.6%

complete



Shatin to Central Link

81.2%

complete

New Retail Space Opened

Telford Plaza II

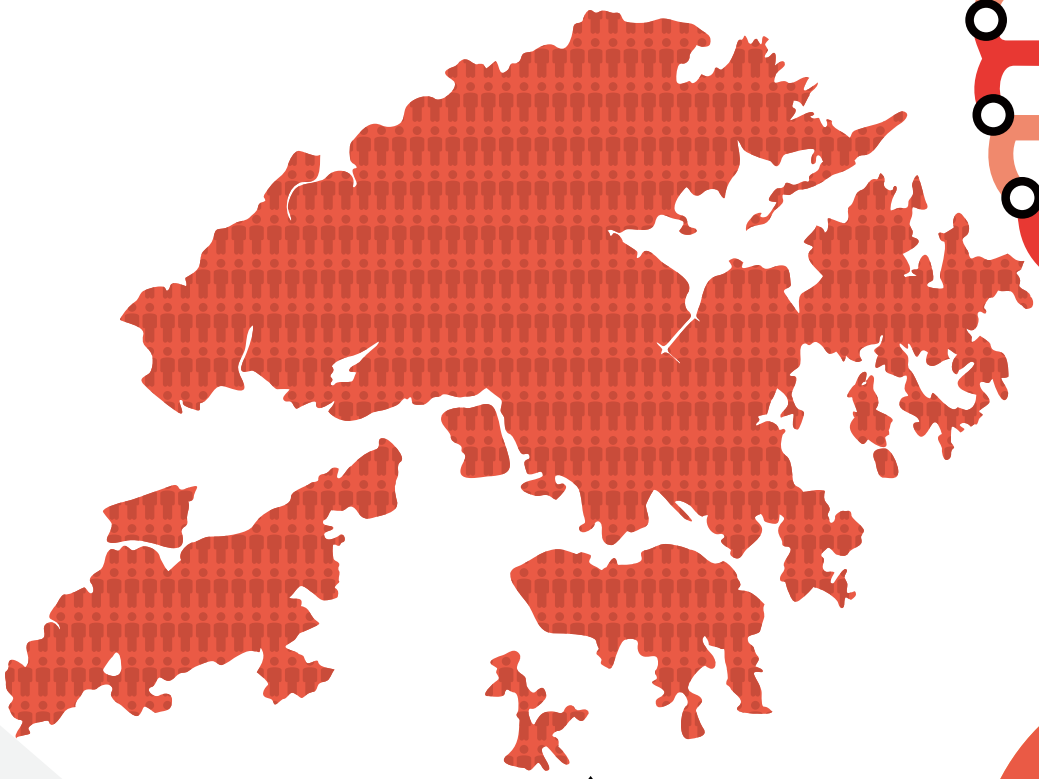
Maritime Square 2

8th floor

7th floor

Awarded

2 Wong Chuk Hang Station property packages



Over
2 billion
Total patronage
in Hong Kong

180%
Global Average
Weekday Patronage
since 2008

Hangzhou
Metro Line 5
Concession Agreement
signed

High rise units of
Tiara in
Shenzhen
handed over to buyers

Awarded

South Western
Railway
franchise

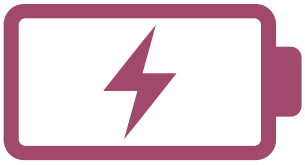
Melbourne's
Metropolitan Rail
Service
franchise extension

CARING

Customer Experience

New Functions in
MTR Mobile App to offer more
Personalised Experience

Breastfeeding Facilities
in 20 interchange stations



Free Mobile Device Charging Service at 13 Stations

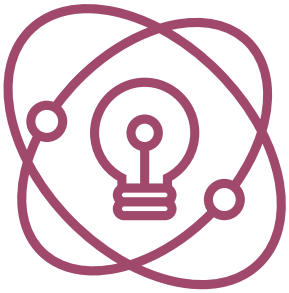
Community Connect

HK$31 million
community investment

295 "More Time Reaching Community"
projects involving more than
6,800 participating volunteer headcount

73 Artworks
in 45 stations

Over
7,000
young people joined our youth programmes including
STEM Challenge



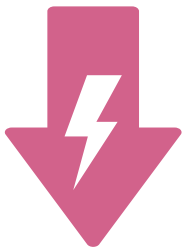
People

Providing our

43,622

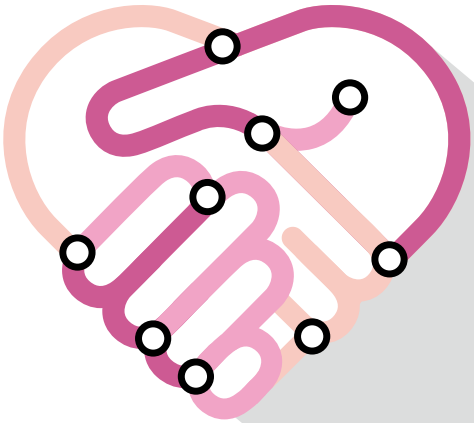
staff worldwide with a fulfilling working environment

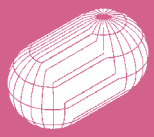
Environment



15.1%

reduction in electricity consumption for each passenger-km in heavy rail compared to 2008





Ranked 33rd in *FORTUNE* Companies That Change The World – 2017

The only Hong Kong company in Top 50 list

running train services on schedule 99.9% of the time

low train fares for commuters without relying on direct taxpayer subsidies

Green Bond issuance for upcoming generation of low-carbon transit projects

HIGHLIGHTS

OUR FUTURE

Rail Gen 2.0

HK$6 billion for

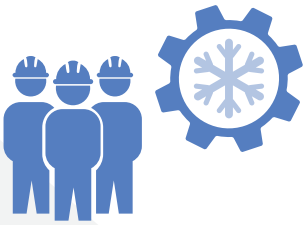
93
8-car trains

HK$745 million for

40
Light Rail vehicles

HK$3.3 billion

Signalling System Upgrade



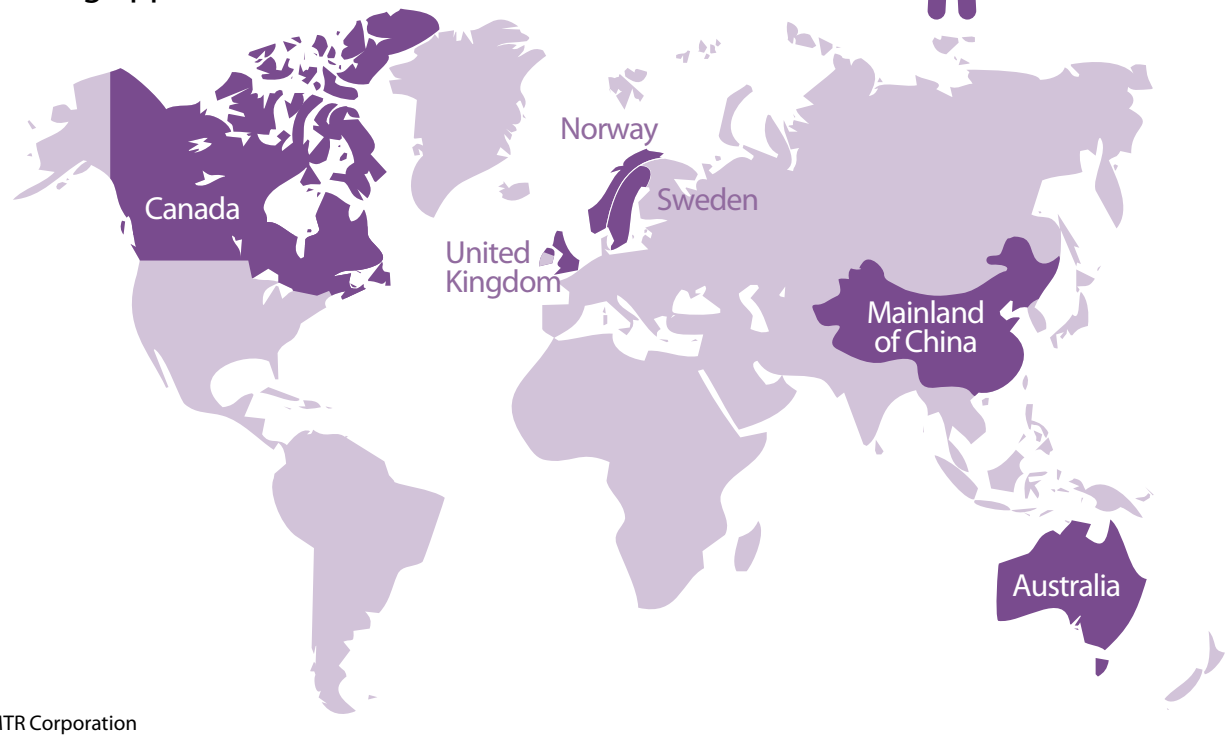
160 Chillers Replacement

2 New Railway projects in progress

43 km will be added to the Hong Kong network

Outside of Hong Kong

Seeking opportunities in:



7 Railway Projects under

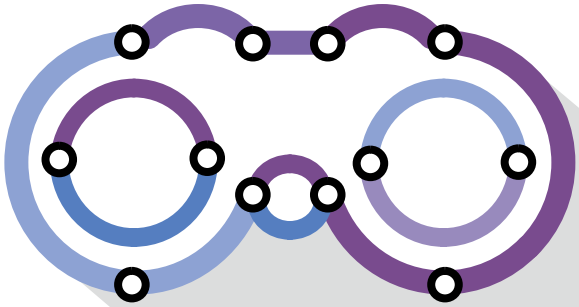
Railway Development Strategy 2014

Property in Hong Kong

Over **18,000** residential units to be built in property packages tendered

Potential **14,000** units in Siu Ho Wan Depot development

2 New Malls bringing about 34% expansion in our investment properties portfolio



Express Rail Link

West Kowloon Station will connect directly to the National High-speed Rail Network

Estimated Journey Time

Between Hong Kong and **Futian, Shenzhen**	14 mins
Between Hong Kong and **Shenzhen North**	23 mins
Between Hong Kong and **Guangzhou South**	48 mins

26 km for Hong Kong section

Target completion in the third quarter of **2018**

HIGHLIGHTS

2017 FINANCIALS

FINANCIAL PERFORMANCE

Revenue from Recurrent Businesses

HK$ 48.4 billion

Total Revenue

HK$ 55.4 billion

Underlying Business Profit

HK$ 10.5 billion

Net Assets

HK$ 166.4 billion

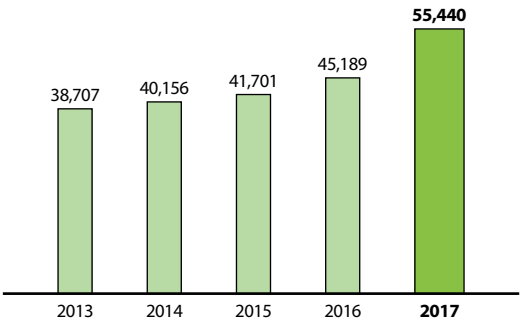
Net Debt-to-Equity Ratio

20.6%

SUMMARY OF PAST PERFORMANCE

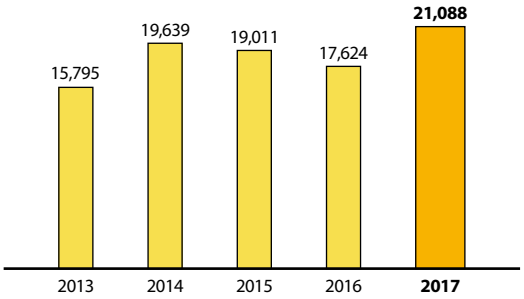
Total Revenue

(HK$ million)



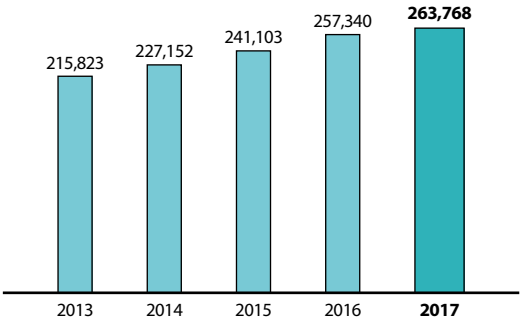
Operating Profit Before Depreciation, Amortisation and Variable Annual Payment

(HK$ million)



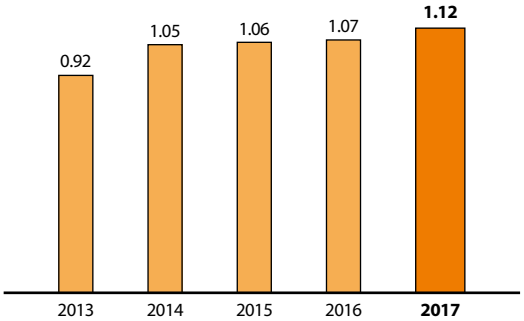
Total Assets

(HK$ million)



Ordinary Dividend per Share

(HK$)



KEY FIGURES

	2017	2016	Inc./(Dec.) %
Financial highlights *(in HK$ million)*			
Revenue			
– Hong Kong transport operations	**18,201**	17,655	3.1
– Hong Kong station commercial businesses	**5,975**	5,544	7.8
– Hong Kong property rental and management businesses	**4,900**	4,741	3.4
– Mainland of China and international railway, property rental and management subsidiaries	**16,990**	13,478	26.1
– Mainland of China property development	**6,996**	1,348	419.0
– Other businesses	**2,378**	2,423	(1.9)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	**19,991**	17,313	15.5
Profit on Hong Kong property development	**1,097**	311	252.7
Operating profit before depreciation, amortisation and variable annual payment	**21,088**	17,624	19.7
Profit attributable to shareholders of the Company arising from underlying businesses	**10,515**	9,446	11.3
Total assets	**263,768**	257,340	2.5
Loans, other obligations and bank overdrafts	**42,043**	39,939	5.3
Obligations under service concession	**10,470**	10,507	(0.4)
Total equity attributable to shareholders of the Company	**166,304**	149,461	11.3
Financial ratios			
Operating margin *(in %)*	**36.1**	38.3	(2.2%) pts.
Operating margin (excluding Mainland of China and international subsidiaries) *(in %)*	**53.3**	53.9	(0.6%) pt.
Net debt-to-equity ratio* *(in %)*	**20.6#**	20.2^	0.4% pt.
Return on average equity attributable to shareholders of the Company arising from underlying businesses *(in %)*	**6.7**	5.9	0.8% pt.
Interest cover *(times)*	**15.0**	12.7	2.3 times
Share information			
Basic earnings per share *(in HK$)*	**2.83**	1.74	62.6
Basic earnings per share arising from underlying businesses *(in HK$)*	**1.77**	1.61	9.9
Ordinary dividend per share *(in HK$)*	**1.12**	1.07	4.7
Share price at 31 December *(in HK$)*	**45.80**	37.70	21.5
Market capitalisation at 31 December *(HK$ million)*	**275,156**	222,629	23.6
Operations highlights			
Total passenger boardings in Hong Kong *(million)*			
– Domestic Service	**1,637.9**	1,586.5	3.2
– Cross-boundary Service	**112.5**	113.3	(0.6)
– Airport Express	**16.6**	16.1	3.0
– Light Rail and Bus	**229.2**	229.1	0.1
Average number of passengers *(thousand)*			
– Domestic Service *(weekday)*	**4,772**	4,608	3.6
– Cross-boundary Service *(daily)*	**308.4**	309.5	(0.4)
– Airport Express *(daily)*	**45.5**	44.1	3.3
– Light Rail and Bus *(weekday)*	**649.2**	644.7	0.7
Fare revenue per passenger *(in HK$)*			
– Domestic Service	**7.84**	7.81	0.3
– Cross-boundary Service	**29.11**	28.71	1.4
– Airport Express	**64.75**	61.85	4.7
– Light Rail and Bus	**3.08**	3.09	(0.2)
Proportion of franchised public transport boardings *(in %)*	**49.1**	48.4	0.7% pt.

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

\# *If the land premium in respect of Wong Chuk Hang Station Package 2 (which was paid in January 2018) was excluded from the cash balance, the Group's net debt-to-equity ratio as at 31 December 2017 would have been 23.7%.*

^ *If the HK$2.20 per share of the second tranche of special dividend payable totalling HK$13 billion as at 31 December 2016 had been paid as at 31 December 2016, the Group's net debt-to-equity ratio as at 31 December 2016 would have increased from 20.2% to 28.9%.*

HONG KONG OPERATING NETWORK WITH FUTURE EXTENSIONS

Legend

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

Existing Network

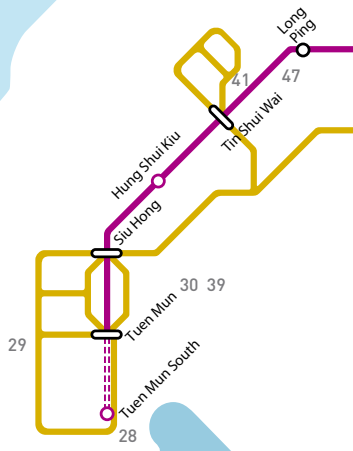
- Airport Express
- Disneyland Resort Line
- East Rail Line
- Island Line
- Kwun Tong Line
- Light Rail
- Ma On Shan Line
- South Island Line
- Tseung Kwan O Line
- Tsuen Wan Line
- Tung Chung Line
- West Rail Line

Projects in Progress

- Guangzhou-Shenzhen-Hong Kong Express Rail Link
- Shatin to Central Link (Tai Wai to Hung Hom Section)
- Shatin to Central Link (Hung Hom to Admiralty Section)

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



Lantau Island

Properties Owned / Developed / Managed by the Corporation

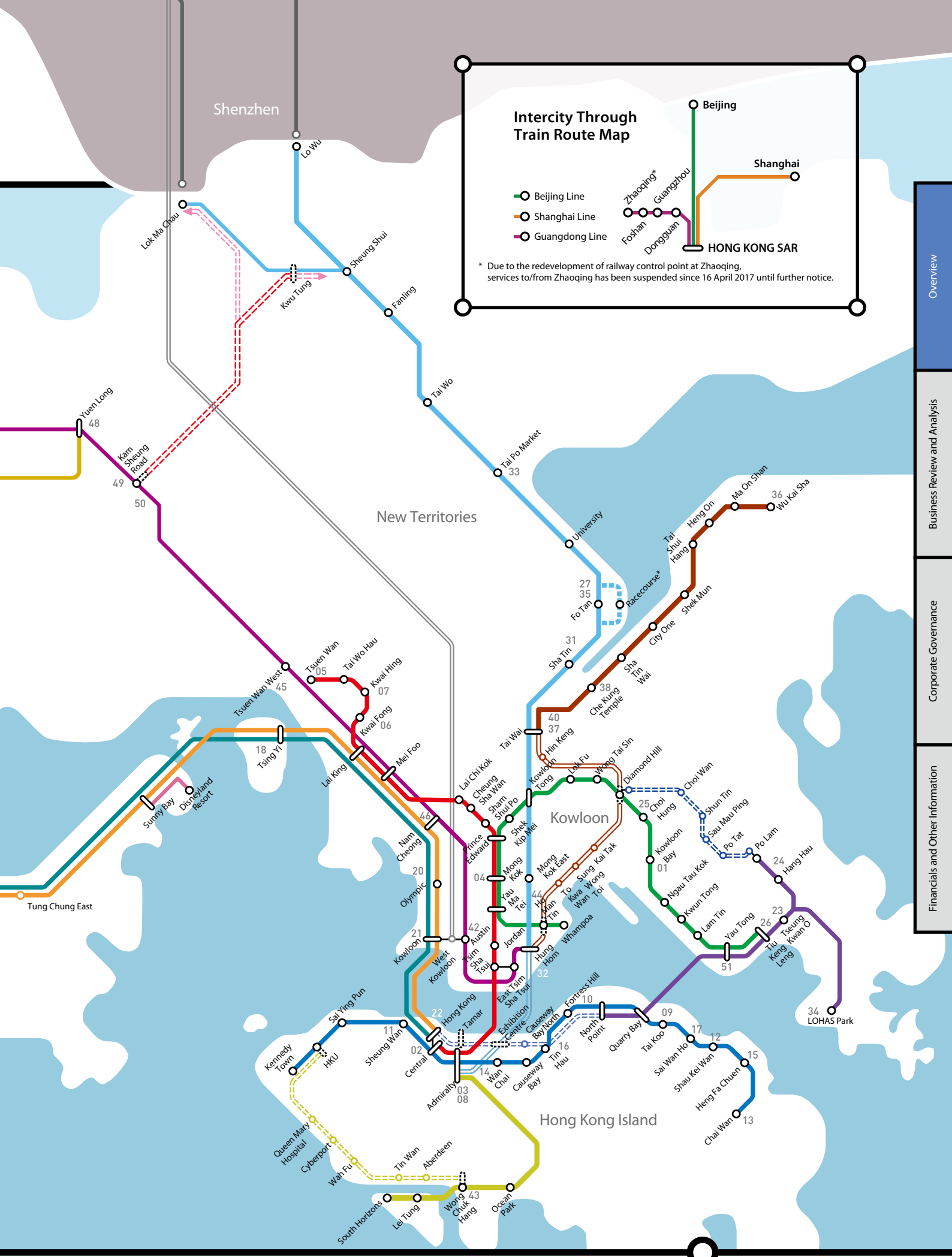
01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Tower
11 Hongway Garden / Infinitus Plaza
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 1 / Maritime Square 2
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

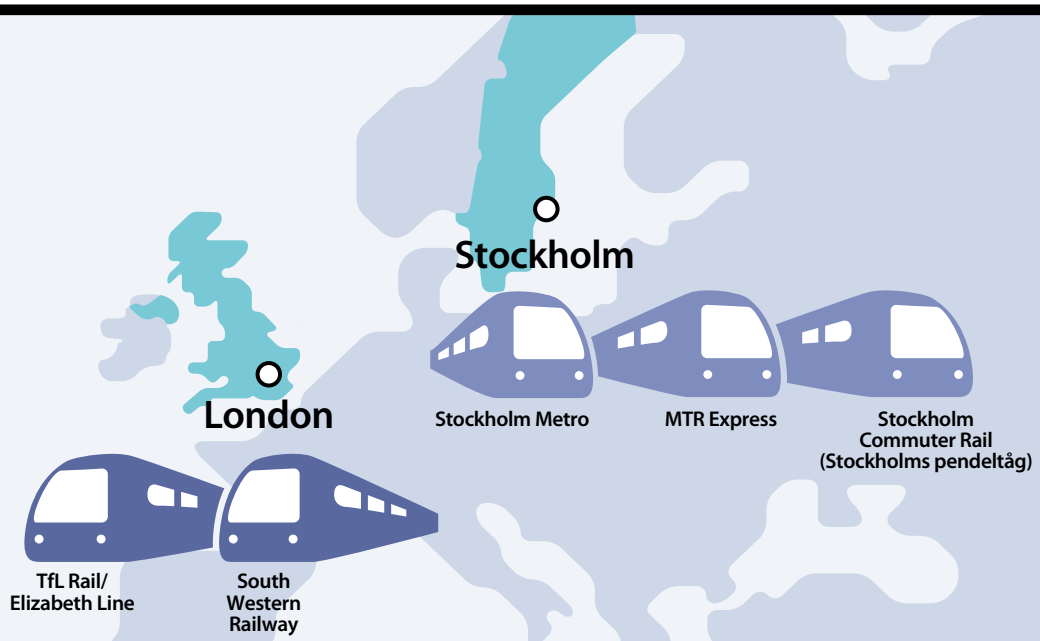
34 LOHAS Park Packages
40 Tai Wai Station
41 Tin Wing Stop
43 Wong Chuk Hang Station Packages
44 Ho Man Tin Station Packages
51 Yau Tong Ventilation Building

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

39 Century Gateway
45 Ocean Pride / Ocean Supreme / PARC CITY / THE PAVILIA BAY / City Point
46 Cullinan West
47 The Spectra / Long Ping Station (South)
48 Yuen Long Station
49 Kam Sheung Road Station Packages
50 Pat Heung Maintenance Centre


Intercity Through Train Route Map
Beijing Line
Shanghai Line
Guangdong Line
Beijing
Shanghai
Zhaoqing*
Guangzhou
Foshan
Dongguan
HONG KONG SAR
* Due to the redevelopment of railway control point at Zhaoqing, services to/from Zhaoqing has been suspended since 16 April 2017 until further notice.
Shenzhen
New Territories
Kowloon
Hong Kong Island
Lo Wu
Lok Ma Chau
Sheung Shui
Kwu Tung
Fanling
Tai Wo
Tai Po Market
University
Racecourse*
Fo Tan
Sha Tin
Tai Wai
Hin Keng
Che Kung Temple
Sha Tin Wai
City One
Shek Mun
Tai Shui Hang
Heng On
Ma On Shan
Wu Kai Sha
Yuen Long
Kam Sheung Road
Tsuen Wan West
Tsuen Wan
Tai Wo Hau
Kwai Hing
Kwai Fong
Mei Foo
Lai King
Tsing Yi
Sunny Bay
Disneyland Resort
Tung Chung East
Nam Cheong
Olympic
Kowloon
West Kowloon
Austin
Jordan
Tsim Sha Tsui
East Tsim Sha Tsui
Hung Hom
Whampoa
Ho Man Tin
To Kwa Wan
Sung Wong Toi
Kai Tak
Mong Kok East
Mong Kok
Yau Ma Tei
Prince Edward
Shek Kip Mei
Sham Shui Po
Cheung Sha Wan
Lai Chi Kok
Kowloon Tong
Lok Fu
Wong Tai Sin
Diamond Hill
Choi Hung
Kowloon Bay
Ngau Tau Kok
Kwun Tong
Lam Tin
Yau Tong
Tiu Keng Leng
Tseung Kwan O
Po Lam
Hang Hau
LOHAS Park
Choi Wan
Shun Tin
Sau Mau Ping
Po Tat
Central
Admiralty
Hong Kong
Tamar
Exhibition Centre
Causeway Bay
Wan Chai
Causeway Bay
Tin Hau
North Point
Fortress Hill
Quarry Bay
Tai Koo
Sai Wan Ho
Shau Kei Wan
Heng Fa Chuen
Chai Wan
Sai Ying Pun
Sheung Wan
Kennedy Town
HKU
Queen Mary Hospital
Cyberport
Wah Fu
Tin Wan
Aberdeen
South Horizons
Lei Tung
Wong Chuk Hang
Ocean Park

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES AT A GLANCE



Mainland of China

Beijing

Metro Line 4
24 Stations 28.2 km

Metro Line 4 – Daxing Line
11 Stations 21.8 km

Metro Line 14*
37 Stations 47.3 km

Metro Line 16*
29 Stations 49.8 km

Ginza Mall

Tianjin

Shopping Mall

Hangzhou

Metro Line 1
31 Stations 48 km

Metro Line 1 Extension
3 Stations 5.6 km

Metro Line 5
(under construction)
38 Stations 51.5 km

Shenzhen

Metro Line 4
15 Stations 20.5 km

Tiara

Shopping Mall

Macau

Light Rapid Transit Taipa Line
(consultancy service)

Europe

United Kingdom

TfL Rail/Elizabeth Line*
40 Stations 118 km

South Western Railway
203 Stations 998 km

Sweden

Stockholm Metro
100 Stations 108 km

MTR Express
6 Stations 457 km

Stockholm Commuter Rail (Stockholms pendeltåg)
53 Stations 247 km

Australia

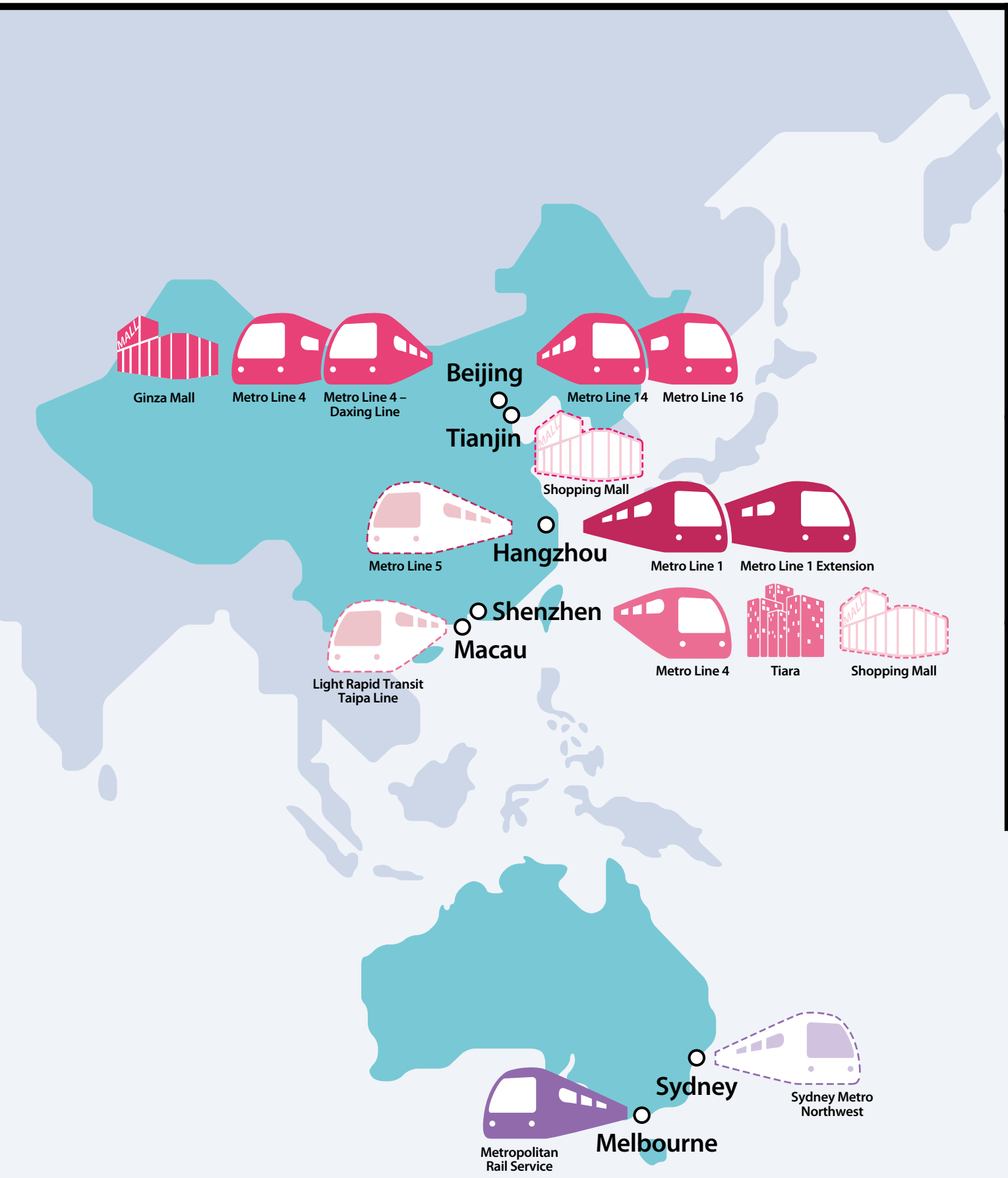
Melbourne

Metropolitan Rail Service
219 Stations 390 km

Sydney

Sydney Metro Northwest
(under construction)
13 Stations 36 km

* Currently under partial operation


Ginza Mall
Metro Line 4
Metro Line 4 – Daxing Line
Beijing
Tianjin
Metro Line 14
Metro Line 16
Shopping Mall
Metro Line 5
Hangzhou
Metro Line 1
Metro Line 1 Extension
Shenzhen
Macau
Light Rapid Transit Taipa Line
Metro Line 4
Tiara
Shopping Mall
Sydney
Sydney Metro Northwest
Melbourne
Metropolitan Rail Service

CHAIRMAN'S LETTER

Photographed at West Kowloon Station

"Over the past year, we have seen achievements in all areas of our three-pronged strategy, which is to strengthen and grow our Hong Kong business, accelerate our expansion in the Mainland of China and internationally, and enhance our corporate reputation."

Dear Shareholders and other Stakeholders,

It has been a little more than two years since I became Chairman. Over the past two years, MTR has overcome many challenges and achieved remarkable results. I'm very pleased to say that MTR is on the right track to becoming an admired world-class operator of sustainable rail transport services, a vision that everyone at MTR is working towards.

Over the past year, we have seen achievements in all areas of our three-pronged strategy, which is to strengthen and grow our Hong Kong business, accelerate our expansion in the Mainland of China and internationally, and enhance our corporate reputation. In Hong Kong, our home base, the two railway projects under construction, namely the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link, are making good progress. We have also submitted proposals to Government for four new railway lines to be built under the Railway Development Strategy 2014 ("RDS 2014"). The conclusion of the early review of the Fare Adjustment Mechanism ("FAM") with Government in March 2017 has added to our ability to invest in new infrastructure while we continue to maintain and upgrade our existing network. The new arrangements arising from this conclusion bring benefits to our passengers, while ensuring MTR's financial sustainability.

Our proven track record in Hong Kong has contributed to our growth in the Mainland of China and overseas. During the past year, we were awarded three important contracts, the Hangzhou Metro Line 5 Public-Private-Partnership project, the seven-year South Western Railway franchise in the UK and the renewed seven-year concession to operate Melbourne's Metropolitan Rail Service in Australia.

Alongside these successes, I am very pleased to see increased recognition of the MTR brand. Our efforts to improve customer services through the use of apps and various digitisation initiatives led to MTR being named "Asia Pacific Digital Transformer of the Year 2017" in the IDC Digital Transformation Awards. In addition, we were the only Hong Kong company to be included in the 2017 FORTUNE "Change the World" Top 50 companies list. We were honoured to have been included in the list, which recognises the significant benefits achieved by our Rail plus Property business model.

Our transparency and stakeholder communications, as well as our comprehensive disclosure, were recognised with our 2016 Annual Report winning the "Silver Award" from the Hong Kong Management Association ("HKMA").

The Company's financial results for 2017 were satisfactory. Profit attributable to equity shareholders for the year from recurrent businesses decreased by 3.8% to HK$8,580 million, largely due to the depreciation and interest expenses relating to the opening of our two new rail lines, as noted in the Interim Report. The booking of profit from Tiara in Shenzhen, our first Mainland China property development, and sundry sources from Hong Kong, saw property development profit increase, rising from HK$530 million in 2016 to HK$1,935 million in 2017. As a result, profit attributable to shareholders from underlying businesses increased by 11.3% to HK$10,515 million. Including the gain arising from investment property revaluation, net profit attributable to shareholders of the Company increased by 64.1% to HK$16,829 million, representing earnings per share after revaluation of HK$2.83. A final ordinary dividend of HK$0.87 per share has been proposed by your Board, which together with the interim dividend of HK$0.25 per share, brings the full year dividend to HK$1.12 per share.

OUR NETWORK

Safety always comes first in our operations, and I am pleased to report that our safety performance has further improved, with an overall 5.5% drop in reportable incidents on our heavy rail and light rail networks. Our heavy rail train service delivery was maintained at 99.9% of the time over the year, a truly world-class performance. Nevertheless, we would never be complacent and are mindful that during 2017 there were several incidents that caused inconvenience to passengers, including a signalling system failure on the Kwun Tong Line in August. Investigations have been conducted to understand the causes and reduce the reoccurrence of similar incidents in future.

Safety and reliability require continuous investment in both people and assets. Under the umbrella of "Rail Gen 2.0", we have made various significant investments, including building new railway lines, and upgrading and replacing major assets on existing railway lines, to deliver excellent services to our customers.

The Express Rail Link remains on target for completion in the third quarter of this year and we are in discussion with Government regarding the future operation and maintenance arrangements for the line. The proposed co-location arrangement at the West Kowloon Station announced in July 2017 by Government and the Standing Committee of the National People's Congress's approval of the agreement signed between the Mainland of China and Government in December 2017 are important steps to maximise convenience for passengers and unlock the high-speed rail's full potential. For the Shatin to Central Link, we expect to complete the Tai Wai to Hung Hom Section and the Hung Hom to Admiralty Section by mid-2019 and 2021 respectively. As previously communicated, this project has been affected by a number of events outside our control. Following a detailed review, we submitted a revised cost estimate to Government on 5 December 2017, with the latest estimate for the main construction works having increased by HK$16.5 billion to HK$87.3 billion.

Under RDS 2014, a total of seven new rail projects are to be built over a number of years, and Government has so far invited MTR to submit proposals for five of them. We have submitted four of them and are currently in discussion with Government over the submitted proposals. In the longer term, Government has proposed additional transport corridors as part of the vision set out in its "Hong Kong 2030+" plan and we look forward to participating in these projects in the years ahead.

With our continued growth outside of Hong Kong, our franchises in the Mainland of China and overseas carried on average around 6.49 million passengers every weekday in 2017. We continue to pursue further railway and related property development opportunities outside of Hong Kong. In the Mainland of China, we are exploring opportunities in the Guangdong-Hong Kong-Macau Bay Area, Chengdu, Hangzhou and Beijing. In the UK, we are bidding for the Wales and Borders rail franchise and the West Coast Partnership rail franchise. In the Nordic region, we are bidding for Norway's Traffic Package South (Trafikkpakke Sør) railway operating concession, as well as looking at more projects in the region. In Australia, we are pushing forward our interests in the second metro project in Sydney – the Sydney Metro City and Southwest. In North America, we are looking into a railway project in Toronto, Canada.

OUR CUSTOMERS

Our aim is to provide our customers with a world-class level of railway service at affordable prices, while continuing to invest to maintain the quality of the network and meet future demand. Rail Gen 2.0 covers an over HK$10 billion worth asset replacement programme involving new trains introduction and enhanced signalling systems that are now well underway.

We are constantly striving to make customers' journeys better through bringing in new services, such as mobile device charging services at selected stations and the breastfeeding facilities recently provided in interchange stations. We are also harnessing technology to make our operations even safer and more efficient, while improving our customers' experience. We are conscious of the need to stay transparent and responsive as a company and we are making efforts in this area.

Conclusion of the early review of FAM in 2017 has balanced the interests of different stakeholders, particularly between meeting the public's expectation for lower rates of fare adjustment and ensuring the financial sustainability of the Corporation. During the year, we provided over HK$2.6 billion of on-going fare concessions to different passenger groups. We will continue to focus on ensuring our services remain affordable for the benefit of the community, and in this spirit, we welcome the Public Transport Fare Subsidy Scheme announced by the Chief Executive of Hong Kong in her inaugural Policy Address in October 2017. We will fully support Government in its implementation.

OUR PEOPLE

The greatest assets of the Company are the well-trained and dedicated people we employ. We take great care of our people by providing them with a fulfilling working

environment. Our efforts have been recognised with MTR being named the most attractive employer in Hong Kong by the Randstad Group in 2017.

We are capitalising on the depth of expertise in the Company to develop new talents for the future, not just in Hong Kong but also in the Mainland of China and "Belt and Road" countries, through the MTR Academy ("MTRA"). Established just over a year ago, MTRA is now developing professionals for the railway industry in a number of countries. In October 2017, we signed an Memoranda of Understanding with Hangzhou Metro Group to set up a branch campus of MTRA in Hangzhou and discussions are now underway regarding the detailed arrangements.

CONTRIBUTIONS TO THE COMMUNITY

As a company, we aim to connect and grow communities through our railway businesses. Our "Community Connect" platform extends this idea further into society, with a focus on supporting young people in their life's journey. To encourage students to explore science, technology, engineering and mathematics ("STEM") subjects, we launched the "STEM Challenge" programme, along with Junior Achievement Hong Kong and HKEdCity, to engage secondary-school students in real-world engineering challenges. During the summer, our " 'Train' for Life's Journeys" programme supported 160 secondary-school students in their career-and-life planning, while our "Pathways to Employment" programme provided additional support for young people in their career planning.

We also leverage on our resources to enrich the cultural life of our community through our "Art in MTR" programme. The Company partnered with The Savannah College of Art and Design to produce new artwork proposals for Sham Shui Po Station. In December 2017, we hosted the award-winning "Swedish Dads" Photo Exhibition at Elements, which was jointly organised with the Consulate General of Sweden in Hong Kong and the Swedish Institute.

Our colleagues in MTR possess an extraordinary volunteering spirit, reflected in our "More Time Reaching Community" scheme. The efforts of our volunteers were well recognised, with the MTR volunteering team winning the "7th Hong Kong Volunteer Award" co-organised by the Agency For Volunteer Service and RoadShow.

We continue to pursue our goals to be a good corporate citizen and promote sustainable business practices, and I am very pleased to see that our efforts have been recognised by winning the inaugural "Hong Kong Sustainability Award 2016/2017" organised by HKMA.

BOARD TRANSITION

The strength of our Board and its effective oversight of our operations is an essential factor in driving MTR's consistently impressive performance.

I would like to welcome our new Board members, and also thank those who have retired for their valuable contributions to the Company during their tenures. Mr Ng Leung-sing, who served on the Board for over nine years, retired as an Independent Non-executive Director at our Annual General Meeting on 17 May 2017. Mr Andrew Clifford Winawer Brandler and Mr Johannes Zhou Yuan joined the Board as Independent Non-executive Directors on the same date. Mr Frank Chan Fan (Secretary for Transport and Housing) and Mr James Henry Lau Jr. (Secretary for Financial Services and the Treasury) became Non-executive Directors in July 2017, taking over from Professor Anthony Cheung Bing-leung (former Secretary for Transport and Housing) and Professor Chan Ka-keung, Ceajer (former Secretary for Financial Services and the Treasury) respectively. Mrs Ingrid Yeung Ho Poi-yan, who ceased to hold the post of Commissioner for Transport with effect from 15 July 2017, ceased to be a Non-executive Director of the Company on the same date. Ms Mable Chan has become a Non-executive Director of the Company with effect from 11 October 2017 by virtue of her appointment as Commissioner for Transport on the same date.

Finally, I wish to thank all of my fellow Directors for their wise counsel during the past year, and each and every one of our staff for their dedication in making MTR a great multinational company, a company closely connected to the communities we serve! United in our purpose, we will work to make 2018 another successful year.

Professor Frederick Ma Si-hang
Chairman
Hong Kong, 8 March 2018

CEO'S REVIEW OF OPERATIONS AND OUTLOOK

A composite photograph at Hin Keng Station

" Building on the successes and achievements of previous years, 2017 was a year of stability and progress for MTR. "

Dear Shareholders and other Stakeholders,

Building on the successes and achievements of previous years, 2017 was a year of stability and progress for MTR. We continued to deliver on our three-pronged strategy of strengthening and growing the Hong Kong business, accelerating growth in our Mainland of China and international businesses, and enhancing our corporate reputation. This strategy has proven successful over the years and was reaffirmed by a comprehensive review that was undertaken earlier last year. As a result of this strategy, our businesses have grown around the world, as evidenced by a 180% growth in average weekday passenger trips from 2008 to 2017 to a total of 12 million passenger trips globally every weekday in 2017.

In Hong Kong, the economy strengthened in 2017, which supported our local businesses. Our Hong Kong transport operations achieved a 3.0% increase in patronage to 5.76 million passenger trips per weekday, contributed partly by the first full year of operations of the Kwun Tong Line extension and the South Island Line. Train frequency was increased, while both train service delivery and passenger journeys on-time in our heavy rail network were maintained at 99.9%. Our safety performance was likewise world-class. In March 2017 we concluded with Government an important milestone, being the early review of the Fare Adjustment Mechanism ("FAM"), with the resulting arrangements benefiting all passengers, while continuing to maintain the Company's financial sustainability. Hong Kong's retail environment improved in the second half of 2017, supporting growth in our station commercial and property rental businesses. These also benefited from the new retail space on the seventh and eighth floors of Telford Plaza II which opened in July 2017 and Maritime Square 2 (formerly known as the Maritime Square extension) that opened in December 2017, as well as more shops in our rail stations. Hong Kong property development profit was derived mainly from sale of inventory units, car parking spaces and other sundry sources. Pre-sales were launched for the Wings at Sea and Wings at Sea II of LOHAS Park Package 4. In our property tendering activities, we awarded our first and second property packages at Wong Chuk Hang Station in February and December 2017 respectively and, as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation ("KCRC"), we awarded Kam Sheung Road Station Package 1 in May 2017.

Outside of Hong Kong, our rail businesses carried an average of around 6.49 million passengers every weekday in 2017. In these markets, we delivered reliable and improved services to the satisfaction of our customers, while selectively pursuing opportunities to expand our presence. In the Mainland of China, we signed the Concession Agreement with the Hangzhou Municipal Government and Hangzhou Metro Group for a Public-Private Partnership ("PPP") project in respect of Hangzhou Metro Line 5 ("HZL5"). In the UK, our 30% owned associate was awarded the South Western Railway franchise that will run for seven years from August 2017, while in Australia we were awarded a seven-year extension to operate Melbourne's Metropolitan Rail Service, with an option to extend further for an additional three years. In our property development business in the Mainland of China, we handed over to buyers the high-rise units at Tiara in Shenzhen, and the profits booked contributed to our financial results.

Our near term rail expansion in Hong Kong falls under "Rail Gen 2.0", our vision for the next generation of rail travel. This is currently led by the two new

rail projects under construction, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link. These projects were respectively 98.6% and 81.2% complete as at 31 December 2017. In December 2017, we submitted to Government our revised estimate of the Cost to Complete ("CTC") of the Shatin to Central Link. Government is in the process of reviewing this estimate. Rail Gen 2.0 also covers major asset replacement programmes, notably for trains and signalling systems on our existing network, and these are making reasonable progress. Government's strategy remains for rail to be the backbone of public transportation in Hong Kong, and in the medium term seven new railway projects are proposed under Railway Development Strategy 2014 ("RDS 2014"). We have now submitted proposals for four of these projects, namely, the extension of the West Rail Line to Tuen Mun South, the Northern Link (and Kwu Tung Station), the East Kowloon Line and the Tung Chung West Extension (and Tung Chung East Station). We have also received the invitation from Government to submit a proposal for the fifth project, the North Island Line on Hong Kong Island, which will be submitted in the second half of 2018. Looking even further ahead, the "Strategic Studies on Railways and Major Roads beyond 2030" with reference to the vision depicted in "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030", is planned to be taken forward by Government in 2018. It will identify the major transport corridors including railways, which are required to support Hong Kong's long-term land use strategy.

We are also continuing to examine how to best leverage our existing rail facilities for more residential developments to meet demand for housing. The Environmental Impact Assessment reports for the proposed development above our Siu Ho Wan depot in Lantau were approved by Government in November 2017 and the statutory planning procedures commenced in January 2018. The gazetted road works scheme for another site, the Yau Tong Ventilation Building, was approved in August 2017.

Outside of Hong Kong, we are pursuing a number of rail franchise opportunities in the Mainland of China, the Nordic countries, the UK and Australia, and are also reviewing potential rail related property developments in these countries.

Total revenue for 2017 increased by 22.7% to HK$55,440 million, with operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment increasing by 4.3% to HK$17,677 million. As noted in the Interim Report, the significant increase in revenue was predominately due to the recognition of sales proceeds from the Tiara development in Shenzhen. Excluding the Mainland of China property development, revenue for the year would have increased by 10.5%. Excluding the Company's Mainland of China and international subsidiaries, revenue grew by 3.6% and operating profit by 2.5%, with operating margin declining by 0.6 percentage point to 53.3%. Recurrent profit attributable to equity shareholders, being net profit before property development profits (from both Hong Kong and the Mainland of China) and investment properties revaluation, decreased by 3.8% to HK$8,580 million, mainly due to higher costs, particularly depreciation and interest expenses following the opening of the two new lines in Hong Kong in the last quarter of 2016. Post tax profit from property developments (from both Hong Kong and the Mainland of China) was HK$1,935 million, and was mainly derived from the booking of profit from Tiara in Shenzhen and sundry sources in Hong Kong. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders rose by 11.3% to HK$10,515 million, mainly due to the higher level of property development profits for the year. Gain in revaluation of investment properties was HK$6,314 million, as compared with HK$808 million in 2016. As a result, net profit attributable to equity shareholders was HK$16,829 million, equivalent to earnings per share of HK$2.83 after revaluation. Your Board has proposed a final ordinary dividend of HK$0.87 per share, which together with the interim dividend of HK$0.25 per share brings the full year dividend to HK$1.12 per share, an increase of 4.7%. Additionally, the second and final tranche of the special dividend of HK$2.20 per share relating to the agreement with Government regarding the further funding arrangements for the Express Rail Link ("XRL Agreement") was paid on 12 July 2017, at the same time as payment of the 2016 final ordinary dividend.

HONG KONG BUSINESSES

Leveraging off the "Rail plus Property" business model, our businesses in Hong Kong centre on our rail network and also include significant station commercial activities, property rental as well as property developments over and around stations and depots.

Transport Operations

Financial Performance

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**18,201**	17,655	3.1
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**7,475**	7,633	(2.1)
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**1,656**	2,572	(35.6)
EBITDA Margin (in %)	**41.1%**	43.2%	(2.1%) pts.
EBIT Margin (in %)	**9.1%**	14.6%	(5.5%) pts.

Total revenue of the Hong Kong transport operations rose by 3.1% to HK$18,201 million in 2017, benefiting mainly from the growth in patronage. EBITDA decreased by 2.1% to HK$7,475 million, mainly due to increases in staff costs, while fare adjustment for 2017/2018 was rolled over to 2018/2019. The opening of the two new lines, as previously highlighted, has increased the depreciation and amortisation charges significantly, resulting in EBIT decreasing by 35.6% to HK$1,656 million.

Safety

Safety is an absolute priority for MTR and in 2017 there were 5.5% fewer reportable events on the Hong Kong heavy rail network and light rail network than in 2016, another excellent performance. During the year numerous initiatives were implemented to promote safety in our network. Programmes to enhance safety on escalators continued, while a Platform Gap Special Task Force was formed to look into improving relevant safety performance further.

Our "safety first" culture was well demonstrated by our response to the arson attack on one of our trains on 10 February 2017. The Executive Review Panel set up to investigate the incident concluded that its handling had been robust, orderly, speedy and effective. The panel's report was submitted to Government on 25 April 2017 and contained various initiatives to raise public awareness and enhance risk management. Several programmes to strengthen customers' awareness about fire safety and improve their knowledge of station evacuation procedures were launched in 2017 and more portable fire extinguishers were installed in stations.

Patronage and Revenue

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

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Fare Revenue			
Domestic Service	**12,840**	12,395	3.6
Cross-boundary Service	**3,277**	3,252	0.8
Airport Express	**1,076**	998	7.8
Light Rail and Bus	**707**	707	–
Intercity	**135**	137	(1.5)
Total Fare Revenue	**18,035**	17,489	3.1

Our patronage benefited from the stronger economy and the opening in 2016 of the two new rail lines. In 2017, for all of our rail and bus passenger services, total patronage increased by 2.6%, for the first time surpassing 2,000.0 million passenger trips per annum. Average weekday patronage increased by 3.0% to 5.76 million.

For the Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail, Ma On Shan and South Island lines), total patronage reached 1,637.9 million, a 3.2% increase over 2016. The Cross-boundary Service to Lo Wu and Lok Ma Chau saw patronage decrease by 0.6% to 112.5 million, mainly as a result of continued strong competition from other modes of transport. Patronage on the Airport Express rose by 3.0% to 16.6 million, supported by an increase in air passenger traffic.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong in 2017 was 49.1%, compared to 48.4% in 2016. Within this total, the share of cross-harbour traffic was 69.6%, compared to 68.6% in 2016. Competition from other modes of transport reduced our share of the Cross-boundary business from 51.2% to 50.8%. Our market share to and from the airport increased marginally from 21.4% to 21.5%.

Fare Adjustments, Promotions and Concessions

On 21 March 2017, we announced that the early review of the FAM, conducted jointly with Government, had concluded, resulting in revised arrangements designed to benefit all passengers, whilst ensuring the financial sustainability of the Company. During the review process, we listened to the opinions of different stakeholders, including passengers and shareholders. Two important pillars of the FAM remain unchanged, namely the FAM formula itself and the "direct-drive" nature of the formula's application. However, new features have been introduced which will benefit all passengers such as a 0.6 percentage point special annual reduction in the fare adjustment rate over each of the six years from 2017/2018 to 2022/2023, a 10% reduction in the overall fare adjustment rate in 2017/2018 and a 3% rebate for Octopus trips for at least six months each year over the six years to 2022/2023. A new HK$0.3 discount will be offered for passengers using Octopus interchanging between MTR and Green Minibus routes from the second quarter of 2018.

The next scheduled review of the FAM will be in 2022/2023, with its application starting in mid-2023.

After applying the FAM formula, the special annual adjustment of 0.6 percentage point and the one-off 10% discount, the calculated Overall Fare Adjustment Rate for 2017/2018 came to +1.49%. This is within the range of ±1.5%, under which, according to the FAM, the adjustment rate has been rolled over to the following year (2018/2019). Hence, there was no adjustment of MTR fares in 2017/2018.

Frequent MTR travellers commuting on medium to long distance journeys to the urban area and across the harbour can continue to enjoy fare savings by using five types of "Monthly Pass Extra" and MTR City Saver. Furthermore, the validity of the MTR City Saver sold from 1 July 2017 onwards has been extended from 30 days to 40 days, counting from the day of first use. The "Early Bird Discount Promotion" Programme has also been extended for one year up to 31 May 2018.

These saving schemes are in addition to our ongoing fare concessions and promotions, which amounted to over HK$2.6 billion in 2017 and target eligible passengers such as students and the elderly. MTR is currently the only major transport operator in Hong Kong to provide discounts to students on every trip.

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

On 11 October 2017, the Chief Executive of the Hong Kong SAR in her inaugural Policy Address proposed a Public Transport Fare Subsidy Scheme. We welcome the scheme and will fully support its implementation.

Service Performance

Train service delivery and passenger journeys on-time in our heavy rail network in 2017 remained at a world-class level of 99.9%, exceeding both the targets in our Operating Agreement and our own, more stringent, Customer Service Pledges. More than 2.11 million train trips were made on our heavy rail network and around 1.09 million trips on our light rail network during the year. In 2017 there were nine delays on the heavy rail network and one delay on the light rail network, each lasting 31 minutes or more which were caused by factors within our control. We continue to work diligently to reduce both the number of delays and their impact on passengers.

On 5 August 2017, a signalling system problem occurred on the Kwun Tong Line that caused delays. We set up an Executive Review Panel to examine the cause of the incident and the handling procedures, and identify areas for improvement. The panel concluded that the incident was managed in a safe manner according to established procedures. It was found that the signalling fault had resulted from intermittent data loss caused by the corrosion of electrical contacts in a junction box near Ngau Tau Kok Station. To reduce the risk of a similar signalling failure incident in future, the copper datalink system concerned was converted to a fibre optic system with a higher fault tolerance in October 2017. Other recommendations by the panel are now being implemented. These include improving passenger communications and information dissemination during such atypical situations and enhancing the regular maintenance of data cables.

Station Commercial Businesses

Financial Performance

The Hong Kong station commercial businesses achieved good results in 2017.

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**4,143**	3,723	11.3
Advertising Revenue	**1,071**	1,090	(1.7)
Telecommunication Income	**635**	561	13.2
Other Station Commercial Income	**126**	170	(25.9)
Total Revenue	**5,975**	5,544	7.8
EBITDA	**5,474**	5,012	9.2
EBIT	**4,722**	4,362	8.3
EBITDA Margin (in %)	**91.6%**	90.4%	1.2% pts.
EBIT Margin (in %)	**79.0%**	78.7%	0.3% pt.

Total revenue of the Hong Kong station commercial businesses increased by 7.8% to HK$5,975 million in 2017. The revenue growth reflected positive rental reversion as a result of continuous trade mix refinements, an increase in the number of shops following the opening of the Kwun Tong Line extension and the South Island Line, and increases in Duty Free Shop rents.

As at 31 December 2017, there were 1,416 station shops, occupying 58,716 square metres of retail space, representing an increase of 24 shops and 1,565 square metres compared with 31 December 2016. The increase was mainly due to the opening of 11 new shops at Hung Hom, Kowloon and Wan Chai stations, as well as the opening of 15 shops at various stations which were previously closed for re-development.

Advertising revenue decreased slightly by 1.7% to HK$1,071 million in 2017, mainly attributable to a downturn in overall advertising spend and the increase in competition from online advertising. Overall advertising spend started to recover in the last quarter of 2017. The number of advertising units in stations and trains increased to 46,735 by 31 December 2017. To improve our competitiveness, we have been developing creative solutions and new digital formats to meet market needs. During the year, two digital zones were created by the installation of 16 new 65-inch high-definition LCD screens at Hong Kong Station and 14 such screens at Airport Station. In addition over 900 advertising light boxes along the Island, Tsuen Wan, Ma On Shan and West Rail lines were revamped.

Revenue from telecommunications in 2017 grew by 13.2% to HK$635 million. The increase was mainly the result of incremental revenue from new service contracts and capacity enhancement projects, as well as the newly opened Kwun Tong Line extension and the South Island Line. Installation of a new mobile phone network in the concourses of ten stations and four tunnel sections during the year increased data capacity and enabled more 4G services. Customers are now able to enjoy enhanced Wi-Fi services at 84 stations following the upgrade of equipment in April 2017.

Property Businesses

In the commercial sector, Grade-A office rents in Central continued to perform well during 2017. Demand from Mainland enterprises and multinational companies remained strong, although there were signs of tenants becoming more cost conscious. However, in the retail segment, rents remained under pressure, despite a rebound in tourist numbers and a recovery in retail sales. The rate at which retail rents declined moderated towards the end of 2017, but the sector continued to be impacted by tourist spend and the popularity of e-commerce.

Residential property prices remained strong in 2017, but there was significant divergence in demand between the primary and secondary property markets. Transaction volumes in the primary market were buoyed by new projects for which the developers offered competitive financing schemes. The secondary market was more impacted by a range of Government cooling measures which progressively took effect. Despite a strong recovery in sales volume during the first six months, transactions were down year-on-year in the second half. However, residential prices continued to rise, with the Mass Centa-City Leading Index increasing to 166.73 by the end of 2017, having started the year at 146.16.

Property Rental and Management Businesses

Financial Performance

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

In HK$ million	Year ended 31 December		
	2017	2016	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**4,608**	4,451	3.5
Revenue from Property Management	**292**	290	0.7
Total Revenue	**4,900**	4,741	3.4
EBITDA	**4,098**	3,930	4.3
EBIT	**4,082**	3,912	4.3
EBITDA Margin (in %)	**83.6%**	82.9%	0.7% pt.
EBIT Margin (in %)	**83.3%**	82.5%	0.8% pt.

Property rental revenue increased by 3.5% in 2017, mainly due to rental increases in accordance with existing lease agreements. Rental reversion in our shopping mall portfolio in Hong Kong recorded a 1.7% fall during the year. As at 31 December 2017, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre were 100% let.

As at 31 December 2017, the Company's attributable share of investment properties in Hong Kong was 218,251 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of offices and 17,764 square metres of property for other use. Our retail properties saw an increase in lettable area with the opening, in July 2017, of the converted retail space at Telford Plaza II (which added 3,400 square metres of gross floor area ("GFA")) and, in December 2017, of Maritime Square 2 (which added another 12,100 square metres GFA of new space). In the fourth quarter of 2017, the second phase of the "sports and wellbeing" zone was progressively opened in Paradise Mall.

Hong Kong property management revenue in 2017 increased by 0.7% to HK$292 million. As at 31 December 2017, over 96,000 residential units and over 772,000 square metres of commercial space were managed by MTR.

Property Development

Profit from Hong Kong property development in 2017 amounted to HK$1,097 million, and was derived from sundry sources, such as agency fee income from West Rail property developments (including Cullinan West and Cullinan West II, Ocean Pride, Ocean Supreme, THE PAVILIA BAY, PARC CITY as well as The Spectra), the sale of inventory units and car parking spaces, as well as further profit bookings arising from the finalisation of development accounts for completed property development projects.

Pre-sales were launched for Wings at Sea and Wings at Sea II of LOHAS Park Package 4 in September and October 2017 respectively. By year end, about 97% of the 1,040 units of Wings at Sea and about 36% of the 1,132 units of Wings at Sea II had been sold. Pre-sales for MALIBU of LOHAS Park Package 5 are planned to be launched in March 2018.

For West Rail property development projects where we are the agent for the relevant subsidiaries of KCRC, a series of pre-sales were launched during the year. THE PAVILIA BAY (the Tsuen Wan West Station (TW6) site) was launched in January 2017 with about 98% of 983 units sold by year end. Cullinan West and Cullinan West II at Nam Cheong Station were launched in March and November 2017 respectively, with about 92% of 1,050 units and about 44% of 1,188 units respectively sold by year end. May and July 2017 saw the launches respectively of Ocean Pride and Ocean Supreme (the Tsuen Wan West Station (TW5) Bayside site), with about 99% of 970 units and 87% of 1,436 units sold respectively by the end of the year. The launch of PARC CITY (the Tsuen Wan West Station (TW5) Cityside site) followed in August 2017 with all 953 units sold. Pre-sales also continued at The Spectra (the Long Ping Station (North) site), with about 96% of 912 units sold by year end.

In our property tendering, Wong Chuk Hang Station Package 1 was awarded to a consortium formed by Road King Infrastructure Limited and Ping An Real Estate Company Limited in February 2017. In December 2017, Wong Chuk Hang Station Package 2 was awarded to a consortium formed by Kerry Properties Limited and Sino Land Company Limited. As agent for the relevant subsidiary of KCRC, we awarded Kam Sheung Road Station Package 1 to a consortium formed by Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited in May 2017.

HONG KONG BUSINESSES GROWTH

Growing our Hong Kong Rail Business

Rail Gen 2.0 encapsulates our near term rail business growth in Hong Kong which, in addition to the two new rail projects under construction, also covers major upgrades and replacements to the existing rail network, as well as initiatives to enhance customer experience through the use of technology. Beyond Rail Gen 2.0, with rail as the backbone of public transportation, projects under RDS 2014 will potentially increase the Hong Kong rail network by 35 km whilst in the long term, Government's "Strategic Studies on Railways and Major Roads beyond 2030" may add even further rail development.

Rail Gen 2.0

New Lines under Construction

Our Hong Kong rail network covers 230.9 km. Over the coming years, under Rail Gen 2.0, the two current railway projects under construction, namely the Express Rail Link and the Shatin to Central Link, will add another 43 km route length to the overall Hong Kong rail network.

Express Rail Link

The 26-km high-speed cross-boundary Express Rail Link will connect Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. It will be served by the approximately 400,000-square metre (usable floor area) West Kowloon Station, one of the largest underground high-speed rail stations in the world. MTR has been entrusted by Government to manage the construction of the Express Rail Link.

This key project was 98.6% complete overall as at 31 December 2017, with civil works at West Kowloon Station 97.8% complete, all tracks in tunnels laid and overhead lines energised. Statutory inspection of the station by the Fire Services Department commenced in May 2017, followed by other statutory inspections. The signalling and communication systems of the Hong Kong and Mainland sections of the line were connected on 5 July 2017. Installation of the glass panels for the iconic roof of the Station Entrance Building was completed in July 2017.

The structural work at West Kowloon Station is substantially complete. Architectural Builder's Works and Finishes and Building Services works are underway. In particular, works in the Customs, Immigration & Quarantine ("CIQ") areas under the purview of the Corporation are in line with the programme, but the timely completion of all the CIQ facilities remains on the critical path.

In August 2017 all nine trains for the new line had arrived in Hong Kong from the factory in Qingdao and cross-boundary dynamic testing was completed in December 2017. To give members of the public a preview of the trains, XRL Train Open Days were held at the Shek Kong Stabling Sidings in October 2017, providing visitors with an in-train experience through guided tours.

The target opening date of the Express Rail Link remains the third quarter of 2018 and trial operations are expected to commence in the second quarter. We are in discussion with Government regarding the future operation and maintenance arrangements for this line.

We welcomed the announcement made on 25 July 2017 by Government regarding the proposed co-location arrangement for the Express Rail Link. The co-location arrangement will maximise the service convenience for passengers and help realise the line's full transport, social and economic benefits.

In accordance with the "Three-step Process" to implement these arrangements, on 18 November 2017 the Government of the HKSAR and the People's Government of Guangdong Province signed the Co-operation Arrangement between the Mainland and the HKSAR on the Establishment of the Port at the West Kowloon Station for Implementing Co-location Arrangement ("Co-operation Arrangement") to kick-start the necessary work to implement the future clearance procedures for the Express Rail Link. The Co-operation Arrangement was subsequently approved by the Standing Committee of the National People's Congress on 27 December 2017. We welcome these two steps in the process and look forward to completion of the third and final step, which is the enactment of the necessary legislation by the Legislative Council of the HKSAR ("LegCo").

Shatin to Central Link

The ten-station 17-km Shatin to Central Link, which was entrusted to MTR by Government, will create vital new links across Hong Kong. It is a strategic railway that connects and extends the existing network. The first phase of the Shatin to Central Link is the 11-km Tai Wai to Hung Hom Section and the second phase is the 6-km Hung Hom to Admiralty Section. When the Tai Wai to Hung Hom Section is completed, it will extend the existing Ma On Shan Line from Tai Wai via six stations to the West Rail Line to form the "East West Corridor". When the Hung Hom to Admiralty Section is completed, it will extend the existing East Rail Line across the harbour to Exhibition Centre Station (formerly known as Exhibition Station) and Admiralty Station through Hung Hom to form the "North South Corridor".

Upon completion, the Shatin to Central Link will connect several existing railway lines and enhance the connectivity of the entire Hong Kong railway network. Travelling time will be reduced significantly between New Territories North, Kowloon and Hong Kong. Alternative routes will also become available to travellers, which will provide customers with more route choices particularly in the busy cross-harbour section of the Tsuen Wan Line and the Tai Wai to Kowloon Tong section of East Rail Line.

Overall, this project was about 81.2% complete by 31 December 2017, with the Tai Wai to Hung Hom Section and Hung Hom to Admiralty Section 93.9% and 63.6% complete respectively.

For the Tai Wai to Hung Hom Section, track laying works have been completed, as have the structural works for the last two new stations, namely To Kwa Wan Station (formerly known as Ma Tau Wai Station) and Sung Wong Toi Station (formerly known as To Kwa Wan Station). This signifies the substantial completion of all civil and structural works on this section of the line. The final report of the archaeological works for the Sung Wong Toi Station works site was accepted by the Antiquities and Monuments Office in June 2017. Steady progress is now being made on the electrical and mechanical ("E&M") works and interior fitting out works at stations. As the new section will connect to the existing West Rail and Ma On Shan lines, the commissioning and testing works of this rail corridor will be highly complex, involving multi-disciplinary interfaces and integration with various new and old systems

in the operating railway. To ensure that normal operation of existing railway lines is not affected, some of the necessary works, including dynamic testing, are being carried out at night during non-traffic hours.

For the Hung Hom to Admiralty Section, all tunnel-boring excavation works have been completed. For the cross-harbour rail tunnel connecting the Hung Hom and Causeway Bay areas, nine of the 11 immersed tube units have been installed on the seabed of Victoria Harbour as at February 2018.

Exhibition Centre Station, which has been affected by late site handover, incomplete entrusted works by other parties and unfavourable ground conditions, was 54.8% complete by the end of 2017. Construction work for the diaphragm walls of Exhibition Centre Station is substantially complete and full excavation of the station is progressing. Due to space limitations in Wan Chai North, temporary traffic management schemes are being implemented at different stages along Convention Avenue, Fleming Road and Expo Drive to create additional works areas while reducing the impact on road users.

Admiralty Station will become a major interchange hub for the Shatin to Central Link, Island, Tsuen Wan and South Island lines. To cater for the Shatin to Central Link, in the extended part of the station, structural works and building service installation are well underway.

As part of the Hung Hom to Admiralty Section, the existing East Rail Line will be re-signalled. The dynamic testing of the new signalling systems with East Rail Line trains during non-traffic hours is now in full swing on the whole of the East Rail Line, and we target the works to be completed in mid-2019.

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

For both the Tai Wai to Hung Hom Section and the Hung Hom to Admiralty Section, our project teams continue to work diligently to explore and implement measures to improve progress and recover delays caused by external events and third parties.

The amount entrusted to the Company by Government for the advance works under the 2011 Entrustment Agreement for Advance Works Relating to the Shatin to Central Link ("SCL Advance Works Entrustment Agreement") was HK$7,350 million. In January 2017, Government submitted to the LegCo Public Works Subcommittee the application for additional funding needed in excess of amounts retained by Government from the original funding. The additional funding of HK$848 million was approved by LegCo Finance Committee in June 2017.

The sum entrusted to the Company by Government for the main construction works under the 2012 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link ("SCL Entrustment Agreement") was HK$70,827 million. The Company has previously announced that, due to the continuing challenges posed by external factors and difficulties similar to those encountered by most major infrastructure projects in Hong Kong, the Shatin to Central Link CTC would need to be revised upwards significantly.

The Company completed a detailed review of the estimated CTC for the main construction works under the SCL Entrustment Agreement and the latest estimate was submitted to Government for review on 5 December 2017. Taking into account a number of factors, including issues such as the archaeological finds, Government requests for additional scope and late or incomplete handover of construction sites, the Company has increased the latest estimate of the main construction works of the Shatin to Central Link by HK$16,501 million from HK$70,827 million to $87,328 million, representing an increase of 23% of the

cost of the main works. In our assessment, around 70% of the increase (net of contingencies) is attributable to additional costs arising from external factors, such as the handling of archaeological finds at the work sites of Sung Wong Toi Station, the late or incomplete handover of construction sites in Wan Chai North, as well as unbudgeted additional scope (including foundation works for a future top-side development at Exhibition Centre Station).

Major Asset Upgrades and Replacements on the Existing Network

Major asset upgrades and replacements in the Hong Kong rail network include the purchase of new trains and light rail vehicles, and the replacement of signalling systems and chiller systems and so on. In 2017, more than HK$8.6 billion was spent on maintaining, upgrading and renewing our Hong Kong railway assets.

A total of HK$6 billion is being spent on 93 new, more comfortable 8-car trains to replace those on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. The first 8-car train was delivered to Hong Kong in January 2018, with the final batch of trains due to be delivered in 2023. The trains will undergo stringent testing and commissioning procedures in Hong Kong before they are put into service.

With demand for our light rail services increasing, we are replacing 30 light rail vehicles and purchasing ten additional vehicles, all at a cost of HK$745 million. The first batch of light rail vehicles will be delivered to Hong Kong in 2018 and the vehicles will enter passenger service progressively between 2019 and 2023.

The existing signalling systems on the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express, are undergoing replacement at a total cost of HK$3.3 billion. The Tsuen Wan Line is being re-signalled first, and installation of new signalling equipment along the trackside and in indoor areas has been substantially completed. Train testing during non-traffic hours is underway. The Tsuen Wan Line re-signalling is targeted for completion towards the end of 2018 or early 2019. It will be followed by other lines progressively. The overall completion is expected in 2026.

Contracts for the replacement of 160 chillers at 38 stations and four depots were awarded. Installation works for the replacement of the first 29 chillers in seven stations and two depots commenced in December 2017, with targeted completion in April 2018. This will be followed by the replacement of chillers in our other stations and depots.

Under the Shatin to Central Link project, the existing 28 7-car trains on the West Rail Line are being converted to 8-car trains to enhance existing train services and to serve the future East West Corridor of the new line. By 31 December 2017, 24 of the converted 8-car trains had entered service on the West Rail Line and all are targeted to be in service by mid-2018. On the Ma On Shan Line, all of the 4-car trains had been replaced by 8-car trains by December 2017. Our project to retrofit Automatic Platform Gates on the Ma On Shan Line was also completed in December 2017, one year earlier than the original target.

Enhancing the Customer Experience through Technology

Under Rail Gen 2.0, in addition to new lines and major asset upgrades, we aim to enhance our passengers' journey experience through the application of new technology. We have launched a series of digital initiatives, including improvements to the MTR Mobile app, which leverage on innovative technology to provide more personalised services to customers while facilitating smoother railway operations.

These improvements saw MTR named "Asia Pacific Digital Transformer of the Year 2017" in the "IDC Digital Transformation Awards", an award recognising institutions that have significantly transformed markets using digital and disruptive technologies in the Asia Pacific region.

The MTR Mobile app has over 1 million monthly active users and in September 2017, two new functions, "In-station Finder" and "Fast Exit" were launched. In-station Finder, for which Admiralty Station served as a pilot station, allows users to find their way to interchange platforms and station facilities more easily. Fast Exit, which applies to all railway stations, recommends to passengers the specific train car and door that will be nearest to their desired exit at their destination station. The enhanced Traffic News function now provides more timely operational and alternative transportation

information to passengers in the event of extended train service delays. To help passengers plan their journeys ahead even better, Green, Yellow and Red indicators have been introduced to represent the real-time status of each rail line in the MTR Mobile app and on the MTR website. A new "Ticket Suggestion" function was also launched on the MTR website and in the MTR Mobile app in June 2017. This new function helps passengers choose the ticket type with the lowest fare based on their travel patterns. In January 2018, a "Chatbot" function was launched for the MTR Mobile app that provides customers with information about their destination, as well as offering a more personalised experience.

With electronic payments becoming increasingly popular, in December 2017 we rolled out a trial scheme to accept Alipay and WeChat Pay at certain ticket machines at Lo Wu and Lok Ma Chau stations. The trial scheme will be gradually extended to Tsim Sha Tsui, East Tsim Sha Tsui and Causeway Bay stations by the first half of 2018.

New Rail Projects beyond Rail Gen 2.0

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

We are now in discussion with Government on the submitted project proposals for the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station) and the East Kowloon Line. We have also submitted the project proposal for the Tung Chung West Extension (and Tung Chung East Station), while that for the North Island Line will be submitted in the second half of 2018. We await Government's invitation in respect of the remaining two projects, namely Hung Shui Kiu Station and the South Island Line (West).

Government is conducting the planning study, "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030" to examine Hong Kong's future development. To meet the longer term demand for transport with rail as the backbone of public transport, Government is planning to take forward the related "Strategic Studies on Railways and Major Roads beyond 2030" in 2018. This study will examine the strategic transport infrastructure network (including rail) required to satisfy transport needs beyond 2030, including the demand arising from the two strategic growth areas, the East Lantau Metropolis and New Territories North.

Expanding the Property Portfolio

The expansion of our Hong Kong rail network yields additional opportunities for residential and commercial property developments.

Over the next four years or so our investment properties portfolio in Hong Kong will expand through the addition of a further 105,120 square metres GFA to the retail portfolio, increasing attributable GFA by approximately 34%. Following completion of Maritime Square 2 and seventh and eighth floors of Telford Plaza II, two projects remain underway, namely the new LOHAS Park shopping centre and the Tai Wai shopping centre. Foundation and superstructure works at both developments are in progress, with the projects targeted for completion by the end of 2020 and 2022 respectively.

In our residential development, during the past four years or so, 12 MTR property development packages have been tendered out and are now in various stages of planning and construction. Over 18,000 residential units, with a total GFA of over 1.15 million square metres, will be completed over the next six years.

We continue to look for other opportunities to develop property along our railway lines. Above our depot in Siu Ho Wan on Lantau Island around 14,000 residential units could be built, subject to the necessary zoning and other statutory approvals. The Environmental Impact Assessment reports were approved by Government in November 2017. The statutory planning procedures commenced with the draft Siu Ho Wan Outline Zoning Plan being agreed by the Town Planning Board for District Council consultation on 5 January 2018. The rezoning process for a second site, the Yau Tong Ventilation Building, was completed in April 2017 and the gazetted road works scheme was approved in August 2017. At this preliminary stage there is no assurance that either project would be commercially viable.

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

Outside of Hong Kong, we have leveraged our expertise to build a portfolio of railway related businesses in the Mainland of China, Europe and Australia. Our railway businesses outside of Hong Kong carried an average of around 6.49 million passengers per weekday in 2017.

Financial Performance

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Mainland of China Businesses			
Railway, Property Rental and Property Management Subsidiaries			
Revenue	**811**	814	(0.4)
EBITDA	**144**	167	(13.8)
EBIT	**137**	159	(13.8)
Property Development Subsidiaries			
Revenue	**6,996**	1,348	419.0
EBITDA	**2,314**	366	532.2
EBIT	**2,314**	366	532.2
Share of Profit of Associates and Joint Venture	**290**	226	28.3
International Businesses			
Railway Subsidiaries			
Revenue	**16,179**	12,664	27.8
EBITDA	**758**	421	80.0
EBIT	**629**	309	103.6
Share of Profit of Associates	**31**	60	(48.3)
Mainland of China and International Businesses			
Total EBITDA	**3,216**	954	237.1
Total EBIT	**3,080**	834	269.3
Total EBITDA Margin (in %)	**13.4%**	6.4%	7.0% pts.
Total EBIT Margin (in %)	**12.8%**	5.6%	7.2% pts.
EBIT from Mainland of China and International Railway, Property Rental and Management Subsidiaries (net of non-controlling interest) plus Share of Profit from Railway Associates and Joint Venture (before interest and tax)	**1,467**	888	65.2
Profit for the year attributable to shareholders of the Company:			
– Arising from the Mainland of China and International Railway, Property Rental and Management Businesses	**879**	516	70.3
– Arising from the Mainland of China Property Development Businesses	**1,019**	263	287.5
Total	**1,898**	779	143.6
Number of passengers carried by our Railway Subsidiaries and Associates outside of Hong Kong (in million)	**1,940**	1,828	6.1

In the Mainland of China, EBITDA from our railway, property rental and property management subsidiaries decreased by 13.8% to HK$144 million in 2017, mainly due to higher operating expenses at Shenzhen Metro Line 4 ("SZL4"). With the handover of high-rise and podium units in Tiara in Shenzhen, the sales proceeds and related costs were booked during the year. In our International businesses, the increase of 80.0% to HK$758 million in EBITDA from our railway subsidiaries was mainly due to initial profit recognition from the design and delivery works of the Sydney Metro Northwest ("SMNW") PPP project, as well as a full-year contribution from our new franchise, MTR Pendeltågen AB in Sweden, which we took over in December 2016. The decrease in share of profit of associates was mainly due to the end of the concession for London Overground Rail Operations Ltd. ("LOROL") in November 2016, partly offset by the contribution from operating the South Western Railway franchise since August 2017. Excluding the Mainland of China property development, our railway, property rental and management subsidiaries, associates and joint venture outside of Hong Kong contributed net after tax profits of HK$879 million on an attributable basis, representing 10.2% of our total recurrent profits.

Railway Businesses in the Mainland of China

Beijing

In Beijing, our 49% associate Beijing MTR Corporation Limited ("BJMTR") operates four lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14") and the Northern Section of Beijing Metro Line 16 ("BJL16").

On-time performance in 2017 averaged 99.9% across the four lines. For the year, the combined ridership of BJL4 and the Daxing Line was about 451 million passenger trips and average weekday patronage was more than 1.33 million, respectively 2.1% and 3.1% higher than 2016.

The first three phases of BJL14, which are now operational, recorded a combined 220 million passenger trips and average weekday patronage of about 687,000 in 2017. The new Pingleyuan Station on this line opened in December 2017.

BJL16 is a PPP project and the first phase, the 19.6-km Northern Section, commenced operation on 31 December 2016. In 2017 the line recorded 25 million passenger trips and average weekday patronage of about 77,000. Full line operation, which will mark the start of the operating concession, is targeted after 2018. The line's new Nongdananlu Station opened in December 2017.

Shenzhen

SZL4, operated by MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), achieved good operational performance during 2017, with patronage growing by 5.4 % to 210 million and average weekday patronage reaching 580,000. On-time performance was 99.9%.

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

Our consultancy subsidiary in Shenzhen entered into a project management agreement to supervise the construction of the Northern Extension of SZL4, which will be financed by the Shenzhen Municipal Government. The civil works continue to make progress towards a project target completion by the end of 2020. MTR(SZ) is in discussion with the Shenzhen Municipal Government regarding the operational arrangements for this extension.

Hangzhou

Our 49% associate in Hangzhou, Hangzhou MTR Corporation Limited, operates Hangzhou Metro Line 1. Patronage on this line is growing and increased by 13% in 2017 to 225 million, with average weekday patronage of 616,000. Operational performance was excellent, with on-time train performance at 99.9%. The share of loss increased to HK$68 million in 2017 mainly due to a one-off provision.

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

The construction of the HZL5 project is divided into Part A and Part B. Part A relates to the line's civil construction and Part B covers the E&M systems and rolling stock. Hangzhou Metro Group is responsible for the investment in, and construction of, Part A. We and Hangzhou Metro Group formed a joint-venture company in September 2017 to undertake the investment in, and construction of, Part B, as well as the operations and maintenance for 25 years after commencement of passenger service. We have a 60% interest in this joint venture company. The total Part B investment is estimated at RMB 10.9 billion which will be financed by the joint venture company through bank borrowings and equity investments from shareholders. We anticipate an equity investment from MTR of RMB 2.616 billion into this joint venture. Tendering and construction works of the line are now in full swing.

Property Businesses in the Mainland of China

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

In March 2017, a framework agreement was signed with a subsidiary of Beijing Capital Land Limited for the disposal of our 49% interest in Tianjin TJ-Metro MTR Construction Company Limited, as well as the conditional future acquisition of a shopping centre to be developed on the Beiyunhe Station site. Relevant government approval was obtained for the disposal of our 49% interest in July 2017 and the Sale and Purchase Agreement for the shopping centre was signed on 26 January 2018.

Our property development businesses in the Mainland of China achieved significant growth in revenue and profit due to development bookings related to Tiara. The Company also manages self-developed and other third party properties in the Mainland of China which, as at 31 December 2017, had a total GFA of 390,000 square metres. Our shopping mall in Beijing, Ginza Mall, is undergoing a partial revamp and was 99% occupied as at 31 December 2017 excluding the area under revamp.

European Railway Businesses

United Kingdom

MTR Corporation (Crossrail) Limited, a wholly owned subsidiary of the Company, operates services under the "TfL Rail" brand on a 32.5-km, 14-station route between Liverpool Street Station and Shenfield as the first phase in the Crossrail operating concession. The next phase, providing services between Paddington Station and Heathrow Airport, is planned to start in May 2018. TfL Rail will be renamed the Elizabeth Line when the tunnel section through central London is completed and becomes operational, targeted for December 2018. It will eventually extend to 118 km from east to west across London and serve 40 stations. Since June 2017, new trains have been progressively introduced into operation.

Through our associate, First MTR South Western Trains Ltd, we have partnered with FirstGroup plc on the South Western Railway franchise, as a 30% shareholder. The tender was awarded in March 2017 by the Department for Transport ("DfT") and the franchise was taken over in August 2017. South Western Railway is one of the UK's largest rail networks, with a route length of 998 km serving 203 stations, covering London and south western England. Since taking over the franchise, services have been affected by industrial action, which has been taken across a number of UK franchises at the same time. We have made every effort to maintain our railway services and minimise the associated disruption to passengers.

Nordic Region

MTR is the largest rail operator in Sweden in terms of passenger volume. We operate three key rail businesses in the country, namely Stockholm Metro, MTR Express and the Stockholm commuter rail ("Stockholms pendeltåg").

The operational performance of Stockholm Metro in 2017 was good, with new highs recorded for operational performance and customer satisfaction. Annual ridership was estimated at 353 million and average weekday patronage at 1.25 million.

MTR Tech AB, which carries out rolling stock maintenance for Stockholm Metro, also performed satisfactorily and was awarded the contract for a mid-life upgrade programme for part of the metro fleet.

MTR Express (Sweden) AB, our wholly-owned subsidiary which operates the MTR Express intercity service between Stockholm and Gothenburg, delivered excellent operational and customer service performance, making it the leading rail operator in the Swedish Quality Index 2017. Weekly departures have increased to 104 per week since December 2016. Passenger numbers have continued to rise, albeit below our original expectations. As a result, the subsidiary continued to report a loss in 2017, and we are making every effort to stem this loss through increasing patronage by way of continued delivery of quality services, enhanced marketing, and our own loyalty programme.

Our wholly-owned subsidiary MTR Pendeltågen AB operates the Stockholms pendeltåg service under a concession that runs for ten years to December 2026, with an option to extend for four more years. The concession includes the maintenance of rolling stock undertaken by Emtrain AB, a 50% owned associate together with EuroMaint Rail AB. Stockholms pendeltåg serves the greater Stockholm area, has 53 stations and a total route length of 247 km. Financial performance has been satisfactory. From an operational and customer service perspective, improvements have been seen since the takeover of the concession, although the introduction of a new timetable in December 2017 proved challenging, resulting in a withholding of service payments by our client. We are working hard to ensure the delivery of our committed service level.

Australian Railway Businesses

In Melbourne, our 60% owned subsidiary Metro Trains Melbourne Pty. Ltd. ("MTM") operates the 390-km Melbourne metro network. Operational performance was satisfactory in 2017, with punctuality recorded at 92%, against 87% when the franchise was taken over in 2009. The original eight-year concession ended in November 2017, and in September 2017 the Government of Victoria announced the award of a new concession for seven years to MTM, with a three years extension option. Under the new operations and maintenance agreement, MTM is committed to delivering further enhancements to railway operations, asset maintenance and customer service in Melbourne. These include adding more peak services, increasing maintenance to improve infrastructure and rolling stock reliability, upgrading CCTV cameras, providing more passenger information, cleaner trains and stations, as well as creating more career opportunities.

In Sydney, MTR is a member of a consortium which is responsible for the design, construction and financing, as well as the future operations and maintenance of the SMNW PPP project, which is the first stage of Sydney Metro. The 36-km SMNW line includes eight new metro stations and five existing stations upgraded to metro standards. Construction works for the depot and stations, as well as pre-operational planning for the project, are progressing. The first train was delivered to Sydney in September 2017 and has been undergoing testing. Future stages of Sydney Metro will see metro service extending into the central business district, with an ultimate capacity to provide metro train service every two minutes in each direction.

Growth Outside of Hong Kong

Growth outside our home market of Hong Kong comes from expanding in existing markets not only through existing types of businesses but also by seeking new opportunities such as rail-related property developments and PPP's, as well as the potential to expand into new markets.

Mainland of China and Macau

MTR signed a Cooperation Framework Agreement with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and BJMTR in November 2016 to conduct joint preliminary studies on integrated property development above selected existing station and depot sites along BJL4 and the Daxing Line (including the Nanzhaolu Depot). In January 2017 we signed a Letter of Intent ("LoI") with BIIC to extend the strategic co-operation to other, predominantly rail-related property development projects in Beijing in addition to investment in, construction and operation of other railway projects.

In November 2017, the Company signed a LoI with the Daxing District People's Government of Beijing Municipality, BIIC and BJMTR for studies on the southward extension of the Beijing Daxing Line, Nanzhaolu Depot capacity expansion, and integrated property development above the depot.

BJMTR is also seeking other railway opportunities in Beijing to expand its network further.

In August 2017, we signed a LoI with Chengdu Rail Transit Group covering strategic cooperation on metro, metro related property development and metro operations management training. We are now investigating the metro PPP and transit-oriented development opportunities in the city.

In Hangzhou, we are in discussion on another metro PPP project and are also exploring metro related property development opportunities.

We are also in active discussions with local governments and other bodies in Guangdong-Hong Kong-Macau Bay Area to explore rail and property development opportunities around stations and depots that would leverage our experience and track record in Shenzhen and Hong Kong.

In Macau, we were awarded a service contract to provide project management and technical assistance to the 11-station 9.3-km Macau Light Rapid Transit Taipa Line for Gabinete para as Infra-estruturas de Transportes of the Government of the Macao Special Administrative Region in 2016.

International

In the UK, we submitted our bid for the Wales and Borders rail franchise in December 2017 and the decision is expected in the second quarter of 2018. In partnership with Guangshen Railway Company Limited, an associated company of China Railway Corporation, we have been shortlisted to bid for the West Coast Partnership franchise in the UK. The franchisee will operate railway services on the West Coast Main Line from April 2019, and will act as the "shadow operator" to advise High Speed Two ("HS2") Limited and DfT on the preparation and operation of the initial HS2 services between London and Birmingham, scheduled to commence in 2026. The tender is expected to be released in the first quarter of 2018. In addition, we are exploring property development opportunities over and around rail stations in the UK.

In the Nordic region, a number of Norwegian rail services will be privatised and we submitted our first tender in March 2018 for the Traffic Package South (Trafikkpakke Sør) Operating Concession in southern Norway. We are also examining property development opportunities over and around rail stations in Stockholm.

In Australia, we are pursuing the Sydney Metro City and Southwest ("SMCSW") project, a 30-km extension of SMNW. Early works by Transport for New South Wales ("TfNSW") have commenced and the line is targeted to open in 2024. The SMCSW Consortium, formed by MTR and certain other participants in SMNW, submitted a non-binding initial proposal to TfNSW in March 2017 to participate in the SMCSW project. Subsequently, a commitment deed was entered into with TfNSW in December 2017 which will allow the SMCSW Consortium to submit an updated proposal in late 2018 to deliver and integrate trains and systems, as well as to operate the SMCSW line.

As a potential step into North America, we were pre-qualified as operator for the Toronto Regional Express Rail project in Canada in December 2017. The project will transform the existing GO Transit diesel-rail commuter system into an electrified railway network in the Greater Toronto and Hamilton area. The bid process for the project (including the operator) is expected to commence later in 2018.

FINANCIAL REVIEW

Profit and Loss

In 2017, the Group recorded a substantial 22.7% increase in revenue to HK$55,440 million, reflecting mainly the contributions from Tiara, the full 12-month operation of the Stockholms pendeltåg service by MTR Pendeltågen AB since the franchise commencement in December 2016 and the increase in design and construction activities of the SMNW PPP project.

Operating profit from recurrent businesses (being operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment) increased by 4.3% to HK$17,677 million. The increase was mainly due to higher EBITDAs of the Hong Kong station commercial and property rental businesses resulting from the rental income growth of our Duty Free Shops, station shops and shopping malls, as well as higher EBITDA of the Mainland of China and international businesses

resulting from the recognition of operating profit from the design and construction activities of the SMNW PPP project. The increase was partly offset by a decrease in EBITDA of Hong Kong Transport Operations mainly due to higher staff costs whilst fare adjustment in 2017/2018 was rolled over to 2018/2019 according to the FAM, as well as lower EBITDA from Ngong Ping 360 due to the service suspension of the Ngong Ping Cable Car from 9 January 2017 to 4 June 2017 to carry out rope replacement. Operating margin from recurrent businesses decreased by 2.2 percentage points to 36.5%, mainly due to higher contributions from our Mainland of China and international businesses where operations and maintenance (O&M) operations carry lower operating margin, and higher staff costs in Hong Kong Transport Operations combined with the roll over of fare adjustments. Excluding the Company's Mainland of China and international subsidiaries, operating margin from recurrent businesses decreased by 0.6 percentage point to 53.3%.

Hong Kong property development profit was HK$1,097 million, derived from the agency fee income from the West Rail property developments (mainly including Cullinan West and Cullinan West II, Ocean Pride, Ocean Supreme, THE PAVILIA BAY, PARC City and The Spectra), sales of inventory units and car parking spaces, and further surplus proceeds arising from the finalisation of development costs for completed property development projects.

Operating profit from our Mainland of China property development, after profit sharing with the Shenzhen Municipal Government for the Tiara development, was HK$2,314 million. It was derived predominantly from profit recognition of the high-rise units handed over at Tiara which comprised the vast majority of the development.

Depreciation and amortisation charges increased by 17.6% to HK$4,855 million, mainly due to the opening of the Kwun Tong Line extension and the South Island Line in the last quarter of 2016. Variable annual payment to KCRC increased by 8.2% to HK$1,933 million with incremental revenue charged at the top progressive rate of 35%.

After taking into account Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment, operating profit before interest and tax therefore increased by 22.1% to HK$14,300 million.

Interest and finance charges were HK$905 million, representing an increase of 47.9% over 2016 due to interest costs relating to the Kwun Tong Line extension and the South Island Line which, when the lines opened at the end of 2016, are no longer capitalised. Investment property revaluation gain amounted to HK$6,314 million reflecting mainly yield compression particularly in offices. Our share of profit from Octopus Holdings Limited decreased by 30.5% to HK$173 million. Our share of profit from other associates and joint venture was HK$321 million, an increase of 12.2% as compared with 2016. The increase was primarily due to higher share of profits from BJMTR resulting from revenue improvement, partly offset by lower contributions from LOROL as the concession ended in November 2016.

Net profit attributable to shareholders, after deducting income tax of HK$3,318 million and profits shared by non-controlling interests of HK$56 million, increased by 64.1% to HK$16,829 million in 2017. Earnings per share therefore increased 62.6% from HK$1.74 to HK$2.83. Excluding investment property revaluation which is a non-cash accounting adjustment, the underlying profit attributable to shareholders increased by 11.3% to HK$10,515 million, with underlying earnings per share of HK$1.77. Within this total, our recurrent profit decreased by 3.8% to HK$8,580 million, while post-tax property development profit increased from HK$530 million to HK$1,935 million. Return on average equity attributable to shareholders arising from underlying businesses was 6.7% in 2017, compared to 5.9% in 2016.

Statement of Financial Position

Our financial position remained strong. The Group's net assets increased by HK$16,870 million from HK$149,556 million as at 31 December 2016 to HK$166,426 million as at 31 December 2017.

Total assets increased by HK$6,428 million to HK$263,768 million, mainly due to the increase in fixed assets arising from revaluation gain on investment properties, renewal and upgrade works for our existing Hong Kong railway network, as well as the increase in debtors and other receivables mainly resulting from the purchase of tax reserve certificates. The increase in total assets was partly offset by the decrease in

property development in progress upon profit recognition of Tiara, as well as the decrease in cash balances after dividend payments. Total liabilities decreased by HK$10,442 million to HK$97,342 million. This was mainly due to the payment of the second tranche of special dividend previously accrued, partly offset by the increase in total borrowings. The Group's net debt-to-equity ratio increased from 20.2% at 31 December 2016 to 20.6% at 31 December 2017. If the land premium in respect of Wong Chuk Hang Station Package 2 (which was paid in January 2018) was excluded from the cash balance, the Group's net debt-to-equity ratio at 31 December 2017 would have been 23.7%.

Cash Flow

Net cash generated from operating activities increased by HK$2,468 million to HK$19,603 million in 2017, mainly reflecting higher operating EBITDA and a decrease in tax payments. Receipts from property developments were HK$3,344 million, a decrease of HK$2,059 million compared to 2016, mainly due to substantial cash receipts in 2016 from the Tiara development, partly offset by higher cash receipts from Hong Kong property developments in 2017. Including other cash receipts of HK$517 million primarily from the proceeds of share issuance under our share option scheme and dividend received from Octopus Holdings Limited, net cash receipts amounted to HK$23,464 million in 2017.

Total capital expenditure was HK$8,523 million. This comprised HK$5,226 million for the purchase of assets for our Hong Kong existing railways and related operations, HK$1,342 million for the settlement of payables relating to the Hong Kong railway extension projects, HK$1,127 million for investment in Hong Kong property related businesses and HK$828 million for investment in Mainland of China and overseas subsidiaries. Total capital expenditure was lower than 2016 by HK$3,416 million due to higher capital expenditure in 2016 for our Hong Kong railway extension projects.

The Group also paid HK$2,537 million in fixed and variable annual payments to KCRC in accordance with the Service Concession Agreement with KCRC, as well as ordinary dividends and the second tranche of special dividend under the XRL Agreement to our shareholders totalling HK$15,358 million. Taking into account the cash investment into the HZL5 joint venture of HK$310 million and other payments, total cash outflow amounted to HK$27,500 million in 2017.

Therefore, net cash outflow before financing amounted to HK$4,036 million. Including the cash inflow from net borrowings of HK$1,494 million and the effect of exchange rate changes on cash position in foreign currencies, the Group's cash balance decreased by HK$1,936 million to HK$18,354 million at 31 December 2017.

HUMAN RESOURCES

The Company, together with our subsidiaries, employed 17,524 people in Hong Kong and 10,781 people outside of Hong Kong as at 31 December 2017. Our associates employed an additional 15,317 people in and outside of Hong Kong. We have a stable workforce, with a low staff turnover rate in Hong Kong at 4.5% in 2017.

We firmly believe that people are MTR's most valuable asset and we make great efforts to support the personal growth and career development of our employees, so as to meet the changing manpower needs of our business. Robust human resources strategies are in place in Hong Kong, and in our Mainland of China and international business hubs to support our current operational needs and future business growth. We nurture our talents by assessing their potential and meeting their specific development needs through various means including coaching, job rotation and overseas assignments. We also provide comprehensive training and development programmes to our colleagues. During 2017, our colleagues in Hong Kong attended an average of 7.1 training days. To engage our people as well as to listen to their views, more than 7,800 two-way staff communication sessions were held in 2017 to collect opinions and suggestions.

Our commitment to inspiring, engaging and developing our people was recognised by several awards during the year. MTR was named as the most attractive employer in Hong Kong at the "Randstad Employer Brand Awards 2017", marking the fifth year in a row we have been included among the top five and the second time we have achieved first place. The Company was also honoured with five awards in "Human Resources Asia Recruitment Awards 2017" organised by Human Resources Magazine for our achievements in talent acquisition and management. In recognition of our efforts in talent

development, the Company received two honours in "Award for Excellence in Training and Development 2017" organised by the Hong Kong Management Association.

MTR ACADEMY

The MTR Academy ("MTRA") has continued to develop as a railway management and engineering centre that offers high quality programmes which extend the Company's rail expertise from Hong Kong to the Mainland of China and "Belt and Road" countries. MTRA also offers accredited programmes and short courses to nurture the next generation of railway professionals for the community. In 2017, over 1,000 participants from Hong Kong and overseas attended MTRA programmes.

MTRA is gaining increasing recognition globally and provides professional support for organisations in various countries, such as PT MRT Jakarta, which is seeking support for its development of Indonesia's first mass transit system. In October 2017, MTR signed a Memorandum of Understanding with Hangzhou Metro Group to set up a branch campus of MTRA in Hangzhou. The campus will deliver a high quality training curriculum for railway executives and professionals and conduct research in the rail transport field. Discussions are underway regarding the planning and detailed collaboration arrangements.

OUTLOOK

Global economic growth picked up in 2017, with the trend expected to continue in 2018. Hong Kong's economy has also improved, with recovery in tourist arrivals, retail sales and exports, trends which may continue into 2018. Nonetheless, areas of concern remain, including rising US interest rates and geopolitical uncertainties.

Economic growth and the rebound in tourist arrivals will benefit our Hong Kong transport business with continuous growth in passenger volume. With the roll-over of the FAM adjustment rate for 2017/2018 into 2018/2019, the adjustment in mid-2018 will include the 1.49% carried over from 2017. Furthermore, subject to finalisation of the operating agreement with Government, we look forward to the opening of the Express Rail Link in the third quarter of 2018. Rental reversions in our station commercial and property rental businesses will be subject to market conditions although given the normal three-year tenancy cycle, maintaining the peak rents achieved in 2015 may be a challenge. Our advertising business will be dependent on economic conditions in Hong Kong. Following the opening of Maritime Square 2, we are progressing with the LOHAS Park and Tai Wai shopping centre projects.

Profit from Hong Kong property development in 2018 will be dependent on the issuance of Occupation Permit for Wings at Sea and Wings at Sea II of LOHAS Park Package 4, which we currently expect to receive towards the end of 2018. Subject to market conditions, we aim to tender out four property development packages over the next 12 months or so. These packages are likely to be our second package at Ho Man Tin Station, our eleventh package at LOHAS Park, our third package at Wong Chuk Hang Station and the Yau Tong Ventilation Building site. These packages are expected to provide about 4,200 residential units in total.

The financial performance of our businesses outside Hong Kong in 2018 will be supported by a full year contribution from the South Western Railway franchise in the UK and the renewed concession for Melbourne's Metropolitan Rail Service in Australia. To accelerate our expansion in the Mainland of China and internationally, we are pursuing a number of rail franchise opportunities and are also reviewing potential rail related property developments.

Finally, I wish to thank all my colleagues at MTR for their contributions during the year. It is their hard work and commitment to excellence that underpin our consistently high levels of performance.

Lincoln Leong Kwok-kuen
Chief Executive Officer
Hong Kong, 8 March 2018

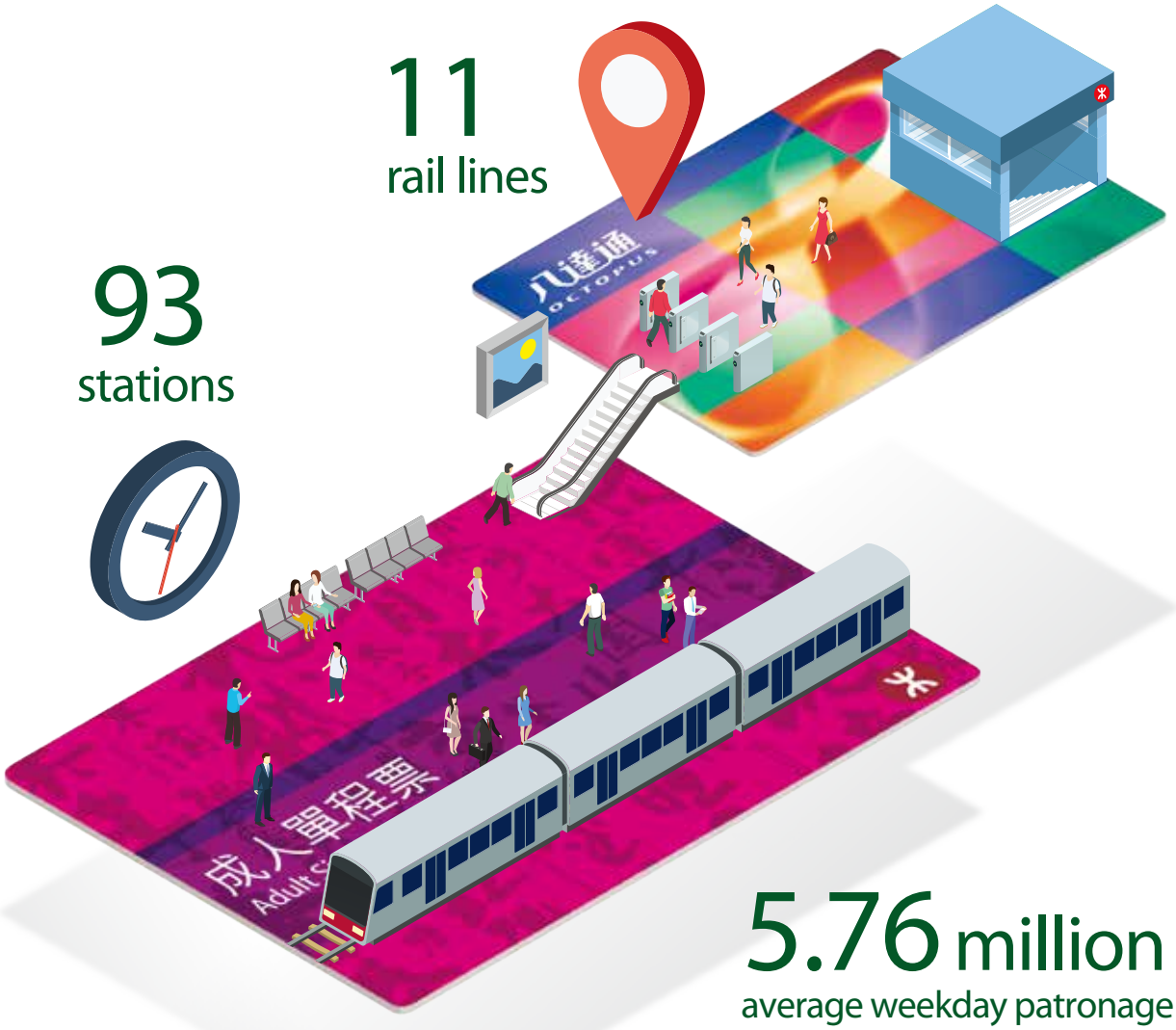
HONG KONG TRANSPORT OPERATIONS

99.9%
passenger journeys on-time

230.9km
route length

11
rail lines

93
stations



5.76 million
average weekday patronage in Hong Kong

Early review of
FAM concluded
with all passengers to benefit

Our Aims and Achievements

We aim to be the best public transport service provider in Hong Kong, offering safe, reliable and caring service to our customers. At the same time we seek to generate sustainable returns, thereby enabling us to make the investments required to maintain high levels of service and meet customers' present and future needs. These involve replacing and upgrading our existing railway assets as well as investing in new railway lines. Together, they form "Rail Gen 2.0", a next generation rail that will support Hong Kong's development as an economy and as a society.

In 2017, our services were again amongst the safest and most reliable in the world. We continue to gain a deeper understanding of our customers to allow us to plan ahead and devise enhancements to our services, as outlined in our 2030 Customer Experience Vision Blueprint. To support the Belt and Road initiative, the MTR Academy shall play a strategic role in promoting the export of Hong Kong's railway industry skills and knowledge.

Our Challenges

- **Express Rail Link opening in the third quarter of 2018:**
  prepare for passenger service commissioning and provide efficient and reliable high-speed rail journeys to the public by the third quarter of 2018
- **Managing major asset upgrades and replacements:**
  carry out required major asset upgrades and replacements without compromising our service performance or the customer experience
- **Safety of project interfaces:**
  ensure a smooth transition from project completion to operations in order to ensure the safety of all concerned
- **Workforce transition and digitisation:**
  deliver extensive training to our railway operations employees relevant to the innovative technologies we are introducing

Our Strategies

- **Safety First, Excellent Service:**
  cultivate our robust "Safety First" culture. Equip staff with clear guidelines and sound training regarding operations and customers. Continue to raise customers' safety awareness
- **Maintaining Very High Performance Standards:**
  maintain world-class levels of service performance that exceed the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. Continue our stringent maintenance regime, investing significantly in renewing and upgrading our railway assets
- **Customer Engagement and Experience:**
  understand and deliver what matters most to our customers, enhancing the travelling experience and meeting the needs arising from an aging population and service digitisation
- **Staff Development:**
  treat people as our most valuable asset, be committed to inspire, engage and develop our employees while continuing to offer long-term, rewarding careers in various disciplines
- **MTR Academy:**
  aim to become a globally recognised railway management and engineering centre of excellence providing programmes for our staff, Hong Kong and the global railway industry

HONG KONG TRANSPORT OPERATIONS

EBITDA
HK$7,475m
↓2.1%

EBIT
HK$1,656m
↓35.6%

FINANCIAL PERFORMANCE

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**18,201**	17,655	3.1
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**7,475**	7,633	(2.1)
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**1,656**	2,572	(35.6)
EBITDA Margin (in %)	**41.1%**	43.2%	(2.1%) pts.
EBIT Margin (in %)	**9.1%**	14.6%	(5.5%) pts.

Total revenue of the Hong Kong transport operations rose by 3.1% to HK$18,201 million in 2017, benefiting mainly from the growth in patronage. EBITDA decreased by 2.1% to HK$7,475 million, mainly due to increases in staff costs, while fare adjustment for 2017/2018 was rolled over to 2018/2019. The opening of the two new lines, as previously highlighted, has increased the depreciation and amortisation charges significantly, resulting in EBIT decreasing by 35.6% to HK$1,656 million.

SAFETY

Safety is an absolute priority for MTR and in 2017 there were 5.5% fewer reportable events on the Hong Kong heavy rail network and light rail network than in 2016, another excellent performance.

Our "safety first" culture was well demonstrated by our response to the arson attack on one of our trains on 10 February 2017. The Executive Review Panel we set up to investigate the incident concluded that its handling had been robust, orderly, speedy and effective. The panel's report was submitted to Government on 25 April 2017 and contained various initiatives to raise public awareness and enhance risk management. Several programmes to strengthen customers' awareness about fire safety and improve their knowledge of station evacuation procedures were launched in 2017. In addition, more portable fire extinguishers were installed in stations.

Programmes to enhance safety on escalators continued, while a Platform Gap Special Task Force was formed to look into improving relevant safety performance further. Trial of a new "Platform Gap" safety label commenced at Kwun Tong Station and was subsequently extended to Admiralty, Wan Chai and Causeway Bay stations.

HONG KONG TRANSPORT OPERATIONS

PATRONAGE AND REVENUE

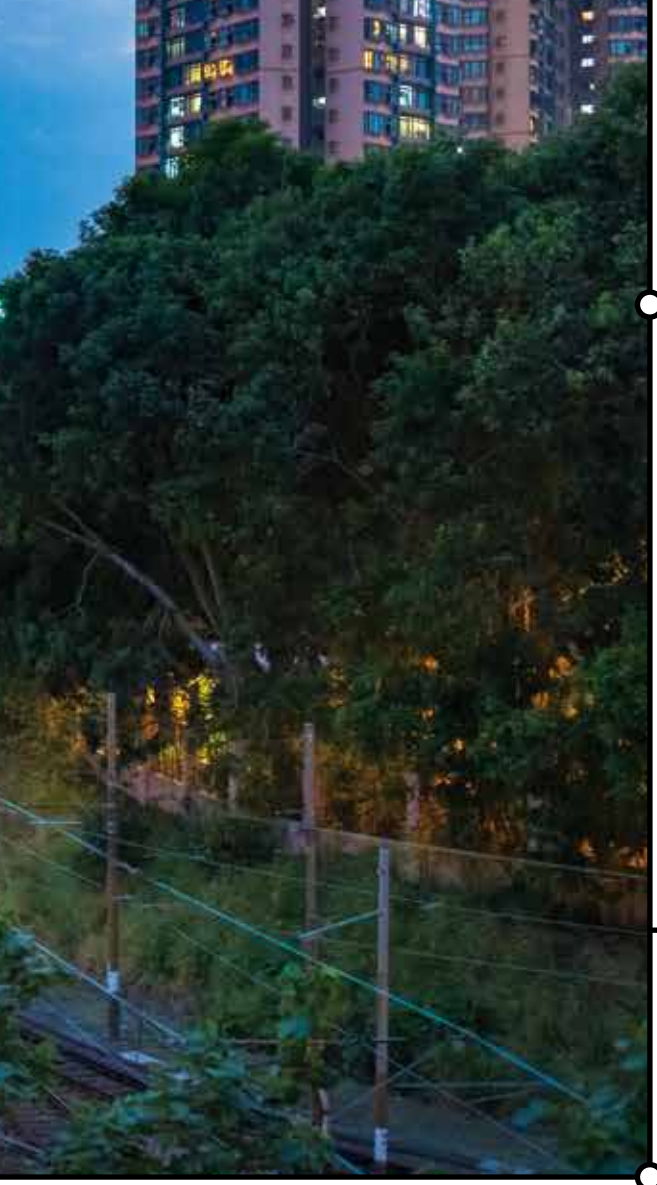
Fare revenue figures from our Hong Kong transport operations are as follows:

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Fare Revenue			
Domestic Service	**12,840**	12,395	3.6
Cross-boundary Service	**3,277**	3,252	0.8
Airport Express	**1,076**	998	7.8
Light Rail and Bus	**707**	707	–
Intercity	**135**	137	(1.5)
Total Fare Revenue	**18,035**	17,489	3.1

Our patronage benefited from the stronger economy and the opening in 2016 of the two new rail lines. Total patronage for all of our rail and bus passenger services increased by 2.6%, for the first time surpassing 2,000.0 million passenger trips per annum.

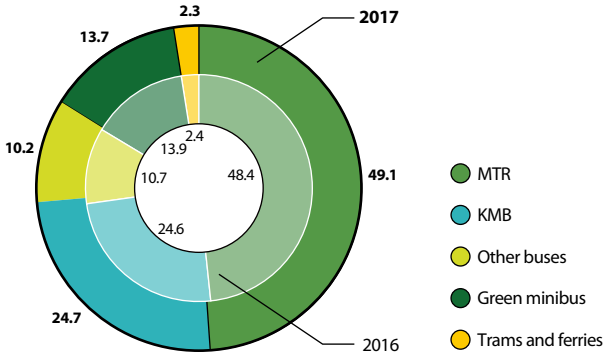
For the Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail, Ma On Shan and South Island lines), total patronage reached 1,637.9 million, a 3.2% increase over 2016. The Cross-boundary Service to Lo Wu and Lok Ma Chau saw patronage decrease by 0.6% to 112.5 million, mainly as a result of continued strong competition from other modes of transport. Patronage on the Airport Express rose by 3.0% to 16.6 million, supported by an increase in air passenger traffic.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong in 2017 rose by 3.0% to 5.76 million. The Domestic Service, which accounts for the majority of this patronage, reported a 3.6% increase to 4.77 million.



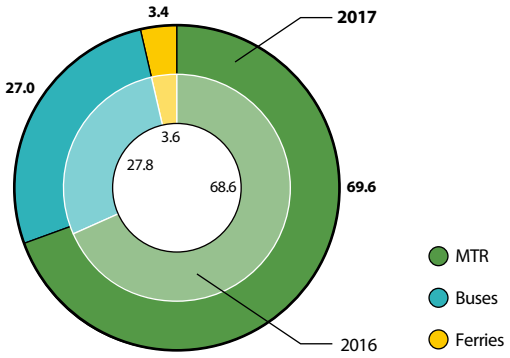
Market Share of Major Transport Operators in Hong Kong

(Percentage)



Market Share of Major Transport Operators Crossing the Harbour

(Percentage)

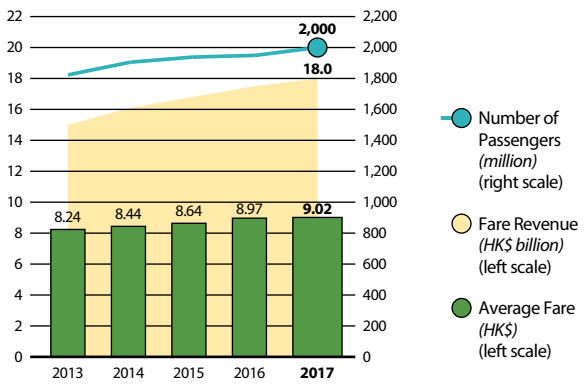


MARKET SHARE

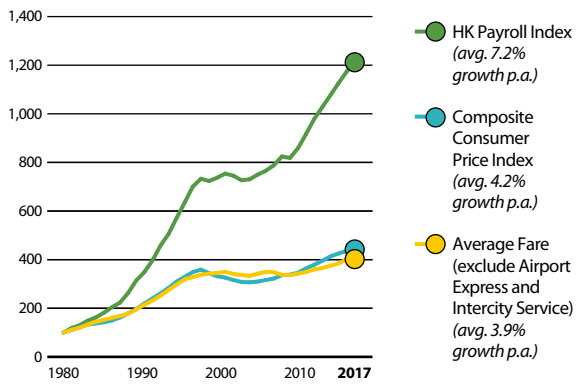
The Company's overall share of the franchised public transport market in Hong Kong in 2017 was 49.1%, compared to 48.4% in 2016. Within this total, the share of cross-harbour traffic was 69.6%, compared to 68.6% in 2016.

Competition from other modes of transport reduced our share of the Cross-boundary business from 51.2% to 50.8%. Our market share to and from the airport increased marginally from 21.4% to 21.5%.

Passengers and Fares



Fare Trend



FARE ADJUSTMENTS, PROMOTIONS AND CONCESSIONS

Our fares are governed by the Fare Adjustment Mechanism ("FAM"), which is subject to regular review. On 21 March 2017, we announced that the early review of the FAM, conducted jointly with Government, had concluded, resulting in revised arrangements designed to benefit all passengers, whilst ensuring the financial sustainability of the Company. During the review process, we listened to the opinions of different stakeholders, including passengers and shareholders. Two important pillars of the FAM remain unchanged, namely the FAM formula itself and the "direct-drive" nature of the formula's application. However, two key new features have been introduced that benefit passengers directly:

- Special adjustment for six years. The calculated fare adjustment rate is being reduced by 0.6 percentage point each year from 2017/2018 to 2022/2023 through a special annual adjustment outside of the FAM formula. For 2017/2018, the overall fare adjustment rate has been further reduced by 10%
- Rebate linked directly to business profit. A 3% rebate is being offered for each Octopus trip for at least six months each year from 2017/2018 to 2022/2023. This will be done by topping up where necessary the concession amount set aside in accordance with an enhanced Profitability-Linked Arrangement and Service Performance-Linked Arrangement. The rebate for 2017/2018 ended on 17 December 2017

In addition to the above two new features, a new discount of HK$0.3 for interchange between MTR and 500-plus GMB routes will be offered to Octopus users starting from the second quarter of 2018.

The next scheduled review of the FAM will be in 2022/2023, with its application starting in mid-2023.

After applying the FAM formula, the special annual adjustment of 0.6 percentage point and the one-off 10% discount, the calculated Overall Fare Adjustment Rate for 2017/2018 came to +1.49%. This is within the range of ±1.5%, under which, according to the FAM, the adjustment rate has been rolled over to the following year (2018/2019). Hence, there was no adjustment of MTR fares in 2017/2018.

Frequent MTR travellers commuting on medium to long distance journeys to the urban area and across the harbour can continue to enjoy fare savings by using five types of "Monthly Pass Extra" and MTR City Saver. Furthermore, the validity of the MTR City Saver sold from 1 July 2017 onwards has been extended from 30 days to 40 days, counting from the day of first use. The "Early Bird Discount Promotion" Programme has also been extended for one year up to 31 May 2018.

These saving schemes are in addition to our ongoing fare concessions and promotions, which amounted to over HK$2.6 billion in 2017 and target eligible passengers such as students and the elderly. MTR is currently the only major transport operator in Hong Kong to provide discounts to students on every trip.

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

On 11 October 2017, the Chief Executive of the Hong Kong SAR in her inaugural Policy Address proposed a Public Transport Fare Subsidy Scheme. MTR welcomes the scheme and will fully support its implementation.

SERVICE PERFORMANCE

Train service delivery and passenger journeys on-time in our heavy rail network in 2017 remained at a world-class level of 99.9%. As a result, we exceeded both the targets in our Operating Agreement and our own more stringent, Customer Service Pledges. More than 2.11 million train trips were made on our heavy rail network and around 1.09 million trips were made on our light rail network during the year. In 2017 there were nine delays on the heavy rail network and one delay on the light rail network, each lasting 31 minutes or more which were caused by factors within our control. We continue to work diligently to reduce both the number of delays and the impact on passengers.

On 5 August 2017, a signalling system problem occurred on the Kwun Tong Line that caused delays. We set up an Executive Review Panel to examine the cause of the incident and the handling procedures, and identify areas for improvement. The panel concluded that the incident was managed in a safe manner according to established procedures. The signalling fault was found to have resulted from intermittent data loss caused by the corrosion of electrical contacts in a junction box near Ngau Tau Kok Station. To reduce the risk of a similar signalling failure incident in future, the copper datalink system concerned was converted to a fibre optic system with a higher fault tolerance in October 2017. Other recommendations

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

Metro system network data (2016)	**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)*	**1,700**	1,593	553	1,008	1,543	1,399	1,663	581	2,367	1,785	1,552	489	672	768	1,970	888	740
Car kilometres *(million)*	**288**	455	128	199	251	585	383	180	821	559	262	110	135	135	487	115	127
Route length *(km)*	**200**	460	146	187	301	427	226	286	339	532	206	115	104	130	588	69	131
Number of stations	**91**	232	173	147	164	270	163	248	189	425	303	66	100	79	305	61	108

* *The Lines included in the CoMET metro benchmarking programme are Kwun Tong Line, Tsuen Wan Line, Island Line, South Island Line, Tung Chung Line, Tseung Kwan O Line, 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, 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, Delhi Metro Rail 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.

by the panel are now being implemented. These include improving passenger communications and information dissemination during such atypical situations and enhancing the regular maintenance of data cables.

Customer satisfaction regarding our services and fares is measured by regular surveys and research, and reflected in the Service Quality Index and Fare Index respectively:

Service Quality Index	**2017**	2016
Domestic and Cross-boundary services	**69**	69
Airport Express	**83**	83
Light Rail	**69**	69
Bus	**70**	69

Fare Index	**2017**	2016
Domestic and Cross-boundary services	**58**	58
Airport Express	**73**	74
Light Rail	**68**	68
Bus	**66**	66

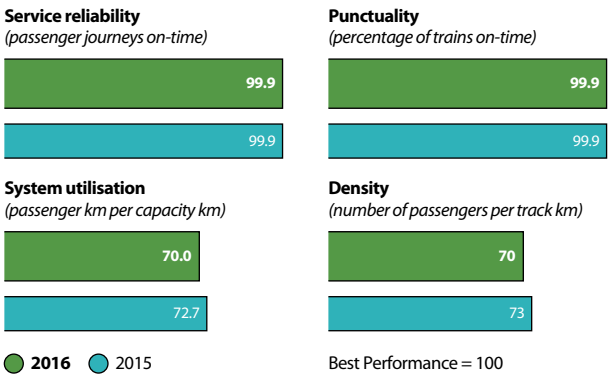
RECOGNITION OF OUR SERVICES

MTR's high level of service was again recognised by a number of awards, some of which are listed in the table below:

Awards Received	Organisation
Hong Kong Service Awards 2017 • Public Transportation Category Award • Corporate Responsibility Award • Distinguished Achievement 10-year Award	East Week Magazine
Sing Tao Service Awards 2016 • Category Award of Public Transportation • Category Award of Corporate Voluntary Team	Sing Tao Daily
Top Service Awards 2017 • Category Award of Public Transportation • Best Staff Award – Bronze Award	Next Magazine
IDC Digital Transformation Awards 2017 • Hong Kong Digital Transformer of the Year • Asia Pacific Digital Transformer of the Year	International Data Corporation
Customer Service Excellence Award 2017 • Grand Award – Gold Award	Hong Kong Association for Customer Service Excellence
Best .hk Website Awards 2016 • Commercial Category (Corporate Stream) – Gold Award • Most Liked .hk Website Award	Hong Kong Internet Registration Corporation Limited

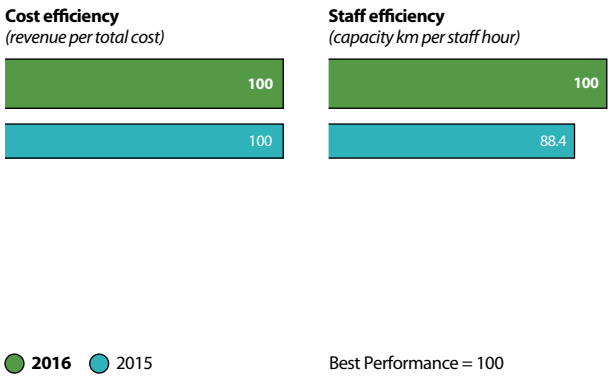
Benchmarking Comparisons

MTR Performance vs. Best Performance



Cost and Staff Efficiency

MTR Performance vs. Best Performance



Operations Performance in 2017

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, South Island 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, South Island 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, South Island Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.7%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– 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, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	650,000	**5,202,676**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	650,000	**8,158,284**
Ticket reliability: smart ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	9,500	**68,442**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.8%**
– Light Rail	N/A	99.0%	**99.7%**
Ticket machine reliability*			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island 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%	**99.8%**
– West Rail Line	97.0%	99.0%	**99.5%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island 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, South Island 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, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.7%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.7%**
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	92.0%	**99.8%**
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%	**99.6%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within six working days	N/A	99.0%	**100.0%**

* *Performance data for Light Rail will be available after completion of installation, testing and trial operations of the new ticket machines.*

RAIL GEN 2.0

Rail Gen 2.0 encapsulates our near term rail business growth in Hong Kong, which in addition to the two new rail projects under construction, also covers major upgrades and replacements on the existing rail network, as well as initiatives to enhance customer experience through the use of technology. In 2017, more than HK$8.6 billion was spent on maintaining, upgrading and renewing our Hong Kong railway assets.

New Railway Projects

The two remaining new railway projects under construction, namely the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Shatin to Central Link, will improve connectivity across Hong Kong and with the Mainland of China when they are completed. Further information on these projects can be found under the section headed "Hong Kong Network Expansion".

Major Asset Upgrades and Replacements on the Existing Network

New Trains

A total of HK$6 billion is being spent on 93 new, more comfortable 8-car trains to replace those on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. The first 8-car train was delivered to Hong Kong in January 2018, with the final batch of trains due to be delivered in 2023. The trains will undergo stringent testing and commissioning procedures in Hong Kong before they are put into service.

New Light Rail Vehicles

With demand for our light rail services increasing, we are replacing 30 light rail vehicles and purchasing ten additional vehicles, all at a cost of HK$745 million. The first batch of light rail vehicles will be delivered to Hong Kong in 2018 and the vehicles will enter passenger service progressively between 2019 and 2023.

Upgrade of Signalling System

The existing signalling systems on the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express, are undergoing replacement at a total cost of HK$3.3 billion. The Tsuen Wan Line is being re-signalled first, and installation of new signalling equipment along the trackside and in indoor areas has been substantially completed. Train testing during non-traffic hours is underway. The Tsuen Wan Line re-signalling is targeted for completion towards the end of 2018 or early 2019. It will be followed by other lines progressively. The overall completion is expected in 2026.

Replacement of Chillers

Contracts for the replacement of 160 chillers at 38 stations and four depots were awarded. Installation works for the replacement of the first 29 chillers in seven stations and two depots commenced in December 2017, with targeted completion in April 2018. These works will be followed by the replacement of chillers in our other stations and depots.

Major Interfacing Works

Under the Shatin to Central Link project, the existing 28 7-car trains on the West Rail Line are being converted to 8-car trains to enhance existing train services and to serve the future East West Corridor of the new line. By 31 December 2017, 24 of the converted 8-car trains had entered service on the West Rail Line and all are targeted to be in service by mid-2018. The existing 15 4-car trains on the Ma On Shan Line have also been replaced by 8-car trains. As of 31 December 2017, all new and converted 8-car trains had come into service. Our project to retrofit Automatic Platform Gates on the Ma On Shan Line was also completed in December 2017, one year earlier than the original target.

Enhancing the Customer Experience through Technology

Under Rail Gen 2.0, in addition to new lines and major asset upgrades, we aim to enhance our passengers' journey experience through the application of new technology. We have launched a series of digital initiatives, including improvements to the MTR Mobile app, which leverage on innovative technology to provide more personalised services to customers while facilitating smoother railway operations.

The MTR Mobile app has over 1 million monthly active users and in September 2017, two new functions, "In-station Finder" and "Fast Exit" were launched. In-station Finder, for which Admiralty Station served as a pilot station, allows users to find their way to interchange platforms and station facilities more easily. Fast Exit, which applies to all railway stations, recommends to passengers the specific train car and door that will be nearest to their desired exit at their destination station. The enhanced Traffic News function now provides more timely operational and alternative transportation information to passengers in the event of extended train service delays. To help passengers

plan their journeys ahead even better, Green, Yellow and Red indicators have been introduced to represent the real-time status of each rail line in the MTR Mobile app and on the MTR website. A new "Ticket Suggestion" function was also launched on the MTR website and MTR Mobile app in June 2017. This new function helps passengers choose the ticket type with the lowest fare based on their travel patterns. In January 2018, a "Chatbot" function was launched for the MTR Mobile app that provides customers with information about their destination, as well as offering a more personalised experience.

With electronic payments becoming increasingly popular, in December 2017 we rolled out a trial scheme to accept Alipay and WeChat Pay at certain ticket machines at Lo Wu and Lok Ma Chau stations. The trial scheme will be gradually extended to Tsim Sha Tsui, East Tsim Sha Tsui and Causeway Bay stations by the first half of 2018.

OTHER NETWORK IMPROVEMENTS

Providing more frequent services

Further enhancements to train services during 2017 commenced in February, when 148 extra weekly train trips were added to the Kwun Tong, Tsuen Wan and Island lines, increasing frequency and convenience, especially on Fridays and at weekends.

Enhancing station facilities

The improvement works at Mong Kok Station were completed, with one new escalator installed in August 2017. One new lift was installed at Kowloon Tong Station in December 2017. Six hydraulic lifts at Kwun Tong, Quarry Bay, Causeway Bay, Kowloon Tong and Fanling stations were refurbished as traction lifts and opened for public use during the year.

A new 300-metre long footbridge connecting Tsz Ching Estate and Tsz Wan Shan Shopping Centre was opened for public use on 19 October 2017. This is the last pedestrian facility built under the Shatin to Central Link project to improve the walking environment for pedestrians in the Tsz Wan Shan area. A new pedestrian subway and entrance at Wan Chai Station were opened in December 2017 to enhance connectivity.

Responding to Changing Needs

As outlined in our 2030 Customer Experience Vision Blueprint, we are gaining a deeper understanding of customers which enables us to respond to their needs. During 2017, service improvements were made in line with this vision, including free mobile device charging service at "iCentres"

in 13 stations and additional "Free Wi-Fi" hotspots at Lo Wu and Lok Ma Chau stations. We have also responded to the growing needs for breastfeeding facilities in the community. With the understanding and joint efforts of our station colleagues, we have created breastfeeding space at the staff rest rooms located in 20 interchange stations since December 2017, providing passengers in need with a comfortable breastfeeding environment. We are also in the process of installing public toilets and baby care rooms at seven interchange stations alongside with their respective major renovation works.

To meet the needs of an ageing population, we have identified four key areas for improvement, namely accessibility, mobility, toilet provision and information provision. We are now developing the related age-friendly provisions which will be gradually rolled out starting from 2018. In September 2017, a trial scheme began offering free accessible-car service for wheelchair users to facilitate their use of the station's barrier-free Entrance D1 on Taikoo Shing Road. In October 2017, works to install public toilets at two interchange stations, namely Tiu Keng Leng and Yau Tong stations, commenced and are expected to be completed by the first half of 2019. A re-layout of male, female and accessible toilets and provision of a nursery room at Hung Hom Intercity Departure Hall was completed during 2017.

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

Improving passenger communications

As part of our continuing efforts to ensure timely and relevant information for passengers, roll out of the new generation of Passenger Information Displays in Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines had substantially been completed during 2017. Improvements were also made to on-board information on the Airport Express and buses.

System Information

Railway operation data	2017		2016	
Total route length *(km)*	**230.9**		230.9	
Number of rail cars	**2,244**		2,146	
Daily hours of operation				
Island Line, Tsuen Wan Line, Kwun Tong Line, Tseung Kwan O Line, South Island 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
– South Island Line	**200**	**200**	200	200
– 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

HONG KONG STATION COMMERCIAL BUSINESSES

1,416
station shops with
58,716 m²

46,735
advertising units
in stations and trains

4G
data access
along the
journey

Our Aims and Achievements

We aim to enhance the journey experience of our customers by offering them railway related services. These mainly cover station retail outlets, advertising and telecommunications. Our strategy is to explore how best to use our stations, trains and other assets to provide such services and generate non-fare-related revenues for the Company.

During 2017, new shops and brands were added, offering customers greater choice. New advertising formats were introduced to raise our customers' awareness while on the network. We have increased the number of e-shops sales packages to capture the trend towards online-to-offline commerce. New digital screens were introduced in Hong Kong and Airport stations, some with multi-touch functions for interaction with customers. We have continued to work with telecom operators to upgrade mobile and Wi-Fi services.

Despite a weak retail environment and pressure on rents, station shops recorded positive rental reversion due to their diverse trade mix and relevance to daily life.

Our Challenges

Station Retail

- New forms of e-commerce present new challenges to traditional retailers
- Retail sales have grown moderately from their low in 2016 but operators remain cautious regarding expansion

Advertising

- Advertisers are cautious regarding advertising spending and favour more in-store promotions
- The surge of advertising spending on mobile platforms continues at the expense of traditional media

Telecommunications

- Demand for more data capacity is pushing telecom operators to upgrade their systems, while to prevent service interruption, works are confined to a daily two-hour non-traffic window

Our Strategies

Station Retail

- Strategic development to optimise trade floor space and retail value on existing and new lines
- Business development to broaden the tenant base and maximise growth opportunities
- Trade mix refinement to enhance customer service and rental reversions

Advertising

- Offer flexible, timely sales packages and innovative solutions to advertisers to meet their changing needs, for example through campaigns that involve interactive mobile apps using Beacon and augmented reality technology
- Continue with the digital transformation of product development, marketing communications and sales packaging

Telecommunications

- Explore new technologies with telecom operators to enhance mobile communications for our customers

HONG KONG STATION COMMERCIAL BUSINESSES

EBITDA
HK$5,474m
↑ 9.2%

EBIT
HK$4,722m
↑ 8.3%

FINANCIAL PERFORMANCE

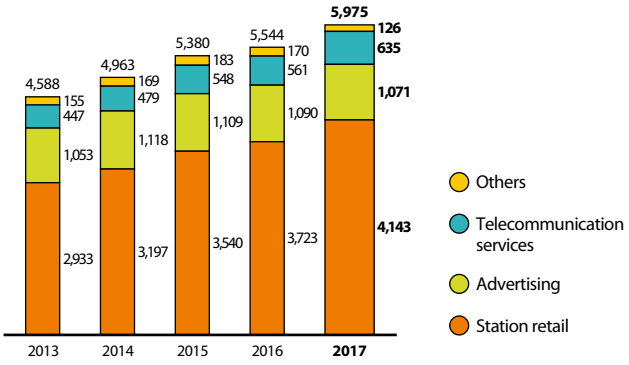
As illustrated below, in 2017, the financial performance of the Hong Kong station commercial businesses achieved good results.

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**4,143**	3,723	11.3
Advertising Revenue	**1,071**	1,090	(1.7)
Telecommunication Income	**635**	561	13.2
Other Station Commercial Income	**126**	170	(25.9)
Total Revenue	**5,975**	5,544	7.8
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**5,474**	5,012	9.2
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**4,722**	4,362	8.3
EBITDA Margin (in %)	**91.6%**	90.4%	1.2% pts.
EBIT Margin (in %)	**79.0%**	78.7%	0.3% pt.

Total revenue of the Hong Kong station commercial businesses increased by 7.8% to HK$5,975 million in 2017. The revenue growth reflected positive rental reversion as a result of continuous trade mix refinements, an increase in the number of shops following the opening of the Kwun Tong Line extension and the South Island Line, and increases in Duty Free Shop rents.

Revenue from Hong Kong Station Commercial Businesses

(HK$ million)



HONG KONG STATION COMMERCIAL BUSINESSES

STATION RETAIL

As at 31 December 2017, there were 1,416 station shops, occupying 58,716 square metres of retail space, representing an increase of 24 shops and 1,565 square metres compared with 31 December 2016. The increase was mainly due to the opening of 11 new shops at Hung Hom, Kowloon and Wan Chai stations, as well as the opening of 15 shops at Nam Cheong, Tin Shui Wai, Tsing Yi, Tsuen Wan West, Shek Mun, Tuen Mun, Lok Ma Chau and Yuen Long stations which were previously closed for re-development.

MTR Shops are supported by a "Style to Go" brand positioning and this was boosted in 2017 by a thematic campaign featuring two local artists. During the year, 24 new brands were introduced and featured in posters across the network.

ADVERTISING

Advertising revenue decreased slightly by 1.7% to HK$1,071 million in 2017. The decline was mainly attributable to a downturn in overall advertising spend and the increase in competition from online advertising. Overall advertising spend started to recover in the last quarter of 2017. The number of advertising units in stations and trains increased to 46,735 by 31 December 2017.

To improve our competitiveness, we have been developing a number of creative solutions and new digital formats to meet market needs. During the year, two digital zones were created by the installation of 16 new 65-inch high-definition LCD screens at Hong Kong Station and 14 such screens at Airport Station. In addition, over 900 advertising light boxes along the Island, Tsuen Wan, Ma On Shan and West Rail lines were revamped.

TELECOMMUNICATIONS

Revenue from telecommunications in 2017 grew by 13.2% to HK$635 million. The increase was mainly the result of incremental revenue from new service contracts and capacity enhancement projects, as well as the newly opened Kwun Tong Line extension and the South Island Line.

We continue to enhance mobile and internet connectivity. Installation of a new mobile phone network offering increased data capacity and more 4G services was completed in the concourses of ten stations and four tunnel sections during the year. Following the upgrade of equipment in April 2017, customers have been able to enjoy enhanced Wi-Fi services at 84 stations.

HONG KONG PROPERTY AND OTHER BUSINESSES

Over **18,000** residential units under property packages tendered

managing over **96,000** residential units

13 shopping malls in our portfolio

Our Aims and Achievements

We aim to be an industry leader in creating integrated communities for Hong Kong citizens. The route to success is the creation of sustainable communities through developing sites along our rail network and providing excellent service as manager of these developments. This relies on expertise that covers all aspects of property development and management, together with strong community engagement.

In 2017, two property development packages were awarded, Wong Chuk Hang Package 1 and 2. As agent for the relevant subsidiary of KCRC, we awarded Kam Sheung Road Station Package 1. We continue to look for new development opportunities along our railway network that would increase housing supply. Our property management business continued to win awards. Work pressed ahead on the major expansion of our investment properties portfolio, with Maritime Square 2 and the seventh and eighth floors of Telford Plaza II opened during the year.

Our Challenges

Property Rental

- Expanding our investment properties portfolio without affecting existing railway operations and new railway projects
- Change in customer behaviour and retail space demand due to development of e-commerce

Property Management

- Statutory changes will bring opportunities and challenges to the residential property management industry in Hong Kong, ranging from licensing to procurement and maintenance

Property Development

- The market is vulnerable to potential interest rate rises and global capital market fluctuations

Our Strategies

Property Safety

- Safety at our construction sites, investment and managed properties and adjoining railway facilities is our top priority

Property Rental

- Sustain the growth in profit and capital value in our investment properties portfolio in Hong Kong
- Maintain the value of our investment properties portfolio through optimising our shopping malls, while achieving 34% growth in attributable GFA by adding new high quality retail space
- Develop sustainable and innovative strategies to combat the impact of e-commerce

Property Management

- Enhance our property management service so that we meet or exceed customer requirements and expectations
- Promote green projects with greater energy efficiency to foster health and sustainability in our managed properties

Property Development

- Optimise the integration between our property developments and the railway network, as well as other modes of transport
- Expand, through seeking the rezoning of feasible existing railway sites and through applying the proven "Rail plus Property" integrated development model to potential new rail projects under RDS2014
- Deliver property developments awarded to a high standard, on time and within budget
- Pursue continuous improvement in our standards through innovation and capturing new development opportunities

HONG KONG PROPERTY AND OTHER BUSINESSES

Property Rental and Management

EBITDA
HK$4,098m
↑ 4.3%

EBIT
HK$4,082m
↑ 4.3%

Property Development Profit

HK$1,097m

FINANCIAL PERFORMANCE

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

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**4,608**	4,451	3.5
Revenue from Property Management	**292**	290	0.7
Total Revenue	**4,900**	4,741	3.4
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**4,098**	3,930	4.3
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**4,082**	3,912	4.3
EBITDA Margin (in %)	**83.6%**	82.9%	0.7% pt.
EBIT Margin (in %)	**83.3%**	82.5%	0.8% pt.

PROPERTY RENTAL

Hong Kong property rental revenue increased by 3.5% in 2017. This was mainly due to rental increases in accordance with existing lease agreements. Rental reversion in our shopping mall portfolio in Hong Kong recorded a 1.7% fall during the year. As at 31 December 2017, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre were 100% let.

As at 31 December 2017, the Company's attributable share of investment properties in Hong Kong was 218,251 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of offices and 17,764 square metres of property for other use. Our retail properties saw an increase in lettable area with the opening, in July 2017, of the converted retail space at Telford Plaza II (which added 3,400 square metres of gross floor area ("GFA")) and, in December 2017, of Maritime Square 2 (formerly known as the Maritime Square extension) (which added another 12,100 square metres GFA of new space). In the fourth quarter of 2017, the second phase of the "sports and wellbeing" zone was progressively opened in Paradise Mall.

Our retail portfolio again garnered a large number of awards in the year. Elements and Telford Plaza received the "Shopping Mall Award for Warm Service" and the "Excellence Service Award" respectively at the Hong Kong Service Awards 2017 organised by East Week Magazine; both malls were also awardees of the "Best Mall Awards" presented by Next Media Action News. Elements also received the "My Favourite Shopping Mall Award 2016/17" from Hong Kong Economic Times. Telford Plaza received the "Green Plus Award 2017" from CLP Power Hong Kong Limited in the category of "Property Management – Industrial & Commercial". In recognition of its successful revamp project, Paradise Mall won the "Certificate of Excellence" in the Retail Team of the Year Category at the Royal Institution of Chartered Surveyors (RICS) Awards Hong Kong 2017.

Investment Property Portfolio in Hong Kong (as at 31 December 2017)

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 7-8/F, Kowloon Bay, Kowloon	Shopping Centre	2,397	–	100%
Telford Plaza II 3-6/F, Kowloon Bay, Kowloon	Shopping Centre	19,063	–	50%
	Car park	–	136	50%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping Centre	11,094	–	100%
	Car park	–	651	100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping Centre	15,353	–	100%
	Wet Market	1,216	–	100%
	Kindergarten	2,497	–	100%
	Car park	–	415	100%
Maritime Square 1, Tsing Yi	Shopping Centre	29,161	–	100%
	Kindergarten	920	–	100%
	Car park	–	220	100%
	Motorcycle park	–	50	100%
Maritime Square 2, Tsing Yi	Shopping Centre	6,448	–	100%
	Car park	–	65	100%
	Motorcycle park	–	21	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	8,456	–	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	Office	39,410	–	100%
– One and Two ifc	Car park	–	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	1,096	–	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%

Investment Property Portfolio in Hong Kong (as at 31 December 2017)(continued)

Location	Type	Lettable floor area *(sq. m.)*	No. of parking spaces	Company's ownership interest
Hanford Plaza, Tuen Mun	Shopping Centre	1,924	–	100%
	Car park	–	22	100%
Retail Floor and 1-6/F., Citylink Plaza, Shatin	Shopping Centre	12,154	–	100%
The Capitol, LOHAS Park	Shop Unit	391	–	100%
	Residential Care Home for the Elderly	2,571	–	100%
Le Prestige, LOHAS Park	Kindergarten	800	–	100%
	Car park	–	2	100%
The Riverpark, Che Kung Temple	Shop Unit	154	–	100%
	Kindergarten	708	–	100%
Hemera, LOHAS Park	Kindergarten	985	–	100%

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 1 and 2, 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 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 2017)

Location	Type	Lettable 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	Kindergarten	1,299	–	50%
The Palazzo, No. 28 Lok King Street, Shatin	Residential	749***	–	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	–	38	92.88%
Festival City, No. 1 Mei Tin Road, Shatin	Car park	–	137	100%
Hemera, LOHAS Park, Tseung Kwan O	Residential	1,476***	–	73.10%
	Car park	–	240	100%
The Riverpark, No. 8 Che Kung Miu Road, Shatin	Residential	212***	–	87%
	Car park	–	5	87%

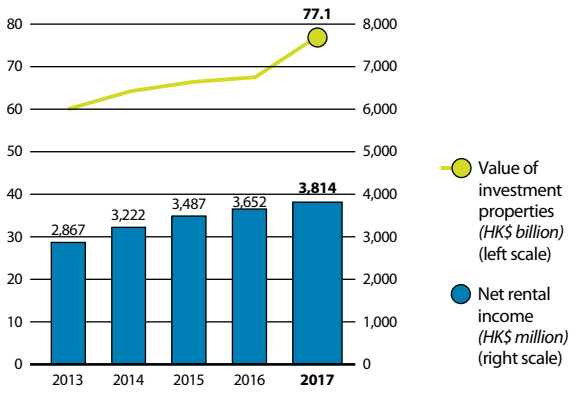
* *Lettable floor area*

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

*** *Saleable area*

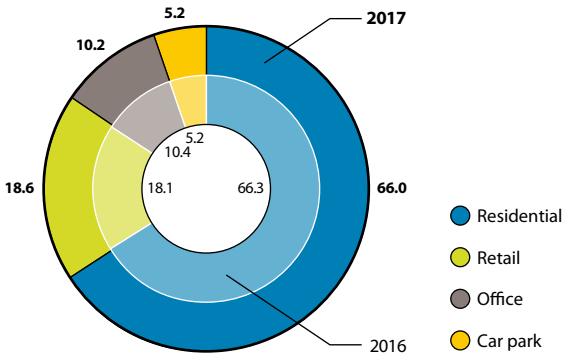
HONG KONG PROPERTY AND OTHER BUSINESSES

Investment Properties



Distribution of Hong Kong Property Management Income

(Percentage)



PROPERTY MANAGEMENT

Hong Kong property management revenue in 2017 increased by 0.7% to HK$292 million. As at 31 December 2017, over 96,000 residential units and over 772,000 square metres of commercial space were managed by MTR.

As in previous years, the excellence of our property management secured a number of awards during 2017.

Two of our managed properties gained awards from Occupational Safety and Health Council. The Palazzo received a "Gold Award of the Safety Culture Award" in the "Best Property Safety Management Award 2016 to 2017" while The Arch received a "Merit Award" in the council's "Best Property Management Awards".

PROPERTY DEVELOPMENT

Profit from Hong Kong property development in 2017 amounted to HK$1,097 million, and was derived from sundry sources, such as agency fee income from West Rail property developments (including Cullinan West and Cullinan West II, Ocean Pride, Ocean Supreme, THE PAVILIA BAY, PARC CITY as well as The Spectra), the sale of inventory units and car parking spaces, as well as further profit bookings arising from the finalisation of development accounts for completed property development projects.

Pre-sales were launched for Wings at Sea and Wings at Sea II of LOHAS Park Package 4 in September and October 2017 respectively. By year end, about 97% of the 1,040 units of Wings at Sea and about 36% of the 1,132 units of Wings at Sea II had been sold. Pre-sales for MALIBU of LOHAS Park Package 5 are planned to be launched in March 2018.

For West Rail property development projects where we are the agent for the relevant subsidiaries of KCRC, a series of pre-sales were launched during the year. THE PAVILIA BAY (the Tsuen Wan West Station (TW6) site) was launched in January 2017 with about 98% of 983 units sold by year end. Cullinan West and Cullinan West II at Nam Cheong Station were launched in March and November 2017 respectively, with about 92% of 1,050 units and about 44% of 1,188 units respectively sold by year end. May and July 2017 saw the launches respectively of Ocean Pride and Ocean Supreme (the Tsuen Wan West Station (TW5) Bayside

site), with about 99% of 970 units and 87% of 1,436 units sold respectively by the end of the year. PARC CITY (the Tsuen Wan West Station (TW5) Cityside site) was launched in August 2017, with all 953 units sold. Pre-sales also continued at The Spectra (the Long Ping Station (North) site), with about 96% of 912 units sold by year end.

In our property tendering, Wong Chuk Hang Station Package 1 was awarded to a consortium formed by Road King Infrastructure Limited and Ping An Real Estate Company Limited in February 2017. In December 2017, Wong Chuk Hang Station Package 2 was awarded to a consortium formed by Kerry Properties Limited and Sino Land Company Limited.

As agent for the relevant subsidiary of KCRC, we awarded Kam Sheung Road Station Package 1 to a consortium formed by Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited in May 2017.

In our residential development, during the past four years or so, 12 MTR property development packages have been tendered out and are now in various stages of planning and construction. Over 18,000 residential units, with a total GFA of over 1.15 million square metres, will be completed over the next six years.

Progress of Property Development Packages Awarded

Location	Project Status		
	Design	Foundation Works	Superstructure
LOHAS Park Package 4	Completed	Completed	In progress
Tai Wai Station	Completed	In progress	In progress
LOHAS Park Package 5	Completed	Completed	In progress
LOHAS Park Package 6	Completed	Completed	In progress
Tin Wing Stop	Completed	In progress	To be started in first half of 2018
LOHAS Park Package 7	Completed	Completed	In progress
LOHAS Park Package 8	Completed		To be started in first half of 2018
LOHAS Park Package 9	Completed	Completed	To be started in first half of 2018
LOHAS Park Package 10	Completed	Completed	To be started in first half of 2018
Ho Man Tin Station Package 1	In progress	To be started in first half of 2018	
Wong Chuk Hang Station Package 1	In progress		
Wong Chuk Hang Station Package 2	In progress		

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	August 2006	By phases from 2012 – 2014
Tsuen Wan West (TW7)	2.37	September 2008	2014
Nam Cheong	6.18	October 2011	By phases from 2017 – 2019
Long Ping (North)	0.99	October 2012	2017
Tsuen Wan West (TW5) Cityside	1.34	January 2012	2018
Tsuen Wan West (TW5) Bayside	4.29	August 2012	2018
Tsuen Wan West (TW6)	1.38	January 2013	2018
Long Ping (South)	0.84	June 2013	2019
Yuen Long	3.91	August 2015	2022
Kam Sheung Road Package 1	4.17	May 2017	2025
	28.12		
Property Development Packages to be awarded			
Kam Sheung Road Package 2	About 5.17	2024 – 2025	2031 – 2032
Pat Heung Maintenance Centre	About 23.56	Under review	Under review
	28.73		
Total	**56.85**		

Property Development Packages Completed during the year and Awarded

Location	Developers	Type	Gross floor area (sq. m.)	Tender award date	Expected completion date
Ho Man Tin Station					
Package 1	Goldin Financial Holdings Limited	Residential	69,000	December 2016	2022
LOHAS Park Station					
Wings at Sea and Wings at Sea II	Sun Hung Kai Properties Limited	Residential	122,302	April 2014	By phases from 2018 – 2019
Package 5	Wheelock and Company Limited	Residential	102,336	November 2014	2019
Package 6	Nan Fung Group Holdings Limited	Residential	136,970	January 2015	2020
Package 7	Wheelock and Company Limited	Residential Retail Kindergarten	70,260 44,500 1,160	June 2015	2022
Package 8	CK Asset Holdings Limited	Residential	97,000	October 2015	2021
Package 9	Wheelock and Company Limited	Residential Kindergarten	104,110 810	December 2015	2022
Package 10	Nan Fung Group Holdings Limited	Residential	75,400	March 2016	2022
Tai Wai Station					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	October 2014	2022
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	February 2015	2021
Wong Chuk Hang Station					
Package 1	Road King Infrastructure Limited and Ping An Real Estate Company Limited	Residential	53,600	February 2017	2022
Package 2	Kerry Properties Limited and Sino Land Company Limited	Residential	45,800	December 2017	2023
Kam Sheung Road Station#					
Package 1	Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited	Residential	114,896	May 2017	2025
Long Ping Station#					
The Spectra	K. Wah International Holdings Limited and Sino Land Company Limited	Residential	48,675	October 2012	2017
Long Ping (South)	Chinachem Group	Residential	41,990	June 2013	2019
Nam Cheong Station#					
Cullinan West	Sun Hung Kai Properties Limited	Residential Retail Kindergarten	214,700 26,660 1,000	October 2011	By phases from 2017 – 2019
Tsuen Wan West Station#					
PARC CITY	Chinachem Group	Residential Retail	66,114 11,210	January 2012	2018
Ocean Pride and Ocean Supreme	CK Asset Holdings Limited	Residential Retail Kindergarten	167,100 40,000 550	August 2012	2018
THE PAVILIA BAY	New World Development Co. Ltd. and Vanke Property (Overseas) Limited	Residential	62,711	January 2013	2018
Yuen Long Station#					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	August 2015	2022

 # as 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	2018 – 2021	2023 – 2026
Wong Chuk Hang Station	Residential Retail	258,100 47,000		
Ho Man Tin Station	Residential	59,400		

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.

EXPANDING THE PROPERTY PORTFOLIO

As our Hong Kong rail network expands, this yields additional opportunities for residential and commercial property developments.

Investment Properties

Over the next four years or so our investment properties portfolio in Hong Kong will expand significantly as more retail space is added. Two of these projects were completed in 2017, namely the Maritime Square 2 and the seventh and eighth floors of Telford Plaza II. A further 105,120 square metres GFA will be added by the two that remain under construction, namely the new LOHAS Park shopping centre and the Tai Wai shopping centre.

The Tai Wai Shopping Centre will have 60,620 square metres GFA and is targeted to complete in 2022. Foundation and superstructure works are in progress and on schedule. The Company has already contributed HK$7.5 billion to this development package, and will, in addition to profit sharing from the whole development, retain ownership of the mall when completed and bear the fit-out costs.

The LOHAS Park Shopping Centre will have 44,500 square metres GFA and is targeted to complete by the end of 2020. Foundation and superstructure works are in progress and on schedule. The Company will contribute a total of HK$4.98 billion to the development, of which HK$2.44 billion has already been invested. The remaining HK$2.54 billion will be paid upon the completion of mall construction, which is expected to be in 2019. MTR will also bear the fit out cost of the shopping centre. Upon completion of the project, MTR will retain the ownership of the shopping centre, in addition to profit sharing from the whole development.

Property Development

We are continuing to examine suitable sites along our railway lines where other properties might be developed.

Above our depot in Siu Ho Wan on Lantau Island around 14,000 residential units could be built, subject to the necessary zoning and other statutory approvals. The Environmental Impact Assessment reports for this project were approved by Government in November 2017. The statutory planning procedures commenced with the draft Siu Ho Wan Outline Zoning Plan being agreed by the Town Planning Board for District Council consultation on 5 January 2018.

A second possible site is the Yau Tong Ventilation Building. The rezoning process for this project was completed in April 2017 and the gazetted road works scheme was approved in August 2017. At this preliminary stage there is no assurance that either project would be commercially viable.

OTHER BUSINESSES

Ngong Ping 360

The Ngong Ping Cable Car was closed between 9 January and 4 June 2017 for the planned rope replacement works, during which time the associated theme village remained open to the public. Cable Car service resumed on 5 June 2017 after the successful completion of the rope replacement project. In consequence, revenue at the Ngong Ping Cable Car and associated theme village ("Ngong Ping 360") decreased by 32.7% in 2017 to HK$263 million. Visitor numbers for the year fell by 38.9% to 1.04 million.

In June 2017, Ngong Ping 360 was recognised by USA Today as one of "The World's 10 best cable cars". Ngong Ping 360 is the only cable car in Asia to have gained this status three times, following similar awards from CNN.com in the US in 2015 and The Daily Telegraph in the UK in 2014.

Octopus

The Company's share of net profit from Octopus Holdings Limited in 2017 declined by 30.5% to HK$173 million. As at 31 December 2017, more than 10,000 service providers in Hong Kong were accepting Octopus for payment. Total cards and other stored-value Octopus products in circulation reached 34.4 million. Average daily transaction volumes and value reached 14.5 million and HK$193.6 million respectively.

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

Consultancy Business

As one of the world's leading railway operators we offer consultancy services to clients in and outside of Hong Kong. Revenue from our consultancy business in 2017 increased by 64.8% to HK$356 million, mainly contributed by the service contract to provide project management and technical assistance to the Macau Light Rapid Transit project.

HONG KONG NETWORK EXPANSION

Railway Development Strategy 2014

4 project proposals submitted

Express Rail Link

26km

target completion in third quarter of 2018

Shatin to Central Link

17km 10 stations

Tai Wai to Hung Hom Section target completion in mid-2019

Hung Hom to Admiralty Section target completion in 2021

Our Aims and Achievements

The expansion of our Hong Kong railway network contributes to our goals by enhancing connectivity and ensuring we meet future transport needs. All new railway projects owned by MTR and those entrusted to MTR by Government take years of careful planning and diligent execution to ensure they meet the community's expectations for safety, efficiency and the environment.

Following the opening of the Kwun Tong Line extension and the South Island Line (East) in 2016, our focus is the Express Rail Link and the Shatin to Central Link. These projects are particularly challenging in their scale and complexity. As they are of great importance to Hong Kong and generate much public interest, we communicate openly and effectively with a wide range of stakeholders. Both projects are making significant progress towards their scheduled openings.

We continue to work with Government on its strategy to continue using railway as the backbone in the development of Hong Kong's public transport network. Under RDS 2014, Government has identified seven additional rail projects. Project proposals for four of these lines have been submitted to Government and we are now preparing a fifth project proposal.

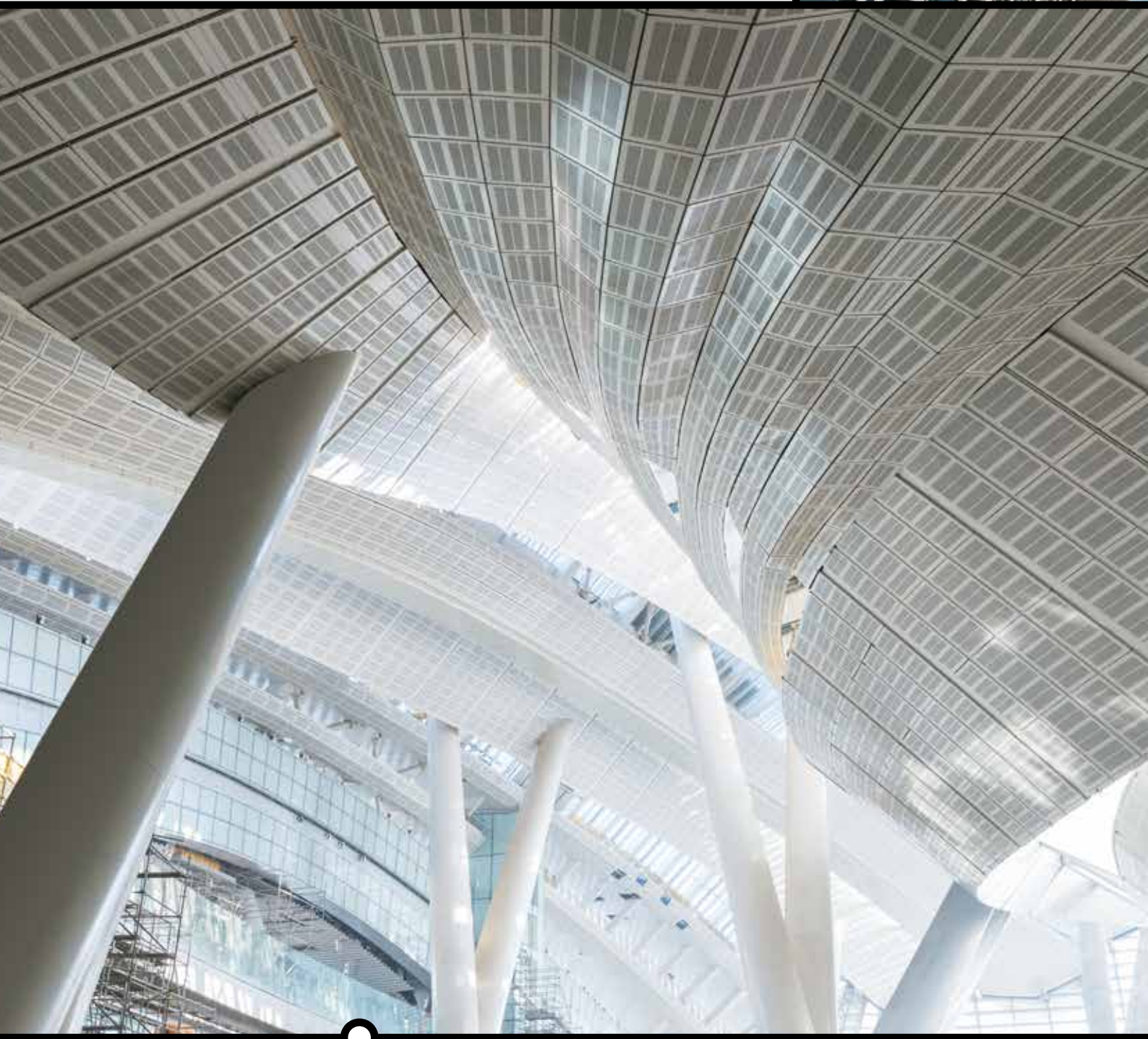
Our Challenges

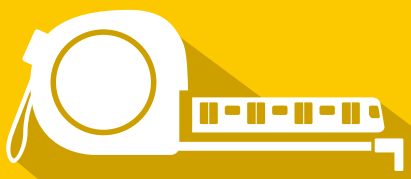
- Carry out cross-boundary testing and commissioning of trains and systems, as well as the interface with the Mainland authorities, to complete statutory inspections in time for the scheduled opening of the Express Rail Link
- Ensure smooth transition of all systems and trains, so that the existing West Rail Line can be seamlessly connected to the existing Ma On Shan Line by the new Shatin to Central Link
- Adopt innovative design and technology in various aspects of construction projects. For example, West Kowloon Station has been designed to allow ample sunlight to penetrate through into different areas of the building
- Maintain knowledge and experience gained during construction projects so they can be applied to future opportunities under RDS 2014

Our Strategies

- **Delivery Targets:**
  Implement good project management practices to ensure good progress on the two projects entrusted by Government. The Express Rail Link is scheduled to open by the third quarter of 2018. The Shatin to Central Link Tai Wai to Hung Hom Section and the Hung Hom to Admiralty Section are scheduled to open by mid-2019 and 2021 respectively
- **Interfacing Effectiveness:**
  Strengthen collaboration among internal departments and with key external stakeholders. Enhance integration on the handover of railway extension projects to the operating railway
- **Growth and Development:**
  Create a dynamic and interactive platform to develop effective project proposals for new railway projects through RDS 2014, and establish a pipeline of future project deliveries in Hong Kong. Leverage opportunities from such projects to grow competency that can contribute to the Company's business diversification and long-term sustainability

HONG KONG NETWORK EXPANSION





Express Rail Link

98.6% complete

Shatin to Central Link

Tai Wai to Hung Hom Section

93.9% complete

Hung Hom to Admiralty Section

63.6% complete

Rail Gen 2.0 encapsulates our near term rail business growth in Hong Kong which, in addition to the two new rail projects under construction, also covers major upgrades and replacements on the existing rail network, as well as initiatives to enhance customer experience through the use of technology. Beyond Rail Gen 2.0, with rail as the backbone of public transportation, projects under Railway Development Strategy 2014 ("RDS 2014") will potentially increase the Hong Kong rail network by 35 km whilst in the long term, Government's "Strategic Studies on Railways and Major Roads beyond 2030" may add even further rail development.

RAIL GEN 2.0: NEW LINES UNDER CONSTRUCTION

Our Hong Kong rail network covers 230.9 km. Over the coming years, under Rail Gen 2.0, the two current railway projects under construction, namely the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link, will add another 43 km route length to the overall Hong Kong rail network.

Express Rail Link

The 26-km high-speed cross-boundary Express Rail Link will connect Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. It will be served by the approximately 400,000-square metre (usable floor area) West Kowloon Station, one of the largest underground high-speed rail stations in the world. MTR has been entrusted by Government to manage the construction of the Express Rail Link.

This key project was 98.6% complete overall as at 31 December 2017, with civil works at West Kowloon Station 97.8% complete, all tracks in tunnels laid and overhead lines energised. Statutory inspection of the station by the Fire Services Department commenced in May 2017, followed by other statutory inspections. The signalling and communication systems of the Hong Kong and Mainland sections of the line were connected on 5 July 2017. Installation of the glass panels for the iconic roof of the Station Entrance Building was completed in July 2017.

The structural work at West Kowloon Station is substantially complete. Architectural Builder's Works and Finishes and Building Services works are underway. In particular, works in the Customs, Immigration & Quarantine ("CIQ") areas under the purview of the Corporation are in line with the programme, but the timely completion of all the CIQ facilities remains on the critical path.

In August 2017 all nine trains for the new line had arrived in Hong Kong from the factory in Qingdao and cross-boundary dynamic testing was completed in December 2017. To give members of the public a preview of the trains, XRL Train Open Days were held at the Shek Kong Stabling Sidings in October 2017, providing visitors with an in-train experience through guided tours.

The target opening date of the Express Rail Link remains the third quarter of 2018 and trial operations are expected to commence in the second quarter. We are in discussion with Government regarding the future operation and maintenance arrangements for this line.

HONG KONG NETWORK EXPANSION

We welcomed the announcement made on 25 July 2017 by Government regarding the proposed co-location arrangement for the Express Rail Link. The co-location arrangement will maximise the service convenience for passengers and help realise the line's full transport, social and economic benefits.

In accordance with the "Three-step Process" to implement these arrangements, on 18 November 2017 the Government of the HKSAR and the People's Government of Guangdong Province signed the Co-operation Arrangement between the Mainland and the HKSAR on the Establishment of the Port at the West Kowloon Station for Implementing Co-location Arrangement ("Co-operation Arrangement") to kick-start the necessary work to implement the future clearance procedures for the Express Rail Link. The Co-operation Arrangement was subsequently approved by the Standing Committee of the National People's Congress on 27 December 2017. We welcome these two steps in the process and look forward to completion of the third and final step, which is the enactment of the necessary legislation by the Legislative Council of the HKSAR ("LegCo").

Shatin to Central Link

The ten-station 17-km Shatin to Central Link, which was entrusted to MTR by Government, will create vital new links across Hong Kong. It is a strategic railway that connects and extends the existing network. The first phase of the Shatin to Central Link is the 11-km Tai Wai to Hung Hom Section and the second phase is the 6-km Hung Hom to Admiralty Section. When the Tai Wai to Hung Hom Section is completed, it will extend the existing Ma On Shan Line from Tai Wai via six stations to the West Rail Line to form the "East West Corridor". When the Hung Hom to Admiralty Section is completed, it will extend the existing East Rail Line across the harbour

to Exhibition Centre Station (formerly known as Exhibition Station) and Admiralty Station through Hung Hom to form the "North South Corridor".

Upon completion, the Shatin to Central Link will connect several existing railway lines and enhance the connectivity of the entire Hong Kong railway network. Travelling time will be reduced significantly between New Territories North, Kowloon and Hong Kong. Alternative routes will also become available to travellers, which will provide customers with more route choices particularly in the busy cross-harbour section of the Tsuen Wan Line and the Tai Wai to Kowloon Tong section of East Rail Line.

Overall, this project was about 81.2% complete by 31 December 2017, with the Tai Wai to Hung Hom Section and Hung Hom to Admiralty Section 93.9% and 63.6% complete respectively.

For the Tai Wai to Hung Hom Section, track laying works have been completed, as have the structural works for the last two new stations, namely To Kwa Wan Station (formerly known as Ma Tau Wai Station) and Sung Wong Toi Station (formerly known as To Kwa Wan Station). This signifies the substantial completion of all civil and structural works on this section of the line. The final report of the archaeological works for the Sung Wong Toi Station works site was accepted by the Antiquities and Monuments Office in June 2017. Steady progress is now being made on the electrical and mechanical ("E&M") works and interior fitting out works at stations. As the new section will connect to the existing West Rail and Ma On Shan lines, the commissioning and testing works of this rail corridor will be highly complex, involving multi-disciplinary interfaces and integration with various new and old systems in the operating railway. To ensure that normal operation of existing railway lines is not affected, some of the necessary works, including dynamic testing, are being carried out at night during non-traffic hours.

For the Hung Hom to Admiralty Section, all tunnel-boring excavation works have been completed. For the cross-harbour rail tunnel connecting the Hung Hom and Causeway Bay areas, nine of the 11 immersed tube units have been installed on the seabed of Victoria Harbour as at February 2018.

Exhibition Centre Station, which has been affected by late site handover, incomplete entrusted works by other parties and unfavourable ground conditions, was 54.8% complete by the end of 2017. Construction work for the diaphragm walls of Exhibition Centre Station is substantially complete and full excavation of the station is progressing. Due to space limitations in Wan Chai North, temporary traffic management schemes are being implemented at different stages along Convention Avenue, Fleming Road and Expo Drive to create additional works areas while reducing the impact on road users.

HONG KONG NETWORK EXPANSION

Admiralty Station will become a major interchange hub for the Shatin to Central Link, Island, Tsuen Wan and South Island lines. To cater for the Shatin to Central Link, in the extended part of the station, structural works and building service installation are well underway.

As part of the Hung Hom to Admiralty Section, the existing East Rail Line will be re-signalled. The dynamic testing of the new signalling systems with East Rail Line trains during non-traffic hours is now in full swing on the whole of the East Rail Line, and we target the works to be completed in mid-2019.

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

For both the Tai Wai to Hung Hom Section and the Hung Hom to Admiralty Section, our project teams continue to work diligently to explore and implement measures to improve progress and recover delays caused by external events and third parties.

The amount entrusted to the Company by Government for the advance works under the 2011 Entrustment Agreement for Advance Works Relating to the Shatin to Central Link ("SCL Advance Works Entrustment Agreement") was HK$7,350 million. In January 2017, Government submitted to the LegCo Public Works Subcommittee the application for additional funding needed in excess of amounts retained by Government from the original funding. The additional funding of HK$848 million was approved by LegCo Finance Committee in June 2017.

The sum entrusted to the Company by Government for the main construction works under the 2012 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link ("SCL Entrustment Agreement") was HK$70,827 million. The Company has previously announced that, due to the continuing challenges posed by external factors and difficulties similar to those encountered by most major infrastructure projects in Hong Kong, the Shatin to Central Link Cost to Complete ("CTC") would need to be revised upwards significantly.

The Company completed a detailed review of the estimated CTC for the main construction works under the SCL Entrustment Agreement and the latest estimate was submitted to Government for review on 5 December 2017. Taking into account a number of factors, including issues such as the archaeological finds, Government requests for additional scope and late or incomplete handover of construction sites, the Company has increased the latest estimate of the main construction works of the Shatin to Central Link by HK$16,501 million from HK$70,827 million to $87,328 million, representing an increase of 23% of the cost of the main works. In our assessment, around 70% of the increase (net of contingencies) is attributable to additional costs arising from external factors, such as the handling of archaeological finds at the work sites of Sung Wong Toi Station, the late or incomplete handover of construction sites in Wan Chai North, as well as unbudgeted additional scope (including foundation works for a future top-side development at Exhibition Centre Station).

NEW RAIL PROJECTS BEYOND RAIL GEN 2.0

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

We are now in discussion with Government on the submitted project proposals for the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station) and the East Kowloon Line. We have also submitted the project proposal for the Tung Chung West Extension (and Tung Chung East Station), while that for the North Island Line will be submitted in the second half of 2018. We await Government's invitation in respect of the remaining two projects, namely Hung Shui Kiu Station and the South Island Line (West).

Government is conducting the planning study, "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030" to examine Hong Kong's future development. To meet the longer term demand for transport with rail as the backbone of public transport, Government is planning to take forward the related "Strategic Studies on Railways and Major Roads beyond 2030" in 2018. This study will examine the strategic transport infrastructure network (including rail) required to satisfy transport needs beyond 2030, including the demand arising from the two strategic growth areas, the East Lantau Metropolis and New Territories North.

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

1,940 million
passengers carried outside of Hong Kong

Around
6.49 million
average weekday patronage outside of Hong Kong

9 railway services in **4** countries

Around
1,960 km
operating route length outside of Hong Kong

Our Aims and Achievements

As part of our aim to become a leading multinational company, we are taking our strategy of growing and connecting communities into markets beyond Hong Kong. We have established a presence in three key geographies – the Mainland of China, Europe and Australia. In each of these, we aim to become recognised as the best rail operator through focusing on delivering what customers really want.

In 2017, our existing operations in the Mainland of China, the UK, Sweden and Australia continued to improve their reliability and levels of customer satisfaction. During the year, we were awarded South Western Railway franchise in the UK and our concession to operate Melbourne's Metropolitan Rail Service was extended for seven years. We also signed the concession agreement for Hangzhou Metro Line 5 and handed over the majority of flats from Tiara in Shenzhen, our first property development outside Hong Kong.

Our Challenges

- Increasing competition in the passenger rail market both in the Mainland of China and overseas, as more rail operators compete outside their home markets
- Increasing expectations from clients and customers towards rail operators in terms of customer satisfaction and operational performance
- Different operating and investment models are required in the Mainland of China and overseas markets

Our Strategies

- Leverage on our world leading performance in delivering integrated railway services to capture construction, operation and maintenance opportunities in our existing markets
- Adapt our business models, such as "Rail plus Property", to suit the Mainland and overseas contexts
- Selectively pursue opportunities in new markets
- Strengthen our partnerships with clients and local stakeholders
- Ensure best practices are shared among our businesses in and outside of Hong Kong, to achieve our aim of becoming a leading multinational company

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

EBITDA	EBIT
HK$3,216m	HK$3,080m
↑ 237.1%	↑ 269.3%

FINANCIAL PERFORMANCE

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Mainland of China Businesses			
Railway, Property Rental and Property Management Subsidiaries			
Revenue	**811**	814	(0.4)
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**144**	167	(13.8)
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**137**	159	(13.8)
Property Development Subsidiaries			
Revenue	**6,996**	1,348	419.0
EBITDA	**2,314**	366	532.2
EBIT	**2,314**	366	532.2
Share of Profit of Associates and Joint Venture	**290**	226	28.3
International Businesses			
Railway Subsidiaries			
Revenue	**16,179**	12,664	27.8
EBITDA	**758**	421	80.0
EBIT	**629**	309	103.6
Share of Profit of Associates	**31**	60	(48.3)
Mainland of China and International Businesses			
Total EBITDA	**3,216**	954	237.1
Total EBIT	**3,080**	834	269.3
Total EBITDA Margin (in %)	**13.4%**	6.4%	7.0% pts.
Total EBIT Margin (in %)	**12.8%**	5.6%	7.2% pts.
EBIT from Mainland of China and International Railway, Property Rental and Management Subsidiaries (net of non-controlling interest) plus Share of Profit from Railway Associates and Joint Venture (before interest and tax)	**1,467**	888	65.2
Profit for the year attributable to shareholders of the Company:			
– Arising from the Mainland of China and International Railway, Property Rental and Management Businesses	**879**	516	70.3
– Arising from the Mainland of China Property Development Businesses	**1,019**	263	287.5
Total	**1,898**	779	143.6
Number of passengers carried by our Railway Subsidiaries and associates outside of Hong Kong (in million)	**1,940**	1,828	6.1

In the Mainland of China, EBITDA from our railway, property rental and property management subsidiaries decreased by 13.8% to HK$144 million in 2017, mainly due to higher operating expenses at Shenzhen Metro Line 4 ("SZL4"). With the handover of high-rise and podium units in Tiara in Shenzhen, the sales proceeds and related costs were booked during the year. In our International businesses, the increase of 80.0% to HK$758 million in EBITDA from our railway subsidiaries was mainly due to initial profit recognition from the design and delivery works of the Sydney Metro Northwest ("SMNW") Public Private Partnership ("PPP") project, as well as a full-year contribution from our new franchise, MTR Pendeltågen AB in Sweden, which we took over in December 2016. The decrease in share of profit of associates was mainly due to the end of the concession for London Overground Rail Operations Ltd. in November 2016, partly offset by the contribution from operating the South Western Railway franchise since August 2017. Excluding the Mainland of China property development, our railway, property rental and management subsidiaries, associates and joint venture outside of Hong Kong contributed net after tax profits of HK$879 million on an attributable basis, representing 10.2% of our total recurrent profits.

RAILWAY BUSINESSES IN THE MAINLAND OF CHINA

Beijing

In Beijing, our 49% associate Beijing MTR Corporation Limited ("BJMTR") operates four lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14") and the Northern Section of Beijing Metro Line 16 ("BJL16"). On-time performance in 2017 averaged 99.9% across the four lines.

Beijing Metro Line 4 and the Daxing Line

For the year, the combined ridership of BJL4 and the Daxing Line was about 451 million passenger trips and average weekday patronage was more than 1.33 million, respectively 2.1% and 3.1% higher than 2016.

Beijing Metro Line 14

The first three phases of BJL14 are now operational. They recorded a combined 220 million passenger trips and average weekday patronage of about 687,000 in 2017. The new Pingleyuan Station on this line opened in December 2017.

Beijing Metro Line 16

BJL16 is a PPP project and the first phase, the 19.6-km Northern Section, commenced operation on 31 December 2016. In 2017 the line recorded 25 million passenger trips and average weekday patronage of about 77,000. Full line operation, which will mark the start of the operating concession, is targeted after 2018. The line's new Nongdananlu Station opened in December 2017.

Shenzhen

SZL4, operated by MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), achieved good operational performance during 2017. Patronage grew by 5.4 % to 210 million and average weekday patronage reached 580,000. On-time performance was 99.9%.

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

Our consultancy subsidiary in Shenzhen entered into a project management agreement to supervise the construction of the Northern Extension of SZL4, which will be financed by the Shenzhen Municipal Government. The civil works continue to make progress towards a project target completion by end of 2020. MTR(SZ) is in discussion with the Shenzhen Municipal Government regarding the operational arrangements for this extension.

Hangzhou

Hangzhou Metro Line 1 and Extension

Our 49% associate in Hangzhou, Hangzhou MTR Corporation Limited, operates Hangzhou Metro Line 1. Patronage on this line is growing and increased by 13% in 2017 to 225 million, with average weekday patronage of 616,000. Operational performance was excellent, with on-time train performance at 99.9%. The share of loss increased to HK$68 million in 2017 mainly due to a one-off provision.

Hangzhou Metro Line 5

The Concession Agreement for Hangzhou Metro Line 5 ("HZL5"), another PPP project, was signed by the Company with the Hangzhou Municipal Government and Hangzhou Metro Group on 26 June 2017. The 51.5 km HZL5 is an underground metro line running from Xiangzhanglu Station in Xiaoshan District to Lutinglu Station in Yuhang District, with a total of 38 stations. It is expected to enter service around the end of 2019.

The construction of the HZL5 project is divided into Part A and Part B. Part A relates to the line's civil construction and Part B covers the electrical and mechanical systems and rolling stock. Hangzhou Metro Group is responsible for the investment in, and construction of, Part A. We and Hangzhou Metro Group formed a joint-venture company in September 2017 to undertake the investment in, and construction of, Part B, as well as the operations and maintenance for 25 years after commencement of passenger service. We have a 60% interest in this joint venture company. The total Part B investment is estimated at RMB 10.9 billion which will be financed by the joint venture company through bank borrowings and equity investments from shareholders. We anticipate an equity investment from MTR of RMB 2.616 billion into this joint venture. Tendering and construction works of the line are now in full swing.

PROPERTY BUSINESSES IN THE MAINLAND OF CHINA

Our property development businesses in the Mainland of China achieved significant growth in revenue and profit due to development bookings related to Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1.

Shenzhen

The previously sold high-rise residential units of Tiara, which form the vast majority of the development, were handed over to buyers in June 2017. The project has a total developable GFA of approximately 206,167 square metres. This includes a retail centre of about 10,000 square metres (GFA), which is scheduled to open in late 2018, subject to approval by the Shenzhen Municipal Government. Profits were booked in 2017 in respect of all the units handed over to buyers.

Tianjin

In March 2017, a framework agreement was signed with a subsidiary of Beijing Capital Land Limited for the disposal of the Company's 49% interest in Tianjin TJ-Metro MTR Construction Company Limited, as well as the conditional future acquisition of a shopping centre to be developed on the Beiyunhe Station site. Relevant government approval was obtained for the disposal of our 49% interest in July 2017 and the Sale and Purchase Agreement for the shopping centre was signed on 26 January 2018.

Property Rental and Management Businesses

The Company manages self-developed and other third party properties in the Mainland of China which, as at 31 December 2017, had a total GFA of 390,000 square metres. Our shopping mall in Beijing, Ginza Mall, is undergoing a partial revamp and was 99% occupied as at 31 December 2017 excluding the area under revamp.

EUROPEAN RAILWAY BUSINESSES

United Kingdom

TfL Rail / Elizabeth Line

In London, MTR Corporation (Crossrail) Limited, a wholly owned subsidiary of the Company, operates services under the "TfL Rail" brand on a 32.5-km, 14-station route between Liverpool Street Station and Shenfield as the first phase in the Crossrail operating concession. The next phase, providing services between Paddington Station and Heathrow Airport, is planned to start in May 2018. TfL Rail will be renamed the Elizabeth Line when the tunnel section through central London is completed and becomes operational, which is targeted for December 2018. It will eventually extend to 118 km from east to west across London and serve 40 stations. Since June 2017, new trains have been progressively introduced into operation.

South Western Railway

Through our associate, First MTR South Western Trains Ltd, we have partnered with FirstGroup plc on the South Western Railway franchise, as a 30% shareholder. The tender was awarded in March 2017 by the Department for Transport ("DfT") and the franchise was taken over in August 2017. South Western Railway is one of the UK's largest rail networks, with a route length of 998 km serving 203 stations, covering London and south western England. Since taking over the franchise, services have been affected by industrial action, which has been taken across a number of UK franchises at the same time. We have made every effort to maintain our railway services and minimise the associated disruption to passengers.

Sweden

MTR is the largest rail operator in Sweden in terms of passenger volume. We operate three key rail businesses in the country, namely Stockholm Metro, MTR Express and the Stockholm commuter rail ("Stockholms pendeltåg").

Stockholm Metro

The operational performance of Stockholm Metro in 2017 was good, with new highs recorded for operational performance and customer satisfaction. Annual ridership was estimated at 353 million and average weekday patronage at 1.25 million.

MTR Tech AB

The Company's wholly-owned subsidiary MTR Tech AB, which carries out rolling stock maintenance for Stockholm metro, also performed satisfactorily. It was awarded the contract for a mid-life upgrade programme for part of the metro fleet.

MTR Express

MTR Express (Sweden) AB, our wholly-owned subsidiary which operates the MTR Express intercity service between Stockholm and Gothenburg. It delivered excellent operational and customer service performance during the year, making it the leading rail operator in the Swedish Quality Index 2017. Weekly departures have increased to 104 per week since December 2016. Passenger numbers have continued to rise, albeit below our original expectations. As a result, the subsidiary continued to report a loss in 2017, and we are making every effort to stem this loss through increasing patronage by way of continued delivery of quality services, enhanced marketing, and our own loyalty programme.

Stockholm commuter rail

Our wholly-owned subsidiary MTR Pendeltågen AB operates the Stockholms pendeltåg service under a concession that runs for ten years to December 2026, with an option to extend for four more years. The concession includes the maintenance of rolling stock undertaken by Emtrain AB, a 50% owned associate together with EuroMaint Rail AB. Stockholms pendeltåg serves the greater Stockholm area, has 53 stations and a total route length of 247 km. Financial performance has been satisfactory. From an operational and customer service perspective, improvements have been seen since the takeover of the concession, although the introduction of a new timetable in December 2017 proved challenging, resulting in a withholding of service payments by our client. We are working hard to ensure the delivery of our committed service level.

AUSTRALIAN RAILWAY BUSINESSES

Melbourne's Metropolitan Rail Service

In Melbourne, our 60% owned subsidiary Metro Trains Melbourne Pty. Ltd. ("MTM") operates the 390-km Melbourne metro network. Operational performance was satisfactory in 2017, with punctuality recorded at 92%, against 87% when the franchise was taken over in 2009.

The original eight-year concession ended in November 2017, and in September 2017 the Government of Victoria announced the award of a new concession for seven years to MTM, with a three years extension option. Under the new operations and maintenance agreement, MTM is committed to delivering further enhancements to railway operations, asset maintenance and customer service in Melbourne. These enhancements include adding more peak services, increasing maintenance to improve infrastructure and rolling stock reliability, upgrading CCTV cameras, providing more passenger information, cleaner trains and stations, as well as creating more career opportunities.

Sydney Metro Northwest

In Sydney, MTR is a member of a consortium which is responsible for the design, construction and financing, as well as the future operations and maintenance of the SMNW PPP project, which is the first stage of Sydney Metro. The 36-km SMNW line includes eight new metro stations and five existing stations upgraded to metro standards. Construction works for the depot and stations, as well as pre-operational planning for the project, are progressing. The first train was delivered to Sydney in September 2017 and has been undergoing testing. Future stages of Sydney Metro will see metro service extending into the central business district, with an ultimate capacity to provide metro train service every two minutes in each direction.

GROWTH INITIATIVES OUTSIDE OF HONG KONG

Mainland of China and Macau

Beijing

MTR signed a Cooperation Framework Agreement with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and BJMTR in November 2016 to conduct joint preliminary studies on integrated property development above selected existing station and depot sites along BJL4 and the Daxing Line (including the Nanzhaolu Depot). In January 2017 we signed a Letter of Intent ("LoI") with BIIC to extend the strategic co-operation to other, predominantly rail-related property development projects in Beijing in addition to investment in, construction and operation of other railway projects.

In November 2017, the Company signed a LoI with the Daxing District People's Government of Beijing Municipality, BIIC and BJMTR for studies on the southward extension of the Beijing Daxing Line, Nanzhaolu Depot capacity expansion, and integrated property development above the depot.

BJMTR is also seeking other railway opportunities in Beijing to expand its network further.

Chengdu

In August 2017, we signed a LoI with Chengdu Rail Transit Group covering strategic cooperation on metro, metro related property development and metro operations management training. We are now investigating the metro PPP and transit-oriented development opportunities in the city.

Hangzhou

In Hangzhou, we are in discussion on another metro PPP project and are also exploring metro related property development opportunities.

Guangdong-Hong Kong-Macau Bay Area

We are also in active discussions with local governments and others bodies in Guangdong-Hong Kong-Macau Bay Area to explore rail and property development opportunities around stations and depots that would leverage our experience and track record in Shenzhen and Hong Kong.

In Macau, we were awarded a service contract to provide project management and technical assistance to the 11-station 9.3-km Macau Light Rapid Transit Taipa Line for Gabinete para as Infra-estruturas de Transportes of the Government of the Macao Special Administrative Region in 2016.

United Kingdom

In the UK, we submitted our bid for the Wales and Borders rail franchise in December 2017 and the decision is expected in the second quarter of 2018.

In partnership with Guangshen Railway Company Limited, an associated company of China Railway Corporation, we have been shortlisted to bid for the West Coast Partnership franchise in the UK. The franchisee will operate railway services on the West Coast Main Line commencing in April 2019. It will also act as the "shadow operator" to advise High Speed Two ("HS2") Limited and DfT on the preparation and operation of the initial HS2 services between London and Birmingham, scheduled to commence in 2026. The tender is expected to be released in the first quarter of 2018.

In addition, we are exploring property development opportunities over and around rail stations in the UK.

Nordic Region

In the Nordic Region, a number of Norwegian rail services will be privatised and we submitted our first tender in March 2018 for the Traffic Package South (Trafikkpakke Sør) Operating Concession in southern Norway.

We are also examining property development opportunities over and around rail stations in Stockholm.

Australia

In Australia, we are pursuing the Sydney Metro City and Southwest ("SMCSW") project, a 30-km extension of SMNW. Early works by Transport for New South Wales ("TfNSW") have commenced and the line is targeted to open in 2024. The SMCSW Consortium, formed by MTR and certain other participants in SMNW, submitted a non-binding initial proposal to TfNSW in March 2017 to participate in the SMCSW project. Subsequently, a commitment deed was entered into with TfNSW in December 2017 which will allow the SMCSW Consortium to submit an updated proposal in late 2018 to deliver and integrate trains and systems, as well as to operate the SMCSW line.

North America

In North America, we were pre-qualified as operator for the Toronto Reginal Express Rail project in Canada in December 2017. The project will transform the existing GO Transit diesel-rail commuter system into an electrified railway network in the Greater Toronto and Hamilton area. The bid process for the project (including the operator) is expected to commence later in 2018.

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")	September 2009	30	24	28.2
Daxing Line of BJL4	49%	Operations and Maintenance ("O&M") Concession	December 2010	10	11	21.8
Beijing Metro Line 14 ("BJL14")	49%	PPP	Phase 1 West Section: May 2013 Phase 2 East Section: December 2014 Phase 3 Middle Section: December 2015	30[Note 14]	Phase 1 West Section: 7 Phase 2 East Section: 12[Note 1] Phase 3 Middle Section: 11[Note 1]	Phase 1 West Section: 12.4 Phase 2 East Section: 14.8 Phase 3 Middle Section: 16.6
Beijing Metro Line 16 ("BJL16")	49%	O&M Concession	Phase 1: December 2016	Until full line[Note 2] opens	Phase 1: 10[Note 2]	Phase 1: 19.6
Shenzhen Metro Line 4	100%	Build-Operate-[Note 3] Transfer	Phase 1: July 2010 Phase 2: June 2011	30	Phase 1: 5 Phase 2: 10	Phase 1: 4.5 Phase 2: 16
Hangzhou Metro Line 1 ("HZL1")	49%	PPP	November 2012	25	31	48
HZL1 Extension	49%	O&M Concession	November 2015	End together with HZL1 concession	3	5.6
Europe						
TfL Rail/Elizabeth Line, United Kingdom	100%	O&M Concession	May 2015	8	40[Note 4]	118
South Western Railway, United Kingdom	30%	O&M Concession	August 2017	7	203[Note 5]	998
Stockholm Metro, Sweden	100%	O&M Concession[Note 6]	November 2009	14[Note 7]	100	108
MTR Express, Sweden	100%	Open Access Operation	March 2015[Note 8]	N/A[Note 9]	6[Note 10]	457
Stockholm commuter rail, Sweden	100%	O&M Concession[Note 11]	December 2016	10	53[Note 12]	247
Australia						
Melbourne's Metropolitan Rail Service	60%	O&M Concession	November 2009	15[Note 13]	219	390
Projects In Progress						
BJL14, Mainland of China	49%	PPP	Full Line: After 2018	30[Note 14]	Full Line: 37	Full Line: 47.3
BJL16, Mainland of China	49%	PPP	Full Line: After 2018	30[Note 15]	Full Line: 29	Full Line: 49.8
Hangzhou Metro Line 5, Mainland of China	60%	PPP	2019[Note16]	25	38	51.5
Sydney Metro Northwest, Australia	Mixed	PPP (Operations, Trains & System)	2019[Note17]	15	13[Note 18]	36[Note 18]

Notes:

1 *BJL14 Phase 2 East Section has 12 stations, 11 opened (one is currently bypassed). BJL14 Phase 3 Middle Section has 11 stations, ten opened (one is currently bypassed).*
2 *The O&M concession of BJL16 Phase 1 will run until full line opens.*
3 *Shenzhen Metro Line 4 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.*
4 *MTR Crossrail will manage 28 out of the total 40 stations in the Elizabeth Line.*
5 *First MTR South Western Trains manages 186 out of the total 203 stations in the South Western Railway.*
6 *Rolling stock maintenance is provided by our subsidary MTR Tech AB .*
7 *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.*
8 *MTR Express initial service commenced on 21 March 2015 with full schedule started in August 2015.*
9 *The license to operate this service is subject to renewal.*
10 *MTR Express is not responsible for the management of these stations.*
11 *Rolling stock maintenance is provided by a 50:50 joint venture between MTR Nordic and EuroMaint Rail AB.*
12 *MTR Pendeltågen AB manages 50 out of the total 53 stations in the Stockholm commuter rail.*
13 *In September 2017, the eight-year operating concession of Melbourne's Metropolitan Rail Service was extended for another seven years (from 2017 to 2024) to a total of 15 years by the State Government of Victoria in Australia.*
14 *BJL14 PPP concession started on 31 December 2015.*
15 *BJL16 PPP concession will start after full line opens.*
16 *Subject to Hangzhou Municipal Government's arrangement.*
17 *Subject to arrangement of the government of New South Wales, Australia.*
18 *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.*

FINANCIAL REVIEW

Underlying Business Profit grew by 11.3% to

HK$10,515 million

Total Revenue increased by

22.7%

Strong Credit Ratings

AA+

by Standard & Poor's (long-term)

PROFIT AND LOSS

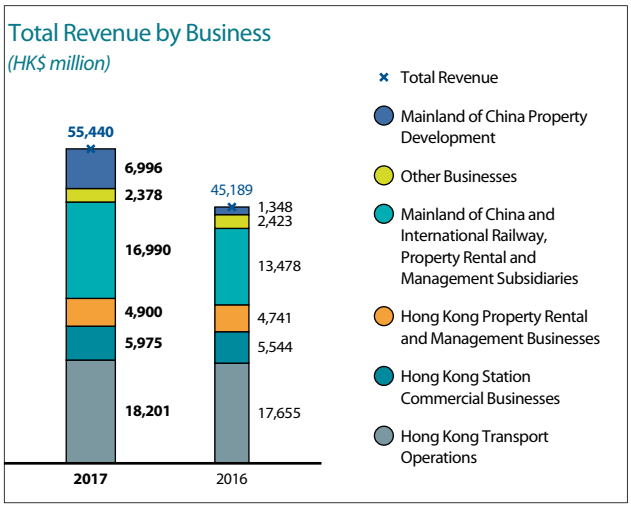
The Group's businesses consist of (i) recurrent businesses (comprising Hong Kong Transport Operations, Hong Kong Station Commercial Businesses, Hong Kong Property Rental & Management Businesses, Mainland of China and International Railway, Property Rental and Management Businesses and Other Businesses) and (ii) property development businesses (together with recurrent businesses referred to as underlying businesses).

Net profit attributable to shareholders of the Company is arrived at after adjusting for the underlying business profit with any gain or deficit arising from investment property revaluation, which is a non-cash accounting item.

In 2017, the Group achieved reasonable financial results, with a 11.3% increase in our underlying business profit to HK$10,515 million and a 64.1% increase in net profit attributable to shareholders of the Company to HK$16,829 million.

The financial review of the Group's total revenue, underlying business profit and net profit attributable to shareholders of the Company are provided in the following sections.

Total Revenue



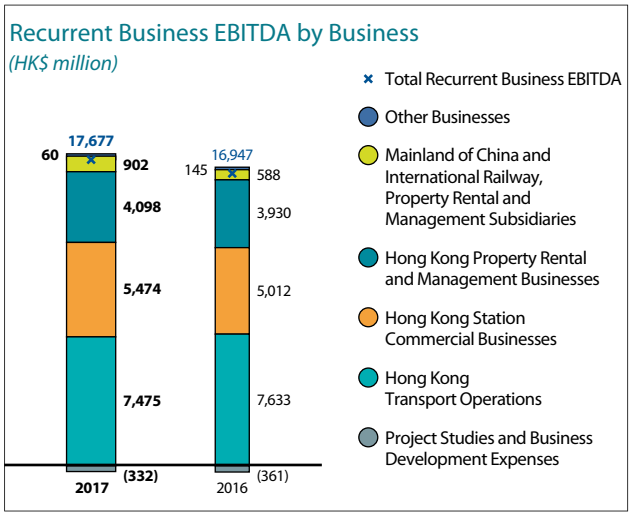
In 2017, the Group recorded an overall revenue growth. Total revenue increased by 22.7% to HK$55,440 million, reflecting mainly the contributions from Tiara, the full 12-month operation of the Stockholms pendeltåg service by MTR Pendeltågen AB since the franchise commencement in December 2016 and the increase in design and construction activities of the Sydney Metro Northwest (SMNW) PPP project.

Underlying Business Profit and Net Profit Attributable to Shareholders of the Company

HK$ million	2017		2016		2017 vs 2016 Inc./(Dec.)	
Recurrent Businesses						
EBITDA		**17,677**		16,947	730	4.3%
Depreciation and Amortisation		**(4,855)**		(4,127)	728	17.6%
Variable Annual Payment		**(1,933)**		(1,787)	146	8.2%
EBIT		**10,889**		11,033	(144)	(1.3%)
Interest and Finance Charges		**(1,051)**		(702)	349	49.7%
Share of Profit or Loss of Associates and Joint Venture		**494**		537	(43)	(8.0%)
Income Tax		**(1,696)**		(1,858)	(162)	(8.7%)
Non-controlling Interests		**(56)**		(94)	(38)	(40.4%)
Recurrent Business Profit		**8,580**		8,916	(336)	(3.8%)
Property Development Businesses						
Post-tax Property Development Profit						
– Hong Kong Property Development	**916**		267		649	243.1%
– Mainland of China Property Development	**1,019**		263		756	287.5%
Post-tax Property Development Profit		**1,935**		530	1,405	265.1%
Underlying Business Profit		**10,515**		9,446	1,069	11.3%
Investment Property Revaluation		**6,314**		808	5,506	681.4%
Net Profit Attributable to Shareholders of the Company		**16,829**		10,254	6,575	64.1%
Earnings per Share (in HK$)		**HK$2.83**		HK$1.74	HK$1.09	62.6%
Earnings per Share on Underlying Business Profit (in HK$)		**HK$1.77**		HK$1.61	HK$0.16	9.9%
Total EBITDA Margin (in %)		**36.1%**		38.3%	(2.2%) pts.	
Total EBITDA Margin (excluding Mainland of China and International Subsidiaries) (in %)		**53.3%**		53.9%	(0.6%) pt.	
Total EBIT Margin^ (in %)		**23.8%**		25.2%	(1.4%) pts.	
Total EBIT Margin (excluding Mainland of China and International Subsidiaries)^ (in %)		**32.2%**		34.8%	(2.6%) pts.	
Return on Average Equity Attributable to Shareholders of the Company Arising from Underlying Businesses (in %)		**6.7%**		5.9%	0.8% pt.	

^ *Excluding Profit on Hong Kong Property Development and Share of Profit or Loss of Associates and Joint Venture*

Recurrent Business EBITDA



Recurrent Business Profit

Recurrent business profit decreased by 3.8% to HK$8,580 million, mainly due to increase in depreciation and amortisation charges resulting from the full 12-month effect of the opening of the Kwun Tong Line Extension and the South Island Line, as well as increase in interest and finance charges as interest cost relating to these two lines can no longer be capitalised after opening. These were partly offset by higher EBIT of Hong Kong Station Commercial Businesses, Hong Kong Property Rental and Management Businesses, and subsidiaries of Mainland of China and International Railway, Property Rental and Management Businesses. Further details of the divisional performance are set out in the ensuing paragraphs.

Post-tax Property Development Profit

Post-tax property development profit in 2017 was HK$1,935 million, mainly derived from profit recognition of the high-rise units handed over at Tiara in Shenzhen (which formed the vast majority of the development) and sundry income sources in Hong Kong.

Dividend

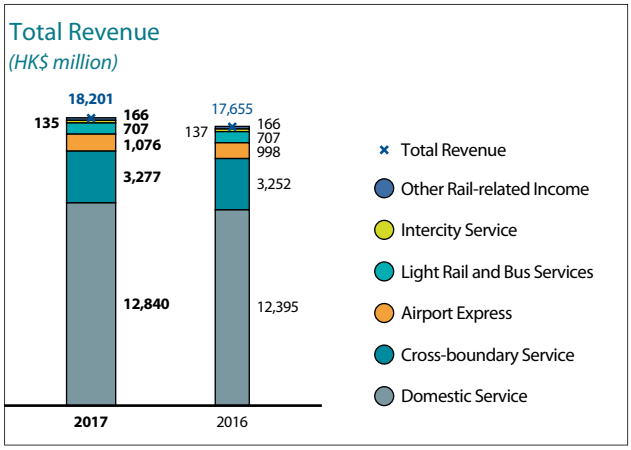
In line with the Company's progressive ordinary dividend policy, the Board has proposed a final ordinary dividend of HK$0.87 per share (with a scrip dividend option offered), giving a full year ordinary dividend of HK$1.12 per share, higher than the HK$1.07 per share in 2016.

RECURRENT BUSINESSES

Hong Kong Transport Operations

HK$ million	2017	2016	2017 vs 2016 Inc./(Dec.)	
Total Revenue	**18,201**	17,655	546	3.1%
Total Expenses	**(10,726)**	(10,022)	704	7.0%
EBITDA	**7,475**	7,633	(158)	(2.1%)
EBIT*	**1,656**	2,572	(916)	(35.6%)
EBITDA Margin (in %)	***41.1%***	*43.2%*	*(2.1%)*	*pts.*
EBIT Margin (in %)*	***9.1%***	*14.6%*	*(5.5%)*	*pts.*

* *EBIT represents EBITDA net of depreciation, amortisation and variable annual payment*

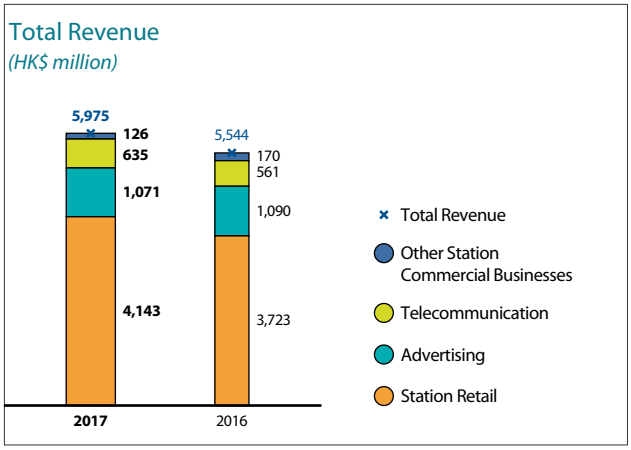


Despite the roll-over of the fare increase under the FAM in June 2017, total revenue increased by 3.1%. The increase was mainly due to the patronage contributions after the opening of the Kwun Tong Line Extension and the new South Island Line in the last quarter of 2016. Average fares for the Domestic Service increased by 0.3% and Cross-boundary Service by 1.4%, while average fares for Light Rail decreased by 0.1% and Bus Service by 0.5%. Average fares for Airport Express and Intercity services, which are not subject to FAM, increased by 4.7% and decreased by 0.1% respectively. Total patronage of all our rail and bus passenger services increased by 2.6%, surpassing the 2 billion passenger trips per annum mark. Total expenses increased mainly owing to higher staff costs and the full 12-month operating costs for the two new lines in 2017, as well as refund of Government rent and rates in 2016. Depreciation and amortisation charges increased significantly by 18.5% to HK$4,479 million, mainly due to the opening of the two new lines and the addition of new assets. Variable annual payment to KCRC increased by 4.6% to HK$1,340 million as the incremental fare revenue was charged at the top progressive rate of 35%. As a result, EBIT decreased by 35.6% to HK$1,656 million and EBIT margin decreased by 5.5 percentage points to 9.1%.

Hong Kong Station Commercial Businesses

HK$ million	2017	2016	2017 vs 2016 Inc./(Dec.)	
Total Revenue	**5,975**	5,544	431	7.8%
Total Expenses	**(501)**	(532)	(31)	(5.8%)
EBITDA	**5,474**	5,012	462	9.2%
EBIT*	**4,722**	4,362	360	8.3%
EBITDA Margin (in %)	***91.6%***	*90.4%*	*1.2%*	*pts.*
EBIT Margin (in %)*	***79.0%***	*78.7%*	*0.3%*	*pt.*

* *EBIT represents EBITDA net of depreciation, amortisation and variable annual payment*

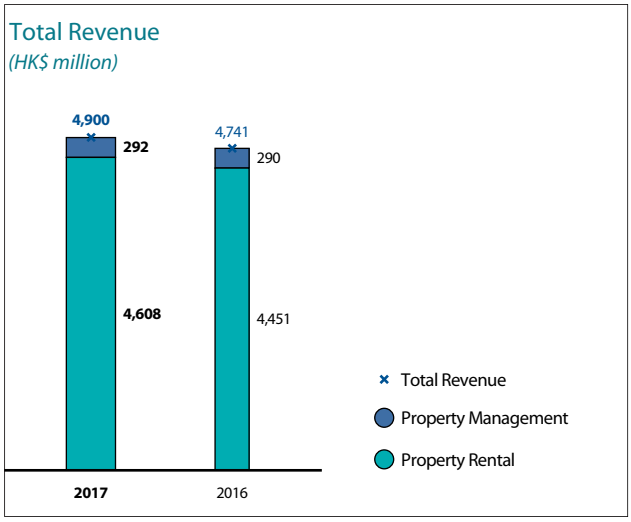


Total revenue increased by 7.8% mainly due to higher station retail revenue. This reflected rental income growth from the new contract of the Duty Free Shop at Lok Ma Chau Station and existing contract of the Duty Free Shop at Lo Wu Station, an increase in the number of station shops following the opening of the two new lines, as well as positive rental reversion because of a more resilient trade mix in our station shops. In addition, telecommunication revenue increased due to incremental revenue from the two new lines, as well as new service contracts and capacity enhancement projects. The increases were partly offset by decreases in revenue from advertising and other station commercial businesses. Total expenses decreased due to lower operating costs relating to advertising and other station commercial businesses in line with the decreases in related revenue. Variable annual payment to KCRC increased by 17.3% to HK$589 million owing to a higher level of revenue subject to variable annual payment. As a result, EBIT increased by 8.3% to HK$4,722 million and EBIT margin increased by 0.3 percentage point to 79.0%.

Hong Kong Property Rental and Management Businesses

HK$ million	2017	2016	2017 vs 2016 Inc./(Dec.)	
Total Revenue	**4,900**	4,741	159	3.4%
Total Expenses	**(802)**	(811)	(9)	(1.1%)
EBITDA	**4,098**	3,930	168	4.3%
EBIT*	**4,082**	3,912	170	4.3%
EBITDA Margin (in %)	***83.6%***	*82.9%*	*0.7% pt.*	
EBIT Margin (in %)*	***83.3%***	*82.5%*	*0.8% pt.*	

* *EBIT represents EBITDA net of depreciation, amortisation and variable annual payment*

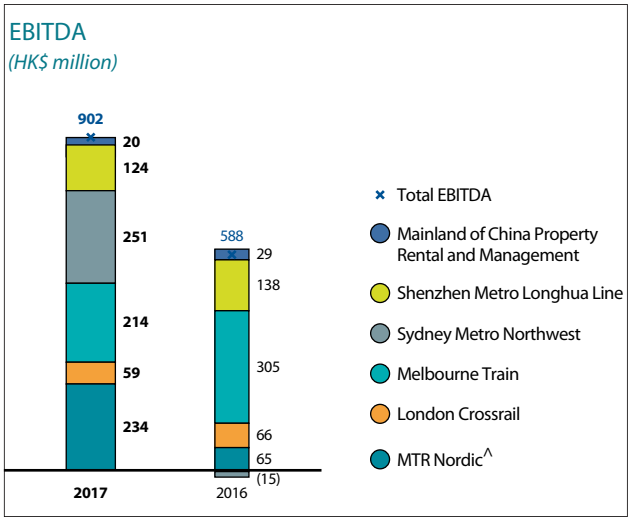


Property rental revenue saw a 3.5% increase in 2017. The openings of the seventh and eighth floors of Telford Plaza II in July 2017 and Maritime Square 2 in December 2017 contributed partly to the growth. This, together with the full year impact of positive rental reversion of shopping malls in Hong Kong at 3.4% in 2016, more than offset the impact from the negative rental reversion of shopping malls at 1.7% in 2017. As at 31 December 2017, our shopping malls and the Company's 18 floors in Two International Finance Centre remained close to 100% let. Property management income increased slightly, whilst total expenses decreased mainly due to the one-off provision made in 2016. As a result, EBIT increased by 4.3% to HK$4,082 million and EBIT margin increased by 0.8 percentage point to 83.3%.

Mainland of China and International Railway, Property Rental and Management Subsidiaries

HK$ million	2017	2016	2017 vs 2016 Inc./(Dec.)	
Total Revenue	**16,990**	13,478	3,512	26.1%
Total Expenses	**(16,088)**	(12,890)	3,198	24.8%
EBITDA	**902**	588	314	53.4%
EBIT#	**766**	468	298	63.7%
EBITDA Margin (in %)	***5.3%***	*4.4%*	*0.9% pt.*	
EBIT# Margin (in %)	***4.5%***	*3.5%*	*1.0% pt.*	

\# *EBIT represents EBITDA net of depreciation and amortisation*



^ *Representing businesses in Sweden which include MTR Nordic AB, MTR Tunnelbanan AB, MTR Tech AB, MTR Express (Sweden) AB & MTR Pendeltågen AB*

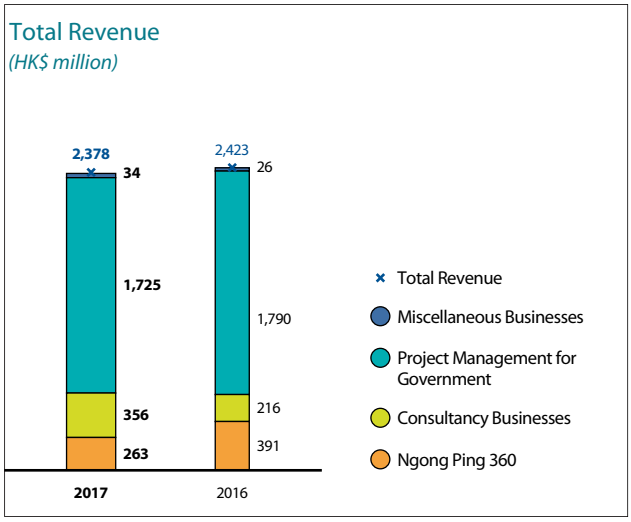
Total revenue increased by 26.1%, total expenses by 24.8%, and total EBITDA by 53.4%. In Australia, EBITDA of HK$251 million was recognised for the SMNW PPP project. However, the EBITDA of MTM decreased mainly due to higher expenses from operations, as well as margin decrease in its project activities. In Sweden, the higher EBITDA of Nordic Group was mainly brought by the contributions from MTR Pendeltågen AB. In the United Kingdom, the EBITDA of London Crossrail maintained at a similar level to 2016. In the Mainland of China, EBITDA of Shenzhen Metro Longhua Line decreased mainly due to higher growth in operating costs.

Total depreciation and amortisation charges increased by 13.3% to HK$136 million. As a result, EBIT increased by 63.7% to HK$766 million and EBIT margin increased by 1.0 percentage point to 4.5%.

Other Businesses

HK$ million	2017	2016	2017 vs 2016 Inc./(Dec.)	
Total Revenue	**2,378**	2,423	(45)	(1.9%)
Total Expenses	**(2,318)**	(2,278)	40	1.8%
EBITDA	**60**	145	(85)	(58.6%)
EBIT*	**(5)**	80	(85)	N/A
EBITDA Margin (in %)	***2.5%***	*6.0%*	*(3.5%) pts.*	
EBIT Margin (in %)*	***-ve***	*3.3%*	*N/A*	

* *EBIT represents EBITDA net of depreciation and amortisation*



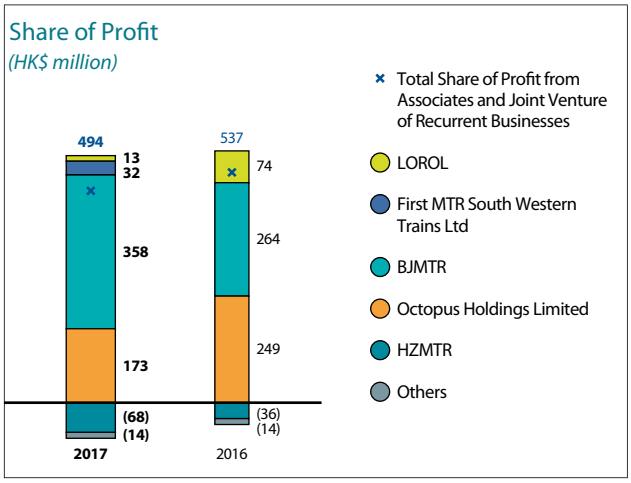
Income from project management services to Government is from entrustment works on the Express Rail Link and Shatin to Central Link, which is booked on a cost recovery basis. Revenue from Ngong Ping 360 decreased by 32.7% due to the service suspension of the Ngong Ping Cable Car from 9 January 2017 to 4 June 2017 to carry out rope replacement. Income from consultancy businesses increased by 64.8% mainly due to the contributions from our contract to provide management and technical assistance to the Macau Light Rapid Transit Project. Total expenses increased as a result of more activities in consultancy businesses.

After accounting for the depreciation charges of Ngong Ping 360, a loss in EBIT of HK$5 million was recorded in 2017 compared with a profit in EBIT of HK$80 million in 2016.

Depreciation and Amortisation

Depreciation and amortisation increased mainly due to the full 12-month operations of the Kwun Tong Line Extension and the South Island Line.

Share of Profit from Associates and Joint Venture of Recurrent Businesses



Share of profit from associates and joint venture of recurrent businesses decreased mainly due to share of lower profit from Octopus Holdings Limited, as well as lower contributions from LOROL as the concession ended in November 2016. The decrease was partly offset by higher share of profits from BJMTR resulting from revenue improvement.

PROPERTY DEVELOPMENT BUSINESSES

Post-tax Profit from Hong Kong Property Development

Post-tax profit from Hong Kong Property Development in 2017 was derived from the agency fee income from the West Rail property developments (mainly including Cullinan West, Cullinan West II, Ocean Pride, Ocean Supreme, THE PAVILIA BAY, PARC City and The Spectra), sales of inventory units and car parking spaces, and further surplus proceeds arising from the finalisation of development costs for completed property development projects. This was HK$649 million higher than 2016 mainly due to higher agency fee income recorded in 2017.

Post-tax Profit from Mainland of China Property Development

Post-tax profit from Mainland of China Property Development in 2017 was derived predominantly from profit recognition of the high-rise units handed over at Tiara which comprised the vast majority of the development. This was HK$756 million higher than 2016 when profit of the first batch of units handed over at Tiara was recognised.

STATEMENT OF FINANCIAL POSITION

HK$ million	**At 31 December 2017**	At 31 December 2016	2017 vs 2016 Inc./(Dec.)	
Fixed Assets	**209,772**	201,942	7,830	3.9%
Property Development in Progress	**14,810**	17,484	(2,674)	(15.3%)
Interests in Associates and Joint Venture	**6,838**	7,015	(177)	(2.5%)
Debtors and Other Receivables	**7,058**	4,073	2,985	73.3%
Cash, Bank Balances and Deposits	**18,354**	20,290	(1,936)	(9.5%)
Other Assets	**6,936**	6,536	400	6.1%
Total Assets	**263,768**	257,340	6,428	2.5%
Total Loans and Other Obligations	**(42,043)**	(39,939)	2,104	5.3%
Creditors and Other Payables	**(28,166)**	(32,629)	(4,463)	(13.7%)
Amounts Due to Related Parties	**(2,226)**	(11,783)	(9,557)	(81.1%)
Obligations Under Service Concession	**(10,470)**	(10,507)	(37)	(0.4%)
Deferred Tax Liabilities	**(12,760)**	(12,125)	635	5.2%
Other Liabilities	**(1,677)**	(801)	876	109.4%
Total Liabilities	**(97,342)**	(107,784)	(10,442)	(9.7%)
Net Assets	**166,426**	149,556	16,870	11.3%
Represented by:				
Total Equity Attributable to Shareholders of the Company	**166,304**	149,461	16,843	11.3%
Non-controlling Interests	**122**	95	27	28.4%
Total Equity	**166,426**	149,556	16,870	11.3%

Fixed Assets

Fixed assets increased mainly due to revaluation gain on our investment properties, as well as renewal and upgrade works for our existing Hong Kong railway network.

Property Development in Progress

Property development in progress decreased mainly due to profit recognition of Tiara.

Debtors and Other Receivables

Debtors and other receivables increased mainly due to the purchase of tax reserve certificates and prepayment for the future acquisition of a shopping centre to be developed on the Beiyunhe Station site of Tianjin Metro Line 6.

Cash, Bank Balances and Deposits

Cash, bank balances and deposits decreased mainly due to payments of the second tranche of special dividend under the XRL Agreement, ordinary dividends and capital expenditure. The decrease was partly offset by cash inflow from operating activities and cash receipts in respect of Hong Kong property development.

Total Loans and Other Obligations

Total loans and other obligations increased mainly due to the fixed rate notes issued by the Company, of which more than HK$3 billion of these notes were issued pursuant to our Green Bond Framework.

Creditors and Other Payables

Creditors and other payables decreased mainly due to the sales proceeds of Tiara previously received and accounted for as creditors now being recognised in the profit and loss account, as well as the payment of the second tranche of special dividend under the XRL Agreement to independent shareholders. The decrease was partly offset by the cash receipts from Hong Kong property development.

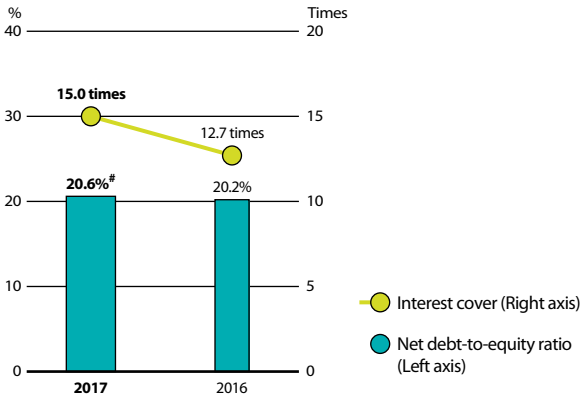
Amounts Due to Related Parties

Amounts due to related parties decreased mainly due to the payment of the second tranche of special dividend under the XRL Agreement to the Government.

Total Equity

The increase in total equity of HK$16,870 million was mainly due to the profit recorded for the year, partly offset by the payments of 2016 final ordinary dividend and 2017 interim ordinary dividend during the year.

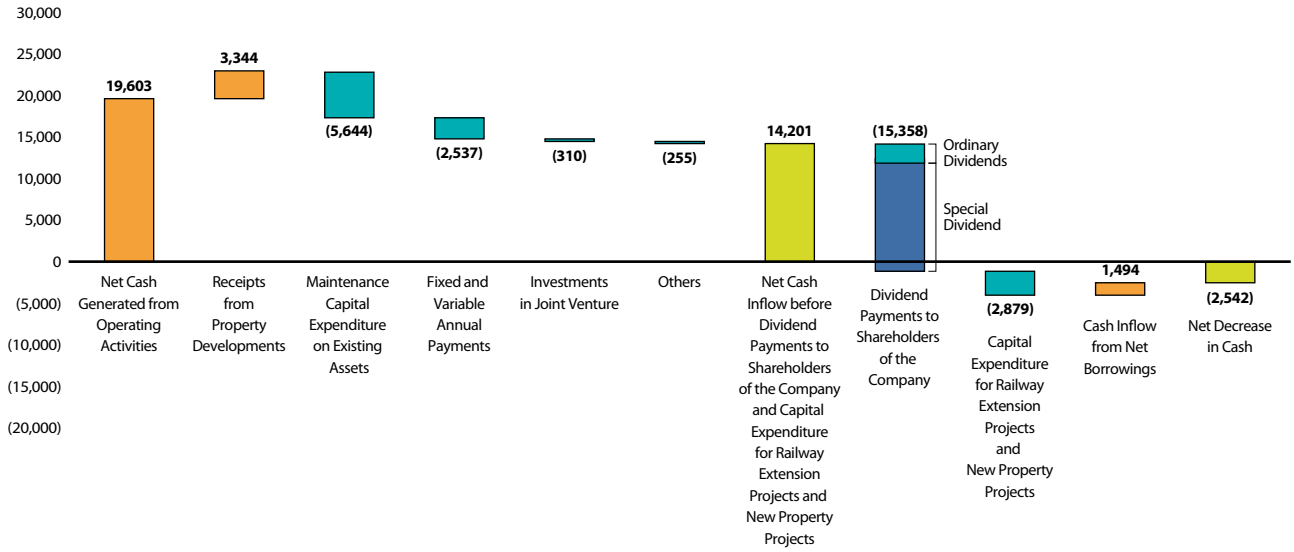
Debt Servicing Capability



If the land premium in respect of Wong Chuk Hang Station Package 2 (which was paid in January 2018) was excluded from the cash balance, the Group's net debt-to-equity ratio at 31 December 2017 would have been 23.7%

Cash Flow for the Year Ended 31 December 2017

(HK$ million)

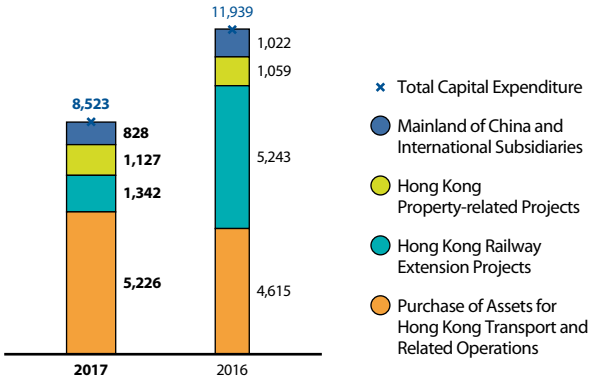


CASH FLOW

HK$ million	2017	2016
Net Cash Generated From Operating Activities	**19,603**	17,135
Receipt from Hong Kong and Shenzhen Property Developments	**3,344**	5,403
Other Receipts	**517**	1,160
Net Cash Receipts	**23,464**	23,698
Capital Expenditure	**(8,523)**	(11,939)
Fixed Annual Payment	**(750)**	(750)
Variable Annual Payment	**(1,787)**	(1,649)
Net Interest Payment	**(578)**	(519)
Investments in Associates and Joint Venture	**(310)**	(1,273)
Other Payments	**(92)**	(112)
Dividends Paid to Shareholders of the Company	**(15,358)**	(18,508)
Dividends Paid to Holders of Non-controlling Interests	**(102)**	(108)
Total Cash Outflow	**(27,500)**	(34,858)
Net Cash Outflow before Financing	**(4,036)**	(11,160)
Cash Inflow from Net Borrowings	**1,494**	19,431
(Decrease)/Increase in Cash	**(2,542)**	8,271
Cash, Bank Balances and Deposits as at 1 January	**20,290**	12,318
(Decrease)/Increase in Cash	**(2,542)**	8,271
Effect of Exchange Rate Changes	**606**	(299)
Cash, Bank Balances and Deposits as at 31 December	**18,354**	20,290

Capital Expenditure

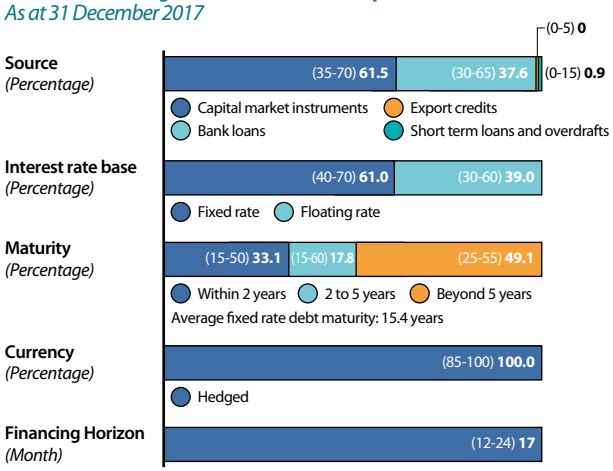
(HK$ million)



Preferred Financing Model and Debt Profile

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

(Preferred Financing Model) vs. **Actual debt profile**
As at 31 December 2017



Investment in Joint Venture

Investment in joint venture in 2017 related to equity contribution for our investment in Hangzhou Metro Line 5.

Dividend Payments to Shareholders of the Company

Dividend payments to shareholders of the Company in 2017 included an amount of HK$13,009 million being the second and final tranche of special dividend paid under the XRL Agreement.

FINANCING ACTIVITIES

The US economy continued to display strength and resilience, with strong labour market conditions but subdued inflation. Nevertheless, the US Federal Reserve carried out three 0.25% rate hikes in 2017 and started shrinking its balance sheet in October, seeing the low inflation rate as transitory.

With this backdrop, while 3-month USD LIBOR rose from 1.00% p.a. to 1.69% p.a. for the year, longer-term USD interest rates did not show the same trend. The 10-year Treasury yield ended the year at 2.41% p.a., slightly lower than the 2.44% p.a. seen at the start of the year, after touching a low of 2.04% p.a. in September, while the 30-year Treasury yield dropped from 3.07% p.a. to 2.74% p.a. over the year.

Interest rates in Hong Kong followed a similar yield-curve flattening pattern. The 3-month HKD HIBOR rose from 1.02% p.a. to 1.31% p.a. at year end as domestic liquidity was mopped up by the issuance of HK$80 billion of exchange fund bills by HKMA. The 5-year, 10-year and 15-year HKD swap rates ended the year lower at 2.12% p.a., 2.28% p.a. and 2.47% p.a. respectively from 2.32% p.a., 2.63% p.a. and 2.79% p.a. at the start of the year, with lows of 1.44% p.a., 1.79% p.a. and 1.93% p.a. during the year.

Taking advantage of the lower long-term interest rates, the Company issued several fixed rate notes totalling HK$7.7 billion through private placements, with maturities ranging from 5 to 30 years in HK, US and AU dollars. These notes helped to further extend and diversify the Company's debt maturity profile. More than HK$3 billion of these notes were issued pursuant to our Green Bond Framework as we saw increasing investor interest in our green bonds following the debut green bond issuance in 2016. Notably the Company issued Asia's first off-shore AU dollar green medium term note and the first HK dollar green bond through private placements. In recognition of our efforts in social responsibility, the Group was awarded "Asia SRI Issuer of the Year" by mtn-i. FORTUNE also highlighted our Green Bond issuance as a consideration factor when naming the Group on the "Change the World" Top 50 list.

COST OF BORROWING

The Group's consolidated gross debt position increased from HK$39,939 million at year-end 2016 to HK$42,043 million at year-end 2017. The weighted average borrowing cost of the Group decreased to 2.5% from 2.9% p.a. due to the lower interest rates on the new fixed rate borrowings.

FINANCING CAPACITY

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

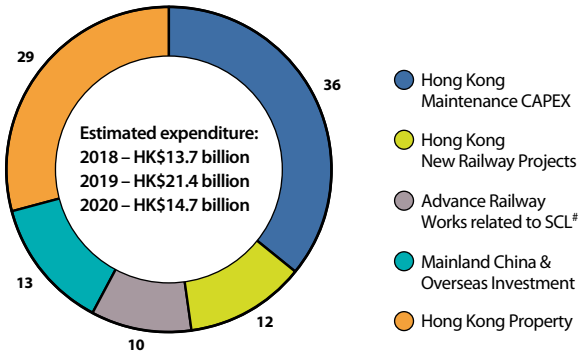
Capital expenditure for Hong Kong railway projects comprises of spending related to new projects owned by the Company, as well as outlays for maintaining and upgrading existing rail lines. Capital expenditure for concession projects like the Express Rail Link ("XRL") and the Shatin to Central Link ("SCL") are generally funded by the Government and therefore not included in the Group's capital expenditure programme, although the Company may have to pick up some costs for the XRL if the total cost exceeds HK$84.42 billion and will incur certain costs for the rolling stock and signalling systems attributable to the East Rail and Ma On Shan Lines in relation to the SCL project.

Capital expenditure for Hong Kong property investment and development comprises mainly of costs associated with works for property development, fitting-out and renovating the shopping centres, and partial development costs for certain property development projects. Expenditures for Mainland of China and overseas investment are primarily the equity contribution to the Beijing Metro Line 16, Hangzhou Metro Line 5 and Sydney Metro Northwest projects.

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.

Capital Expenditure and Investment (2018 – 2020)

Total spending for the next three years from 2018 to 2020 is estimated at HK$49.8 billion
(Percentage)



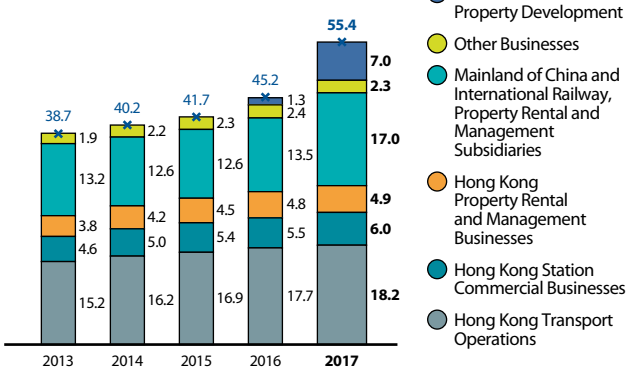
Advance Railway Works involve modifications to or upgrades or expansion of assets for which MTR is responsible under the existing service concession agreement with KCRC. This will predominantly be covered by the reduction in future maintenance CAPEX during the construction period of SCL Project which MTR would have otherwise incurred.

Credit ratings	Short-term*	Long-term*
Standard & Poor's	A-1+/A-1+	AA+/AA+
Moody's	-/P-1	Aa2/Aa2
Rating & Investment Information, Inc. (R&I)	a-1+	AA+

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

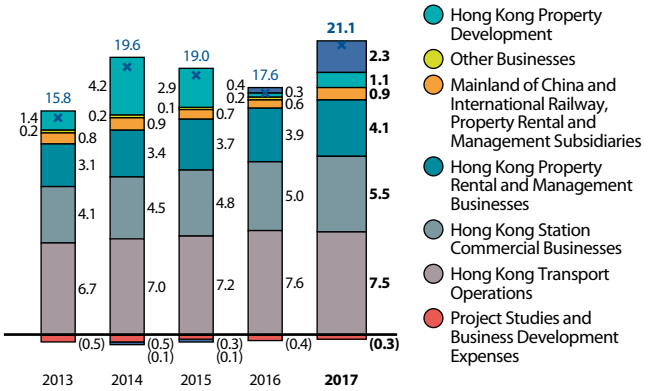
Total Revenue

(HK$ billion)



Operating Profit^ Contributions

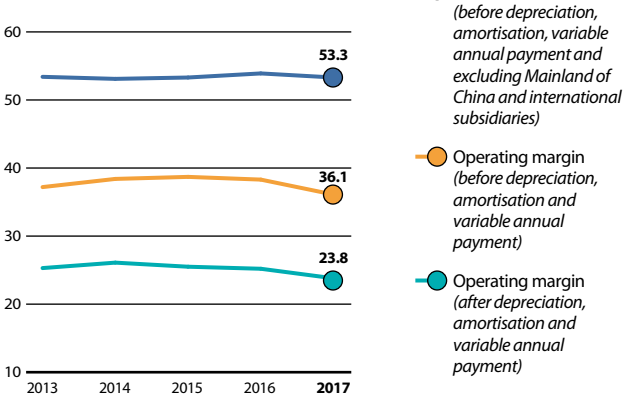
(HK$ billion)



^ *Representing operating profit before depreciation, amortisation and variable annual payment*

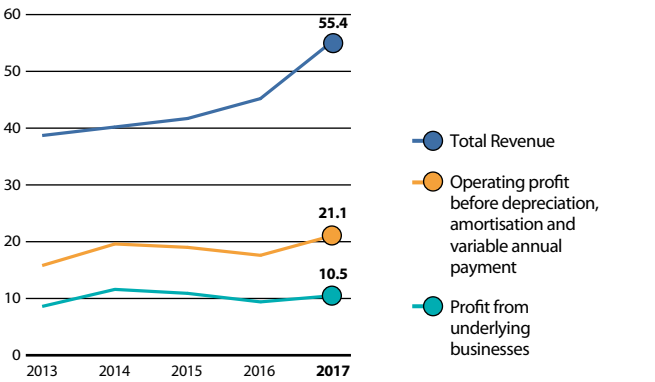
Operating Margin

(Percentage)



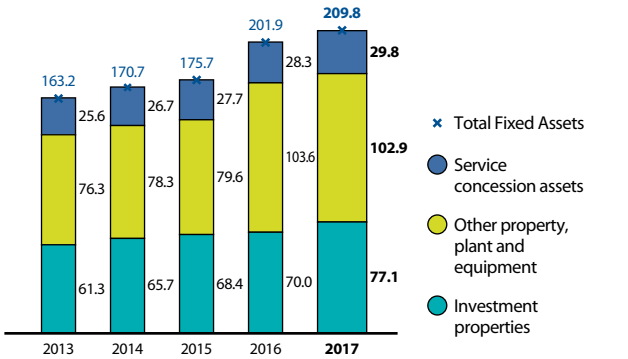
Net Results from Underlying Businesses

(HK$ billion)



Fixed Assets Growth

(HK$ billion)



TEN-YEAR STATISTICS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Financial										
Consolidated Profit and Loss Account *(in HK$ million)*										
Total revenue	**55,440**	45,189	41,701	40,156	38,707	35,739	33,423	29,518	18,797	17,628
Operating profit before depreciation, amortisation and variable annual payment	**21,088**	17,624	19,011	19,639	15,795	16,133	17,058	14,951	13,069	14,009
Depreciation and amortisation	**4,855**	4,127	3,849	3,485	3,372	3,208	3,206	3,120	2,992	2,944
Interest and finance charges	**905**	612	599	545	732	879	921	1,237	1,504	1,998
Investment property revaluation gain/(loss)	**6,314**	808	2,100	4,035	4,425	3,757	5,088	4,074	2,798	(146)
Profit for the year	**16,885**	10,348	13,138	15,797	13,208	13,514	15,688	12,844	10,101	8,035
Profit attributable to shareholders of the Company arising from underlying businesses	**10,515**	9,446	10,894	11,571	8,600	9,618	10,468	8,657	7,303	8,185
Ordinary dividend proposed and declared	**6,728**	6,317	6,207	6,116	5,335	4,575	4,396	3,405	2,977	2,715
Earnings per share *(in HK$)*	**2.83**	1.74	2.22	2.69	2.25	2.31	2.69	2.21	1.77	1.43
Consolidated Statement of Financial Position *(in HK$ million)*										
Total assets	**263,768**	257,340	241,103	227,152	215,823	206,687	197,684	181,660	176,492	159,345
Loans, other obligations and bank overdrafts	**42,043**	39,939	20,811	20,507	24,511	23,577	23,168	21,057	23,868	31,289
Obligations under service concession	**10,470**	10,507	10,564	10,614	10,658	10,690	10,724	10,749	10,625	10,656
Total equity attributable to shareholders of the Company	**166,304**	149,461	170,055	163,325	152,557	142,904	131,907	121,914	110,479	101,431
Financial Ratios										
Operating margin *(in %)*	**36.1**	38.3	38.7	38.4	37.2	36.1	36.3	37.0	50.6	53.0
Operating margin (excluding Mainland of China and international subsidiaries) *(in %)*	**53.3**	53.9	53.3	53.1	53.4	53.6	55.6	55.1	53.8	53.2
Net debt-to-equity ratio *(in %)*	**20.6**	20.2	11.3	7.6	11.8	11.0	11.6	12.3	24.9	40.6
Interest cover *(times)*	**15.0**	12.7	14.4	15.2	11.5	13.0	14.5	10.5	7.1	6.0
Employees										
Hong Kong										
Corporate management and support departments	**1,882**	1,837	1,792	1,756	1,676	1,600	1,486	1,362	1,319	1,235
Station commercial businesses	**191**	192	182	170	158	148	144	144	137	125
Operations	**11,591**	11,349	10,891	10,404	10,033	9,460	9,244	9,026	8,789	8,708
Projects	**2,144**	2,615	2,684	2,764	2,804	2,495	2,109	1,794	1,365	995
Property and other businesses	**1,440**	1,416	1,384	1,350	1,305	1,273	1,282	1,291	1,242	1,170
Mainland of China and international businesses	**276**	230	194	180	182	224	179	212	239	197
Outside of Hong Kong										
Offshore employees	**10,781**	9,866	8,157	7,530	7,078	6,955	6,851	6,672	7,059	1,646
Total	**28,305**	27,505	25,284	24,154	23,236	22,155	21,295	20,501	20,150	14,076

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Hong Kong Transport Operations										
Revenue car-km operated *(thousand)*										
Domestic and Cross-boundary services	**301,541**	287,828	284,487	273,771	269,141	260,890	254,407	253,067	247,930	245,856
Airport Express	**23,202**	23,276	23,242	23,232	23,216	23,134	19,603	19,833	19,643	19,891
Light Rail	**11,145**	11,152	11,034	10,728	10,554	10,453	10,166	9,586	8,950	8,984
Total number of passengers *(thousand)*										
Domestic Service	**1,637,898**	1,586,522	1,577,457	1,547,757	1,474,659	1,431,040	1,366,587	1,298,714	1,218,796	1,205,448
Cross-boundary Service	**112,549**	113,274	114,241	113,049	111,362	109,707	103,881	99,954	94,016	93,401
Airport Express	**16,621**	16,133	15,725	14,881	13,665	12,695	11,799	11,145	9,869	10,601
Light Rail	**178,502**	178,709	176,149	174,199	171,652	167,210	161,289	154,522	143,489	137,730
Bus	**50,744**	50,413	50,537	50,404	47,738	45,962	43,956	40,883	37,522	34,736
Intercity	**3,698**	3,739	4,080	4,348	4,324	4,028	3,787	3,244	2,921	3,220
Average number of passengers *(thousand)*										
Domestic Service – weekday average	**4,772**	4,608	4,577	4,490	4,297	4,148	3,968	3,770	3,544	3,514
Cross-boundary Service – daily average	**308**	309	313	310	305	300	285	274	258	255
Airport Express – daily average	**46**	44	43	41	37	35	32	31	27	29
Light Rail – weekday average	**503**	500	493	487	482	466	451	433	402	385
Bus – weekday average	**146**	144	145	144	137	131	126	118	107	99
Intercity – daily average	**10**	10	11	12	12	11	10	9	8	9
Average passenger km travelled										
Domestic and Cross-boundary services	**10.8**	10.9	11.0	11.0	11.0	10.9	10.9	10.9	10.7	10.4
Airport Express	**28.5**	28.4	28.4	28.6	29.0	29.0	29.4	29.4	29.5	29.4
Light Rail	**2.7**	2.7	2.7	2.7	2.8	2.8	2.8	2.8	2.9	3.0
Bus	**4.5**	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.6	4.6
Average car occupancy *(number of passengers)*										
Domestic and Cross-boundary services	**63**	64	65	67	65	65	63	60	57	55
Airport Express	**20**	20	19	18	17	16	18	17	15	16
Light Rail	**44**	44	44	45	45	45	45	45	46	46
Proportion of franchised public transport boardings *(%)*	**49.1**	48.4	48.5	48.1	46.9	46.4	45.4	44.3	42.6	42.0
HK$ per car-km operated (Hong Kong Transport Operations)										
Total revenue	**52.5**	53.0	51.3	51.0	48.4	47.6	45.9	43.2	40.8	40.9
Operating costs	**28.5**	27.7	27.2	26.8	24.9	24.2	23.1	21.5	21.5	21.2
Operating profit	**24.0**	25.3	24.1	24.2	23.5	23.4	22.8	21.7	19.3	19.7
HK$ per passenger carried (Hong Kong Transport Operations)										
Total revenue	**9.10**	9.06	8.73	8.52	8.31	8.20	7.99	7.86	7.74	7.83
Operating costs	**4.93**	4.73	4.63	4.47	4.27	4.18	4.02	3.91	4.08	4.07
Operating profit	**4.17**	4.33	4.10	4.05	4.04	4.02	3.97	3.95	3.66	3.76
Safety Performance										
Domestic Service, Cross-boundary Service and Airport Express										
Number of reportable events ^	**1,148**	1,134	1,246	1,327	1,408	1,761	1,769	1,592	1,539	1,514
Reportable events per million passengers carried ^	**0.65**	0.66	0.73	0.79	0.88	1.13	1.19	1.13	1.16	1.16
Number of staff and contractors' staff accidents Δ	**46**	61	64	57	67	58	44	46	60	42
Light Rail										
Number of reportable events ^	**104**	191	157	122	118	151	164	165	146	136
Reportable events per million passengers carried ^	**0.58**	1.07	0.89	0.70	0.69	0.90	1.02	1.07	1.02	0.99
Number of staff and contractors' staff accidents Δ	**5**	8	6	4	4	2	7	5	11	5

^ *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

INVESTORS AND MTR CORPORATION

MTR has been active in the international capital markets for more than 30 years. In Asia, we are widely regarded as a leader in investor relations practice, known for our high standards of corporate governance and disclosure. We believe that by communicating our strategies, business development and future outlook clearly, we can enhance shareholder value. We therefore stay in regular contact with both institutional and retail investors.

COMMUNICATING WITH INSTITUTIONAL INVESTORS

Engagement with the investment community has made MTR one of the most widely covered listed companies in Hong Kong, followed by many local and international brokers, as well as a wide range of institutional investors.

Management makes every effort to ensure that investors have a thorough understanding of our business and to this end we participate regularly in investor conferences and roadshows. During 2017, we held over 370 meetings with institutional investors and research analysts in Hong Kong and elsewhere.

ACCESS TO INFORMATION

Our corporate website provides all investors with equal and timely access to Company information. The Investor's Information section gives 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.

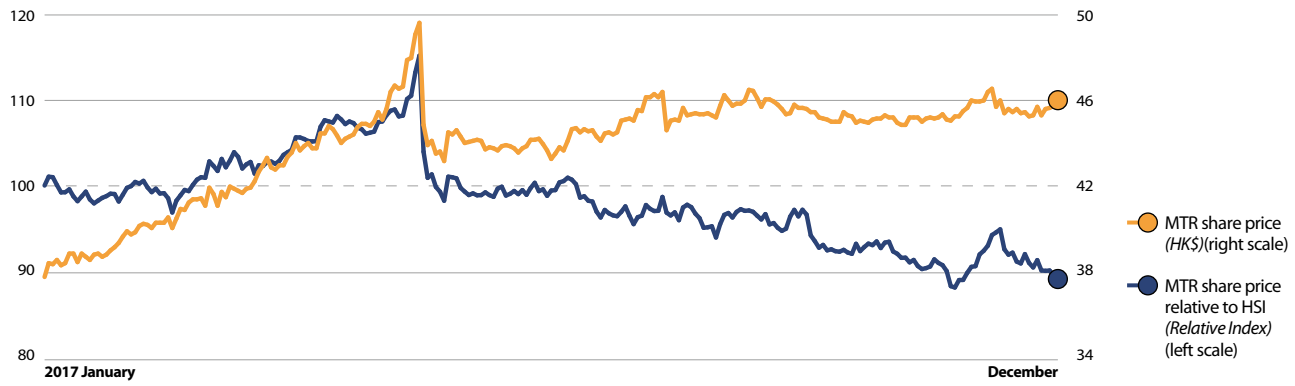
In addition to the shareholder services offered by Computershare, our dedicated hotline answered over 36,000 enquiries from individual shareholders in 2017.

INDEX AND RECOGNITION

MTR Corporation Limited's shares have been listed on the Stock Exchange of Hong Kong since 2000, and have been included as one of the Hang Seng Index constituent stocks since 2001.

Our Annual Report also achieves considerable recognition. The 2016 report won the "Silver Award" under the "General Category" in the 2017 "Best Annual Report Awards" organised by the Hong Kong Management Association. The same report also won ten awards in the 2017 "International ARC Awards" organised by MerComm, Inc. in New York.

SHARE PRICE PERFORMANCE



FINANCIAL CALENDAR 2018

Announcement of 2017 annual results	8 March
Annual General Meeting	16 May
Last day to register for 2017 final dividend	21 May
Book closure period	23 May to 28 May
2017 final dividend payment date	On or about 11 July
Announcement of 2018 interim results	August
2018 interim dividend payment date	October
Financial year end	31 December

DIVIDEND PERFORMANCE

Dividend per Share

	(in HK$)
2016 Total Ordinary Dividend	1.07
2017 Interim Ordinary Dividend	0.25
2017 Final Ordinary Dividend	0.87
Second and Final Tranche of Special Dividend (paid on 12 July 2017)	2.20

Dividend Policy

MTR is committed to a progressive ordinary dividend policy. The aim of this policy is to steadily increase or at least maintain the Hong Kong dollar value of ordinary dividends per share annually. The prospective dividend growth, however, remains dependent upon the financial performance and future funding needs of the Company.

SHAREHOLDINGS AS AT 31 DECEMBER 2017

Ordinary Shares

Shares outstanding	6,007,777,302 shares
Hong Kong SAR Government Shareholding	4,517,196,134 shares (75.19%)
Free float	1,490,581,168 shares (24.81%)

Market Capitalisation

as at 31 December 2017	HK$275,156 million

SHARE INFORMATION

Stock Codes

Ordinary Shares

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

CONTACTS

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

Annual Report 2017

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

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

CORPORATE RESPONSIBILITY

295 volunteering projects serving **94,238** individuals

HK$31m in community investment initiatives

15.1% reduction from 2008 levels in the amount of electricity used for each passenger-kilometre in our heavy rail network

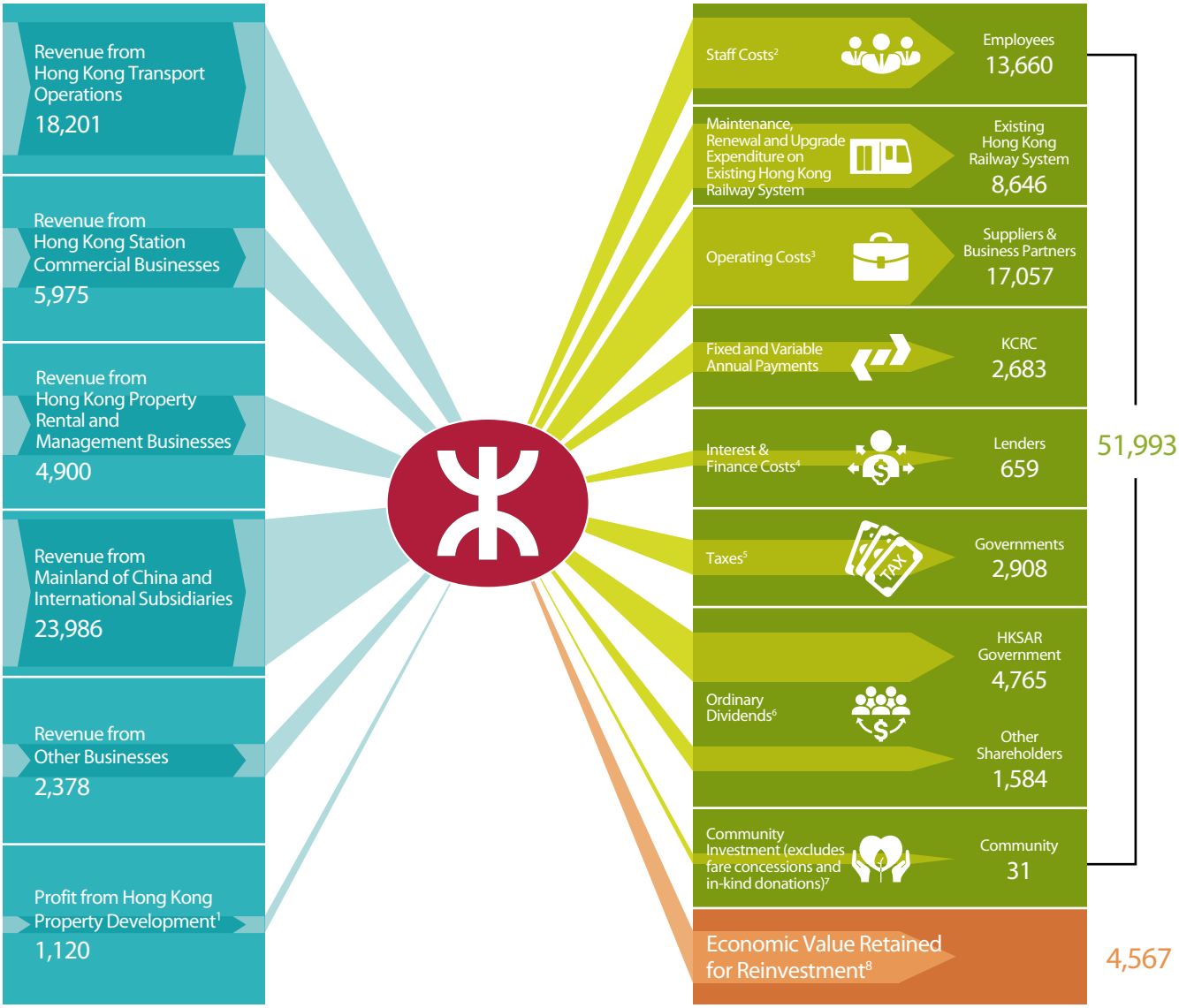
HK$24m in in-kind support for NGOs and community organisations

Our rail and property services are closely linked to the lives of the people and communities we serve. Here at MTR, underpinned by our sustainable financial model, corporate responsibility is therefore about operating safely and responsibly in all aspects of our business and contributing positively to the development of the communities in which we operate.

The contributions we make goes beyond the profit we generate for our shareholders. We create economic value through the transport, property and other services provided to customers. Revenue generated from these services is in turn distributed to stakeholders, including suppliers, employees, capital providers, shareholders, Government and the community at large.

For the past 18 years, we have provided a detailed account of our approach and performance in our annual Sustainability Report, in line with the disclosure requirements of the Hong Kong Stock Exchange Environmental, Social and Governance Reporting Guide.

VALUE ADDED AND DISTRIBUTION STATEMENT IN 2017 (HK$ MILLION)



Notes:

1 *Before taking into account staff costs of HK$23 million.*

2 *Excludes staff costs relating to Hong Kong railway system maintenance of HK$2,104 million and capitalised for asset creation of HK$1,191 million.*

3 *For simplicity, operating costs include interest income and share of profit or loss of associates and joint venture, netted with profit attributable to non-controlling interests. Excludes operating costs relating to Hong Kong railway system maintenance of HK$1,678 million.*

4 *Excludes interest expenses capitalised for asset creation of HK$373 million.*

5 *Represents current income tax and excludes deferred tax for the year.*

6 *Represents ordinary dividends payout during the year. Excludes the payment of the second and final tranche of special dividend under the XRL Agreement of HK$13.0 billion (HK$9,756 million to the Financial Secretary Incorporated of the HKSAR Government and HK$3,253 million to other shareholders).*

7 *Includes donations, sponsorships and other community engagement contributions (inclusive of HK$6.8 million donation made to victims of the arson attack that took place on 10 February 2017), and excludes ongoing fare concessions and promotions of HK$2,672 million and in-kind donations of HK$24 million.*

8 *Economic value retained for reinvestment to generate future economic values. This represents underlying business profit attributable to shareholders of the Company (before depreciation, amortisation and deferred tax) for the year retained, after the amounts distributed to our stakeholders and invested in asset maintenance, renewal and upgrade of our Hong Kong railway system, but before payment of the second and final tranche of special dividend under the XRL Agreement of HK$13.0 billion.*

GOVERNANCE AND POLICIES

Our Vision, Mission and Values embody the commitment we make to acting responsibly. They are supported by a strong corporate governance framework.

We follow clear policies and management directives under the Corporation General Instructions and the Corporate Responsibility Policy, which was updated in July 2017. The Board's Corporate Responsibility Committee has strategic oversight of our corporate responsibility commitments and reports to the Board of Directors on these issues. Our Corporate Responsibility Steering Committee supports the Executive Directorate team in reviewing, monitoring and implementing responsible business practices across all divisions.

Issued in 2008, our Supplier Code of Practice 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 MTR procurement contracts and suppliers are responsible for ensuring that their own suppliers comply with the code. We have updated the code to incorporate our Green Procurement Policy, which encourages sustainability practices among our suppliers.

HOW WE OPERATE AS A BUSINESS

Safety

Providing customers with a safe and reliable railway service is at the very heart of our operations. Our "safety first" culture covers customers, staff, contractors and anyone else who legitimately enters our railway facilities. We invest heavily in maintenance to ensure our assets contribute to high levels of safety and carry out initiatives to address specific safety issues. Our efforts to ensure continuous improvement in customer safety led to a 5.5% reduction in reportable events on the Hong Kong heavy rail and light rail network in 2017 compared with the previous year. Further details on customer safety are set out in the section headed "Hong Kong Transport Operations".

MTR's approach to the safety of staff, contractors and systems is no less rigorous. Our safety assurance process involves assessing operational safety impacts throughout the project lifecycle, with consistent checks at each milestone. We integrate, verify and validate safety requirements through both a top-down and bottom-up approach, including contract requirements, safety integrity level assessments for safety-related and safety-critical systems and design, as well as onsite verification and validation activities. We also employ independent safety assessors to check the adequacy and effectiveness of the development processes for our safety critical systems. These assessors are involved at all stages of construction and installation projects.

Environment and Natural Resources

Our aim is to become one of the most resource-efficient and ecologically sustainable railways and property services providers in the world. An electrically-powered mass transit railway is widely regarded as the most environmentally sustainable way to transport millions of people in large cities. Our biggest contribution to the environment therefore comes from avoiding pollution, such as through reducing roadside emissions and road congestion, and making better use of limited land resources as more people travel by rail. Our new lines in Hong Kong are increasing this contribution by adding to the number of journeys that can be made by train.

Our Corporate Responsibility Policy commits us to managing environmental issues. The independently audited ISO 14001 environmental management system certification process fosters accountability among employees and partners. We are also responding to climate change, guided by the recommendations from leading scientists. Initiatives in this area range from reviewing our design standards to preparing response procedures for extreme weather events.

Our approach to environmental issues begins with the Environmental Impact Assessments we make before starting all 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 use, and biodiversity.

Improving environmental efficiency is an important goal and we continue to find ways to reduce our energy consumption. Our target is to achieve a 21% reduction from 2008 levels by 2020 in the amount of electricity used for each passenger-kilometre in our heavy rail network. By the end of 2017, we had achieved a reduction of 15.1%. MTR is currently investing in a large-scale chiller replacement programme that will improve energy efficiency by installing more advanced and environmentally-friendly equipment at stations and depots. We are also harnessing new technology, such as Artificial Intelligence, to increase efficiency.

Since 2002, we have been reporting on our Greenhouse Gas ("GHG") emissions. We monitor Scope 1, 2 and 3 GHG emissions in accordance with the Greenhouse Gas Protocol established by the World Resources Institute and the World Business Council for Sustainable Development, and also make reference to guidelines published by the Environmental Protection Department and Electrical and Mechanical Services Department in Hong Kong, as well as other international sources.

Our People

The dedication and commitment of our staff are the key to our success. To nurture talents and help them reach their full potential, we provide a wide variety of training and development opportunities. This also ensures that we have a skilled workforce to provide caring service to our customers. Further details are set out in the section headed "Human Resources".

Our Customers

On average, 5.76 million passengers use MTR in Hong Kong each weekday and our train services have a big impact on the daily lives of many people in our city. We constantly strive to understand the needs of our customers and improve the services we provide for them. Further details are set out in the section headed "Hong Kong Transport Operations". Outside of Hong Kong, we further carry an average of around 6.49 million passengers per weekday in 2017 and our efforts to raise service levels are detailed in the section headed "Mainland of China and International Businesses".

HOW WE CONTRIBUTE TO SOCIETY

As a corporate citizen, we leverage our assets, skills and resources to connect, grow and support communities to help them thrive.

"Community Connect" is our platform for initiatives that aim to support the young and old, while enhancing the liveability of our city. All of our programmes are carefully developed to nurture the communities we serve across all 18 districts of Hong Kong. We invest in young people, who are our customers, future leaders, innovators and game changers. We contribute to making the city more connected and vibrant through staff volunteering, and collaborating with non-governmental organisations and social enterprises to address evolving community needs. We also enhance the travelling experience through integrating art into our station architecture and enabling artists to display their work in our stations and shopping malls.

Youth

Our vision for youth development is to empower young people so that they have the skills, knowledge and opportunities to create a bright future for themselves and their communities. In 2017, over 7,000 young people participated in our youth programmes.

A major initiative is our annual summer programme, "'Train' for life's journeys" programme. In 2017, 160 secondary-school students from 93 schools completed this 10-day programme. Through workshops, camps and work experiences at MTR, the programme strengthened participants' confidence, enhanced their communications and leadership skills, broadened students' social networks, and their understanding of career options.

We also continued to seek feedback from young people on our initiatives. The Youth Forum, our young think tank, exchanges views with MTR management on a regular basis. Four of the five projects chosen by the public under our "Pathways to Employment" programme are running at full steam. Our implementation partners are working towards making the transition from education to work less daunting by teaching secondary-school girls how to code, enhancing the learning environment with fellows supporting teachers, developing young people to support children's rights, and incubating artisans to be commercially viable.

Last but not least, in 2017 the Corporation launched a new programme – STEM Challenge – to encourage secondary-school students to explore science, technology, engineering

and mathematics ("STEM") subjects. Designed with support from Junior Achievement Hong Kong and HKEdCity, the programme aims to enhance students' understanding of how STEM skills are applied in practice. Students enrolled in Secondary 3 or above are invited to form teams to share their vision for "Inclusive and Sustainable Communities". Three outstanding teams will be offered the opportunity to visit our overseas operations in the summer of 2018.

Community Outreach

At the heart of our "Community Connect" programme is our "More Time Reaching Community" scheme. In 2017, a total of 295 projects were initiated and organised by our staff and retirees, a 12% increase from 2016, involving more than 6,800 participating volunteer headcount. The projects mainly benefited the elderly, mentally and physically challenged people, children, youth and underprivileged families. A new programme was launched in 2017 in which 10,000 elderly people from 18 districts were taken on excursions to the newly renovated Ngong Ping 360 through over 400 District Council members. We also held our first "MTR Volunteering Month" in November 2017, with around 100 volunteers participating in four volunteering activities with MTR elements.

Supplementing our extensive community support and volunteering activities, around HK$31 million of community investment was made during the year. Including HK$1.8 million donated to passengers injured in the Tsim Sha Tsui arson incident in February 2017, with a further HK$5 million donated by the Company in September 2017.

MTR is also providing free advertising space to more than 60 non-profit organisations to support their work in 2017. Starting in 2016, 12 retail shops along the West Rail Line have been made available at nominal rents for lease by social enterprises which are run by non-governmental organisations. Nine of these shops have opened for business in 2017.

Art and Culture

Our "Art in MTR" programme enriches the MTR travelling environment through high quality works of art. A diverse range of activities was held in 2017, with 64 events in stations across Hong Kong. We also increased the number of permanent artworks by local and international artists to 73 across 45 stations during the year.

During the year, we collaborated with a team of 14 design students from Savannah College of Art and Design ("SCAD") Hong Kong to develop concepts for an art installation in Sham Shui Po Station. Among the seven installation concepts presented by students, two were selected as final proposals for production: "Urban Identity" and "Chairs of Sham Shui Po". The designs are being integrated into the station and will be completed in 2018.

In 2017, the Corporation has also collaborated with different art and design institutions to host four exhibitions on various art themes under the Community Connect platform.

RECOGNITION FOR CORPORATE RESPONSIBILITY

We continued to receive global recognition for corporate responsibility in 2017.

Exceptional international recognition of our high quality, low-carbon transit services and sustainable Rail and Property business model came as MTR was named in the FORTUNE "Change the World" list in 2017. We were the only Hong Kong company among the top 50 global institutions recognised for corporate responsibility by FORTUNE, which praised MTR particularly for running train services on schedule 99.9% of the time and for our low train fares for commuters that do not rely on direct taxpayer subsidies.

We also received several awards during the year, including a Silver Prize in the "8th Hong Kong Corporate Citizenship Award" organised by the Hong Kong Productivity Council, and the "Hong Kong Sustainability Award" from the Hong Kong Management Association. For the third consecutive year, MTR was awarded the "10 Years Plus Caring Company Logo" for our commitment to caring for the community, our employees and the environment.

The Company remains a constituent member of relevant investor indices, including the Dow Jones Sustainability Asia/Pacific Index, the FTSE4Good Index, and the Hang Seng Corporate Sustainability Index. We also achieved an "AAA" rating in the MSCI Sustainability Indexes, making MTR a leader among the world's road and rail transport companies.

HUMAN RESOURCES

The
"Most Attractive Employer in Hong Kong"
by the Randstad Group

In 2017, we ran
7,154
staff training courses in Hong Kong

The Company,
together with our subsidiaries and associates employed
43,622 people in Hong Kong and worldwide

People are our most valuable asset and we are committed to inspiring, engaging and developing our employees. This commitment was recognised by a number of awards, with MTR being named as the "Most Attractive Employer in Hong Kong" by the Randstad Group in 2017, the second time we have achieved first place. We were also honoured with five awards at the "Human Resources Asia Recruitment Awards 2017" organised by Human Resources Magazine for our achievements in talent acquisition and management.

The Company together with our subsidiaries employed 17,524 people in Hong Kong and 10,781 people outside of Hong Kong as at 31 December 2017. Our associates also employed an additional 15,317 people in Hong Kong and worldwide.

RECRUITMENT AND RETENTION

In support of our current operational needs and future business growth, a range of active manpower resourcing activities were carried out during 2017, including a series of Recruitment Days and Community Recruitment, as well as participating in Career Expo. A total of 1,558 people were hired during the year and staff turnover remained low at 4.5% in Hong Kong.

We recruited 30 high calibre graduates into the Company's different graduate development programmes in 2017 to meet our long-term succession and manpower needs. A further 165 apprentices and technician associates were recruited to fill our technical and maintenance positions in future. The Company

also recruited young people into the one-year Junior Tradesman Associate Training Programme, in collaboration with the Labour Department's Youth Employment and Training Programme.

We continue to offer summer internships to local university students with disabilities or special educational needs in support of Hong Kong's Talent-wise Employment Charter. In July and August 2017, we partnered with Ebenezer School & Home for the Visually Impaired to run a pilot internship scheme for their students to promote equal opportunity and youth employment. As part of the Company's initiatives on youth development and engagement, we also offered 179 intern placements to students in Degree, Associate Degree or Higher Diploma courses during 2017.

The Company continues to build up manpower to support growth in Hong Kong, the Mainland of China and overseas, and formulates a strategic resourcing plan through the Integrated Manpower Resource Planning. A Workforce Mobility Review was conducted during 2017 with a view to identifying and meeting manpower needs, encouraging cross-hub talent moves and supporting employee career development.

In order to attract, retain and motivate our people, we offer competitive pay and benefits, with both short and long-term incentive schemes as well as a broad range of career development opportunities. The Company also has a robust performance management system, a performance-based pay review mechanism and various motivational schemes to recognise and reward employees for their performance and contributions.

Our Corporate Talent Pipeline enables the Company to identify and develop talents at different levels. Talents are also offered cross-divisional and cross-geographical job rotations to broaden their horizons and enrich their experience in different areas of the Company.

STAFF MOTIVATION AND ENGAGEMENT

To motivate and engage our people, we run a number of initiatives and programmes every year. Following our first global Staff Engagement Survey conducted in end 2016, we developed a Corporate Initiatives Action Plan with nine follow-up actions, and more than 50 working groups were formed at corporate, divisional and departmental levels to drive improvement actions.

Our well-established Staff Consultation Mechanism serves as an effective communication channel between management and staff. We also hold Management Communication Meetings twice a year, with managers from the Mainland of China and overseas hubs joining through live broadcasts.

In 2017, we held more than 7,800 two-way communication sessions under the "Enhanced Staff Communication Programme". A revamp of the programme is in progress to enhance the effectiveness of communicating corporate messages. Other initiatives to foster strong communication include management communication sessions, forums and luncheons with Executives.

We continued to share corporate updates and stories among employees worldwide through MTRconnects, our internal communication platform. The view rate was over 1,177,000 by 31 December 2017, with more than 20,600 unique visitors recorded.

A CULTURE OF CONTINUOUS LEARNING AND DEVELOPMENT

To help staff unleash their full potential, we offer a range of training and development programmes in areas including customer services, operational and managerial skills, and personal improvement. In 2017, we ran 7,154 training courses in Hong Kong, providing each employee with an average of 7.1 training days.

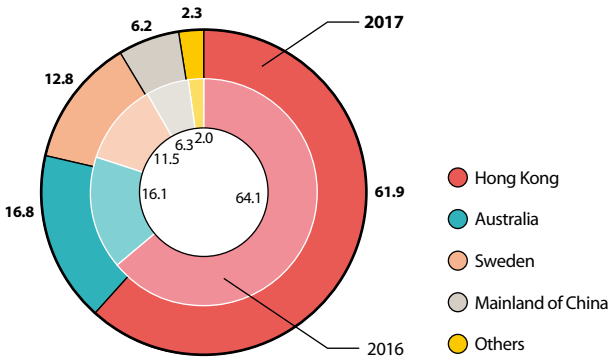
We received recognition for our efforts in training and development through several local and international awards in 2017, including two Campaign Awards in the "Hong Kong Management Association Award for Excellence in Training & Development". We were also awarded the IOC (International Olympics Committee) Trophy as the only award recipient in East Asia, for the contributions in the "Life Skills Training Programme for retired athletes".

DRIVING WORK IMPROVEMENT

The Company continues to encourage collective innovation, process improvement and staff engagement through our Work Improvement Team ("WIT") programme. More than 60 training classes were organised to promote innovation and continuous improvement, and over 1,000 projects were submitted in 2017, yielding total cost savings of around HK$46 million. More than 900 people attended the Corporate WIT Annual Presentation Ceremony, which was held in July 2017, with delegates also coming from our Mainland of China and International Business hubs. Also, through the Staff Suggestion Scheme, we continue to drive work improvements and cultivate innovation among our colleagues.

Staff Distribution by Geographical Location

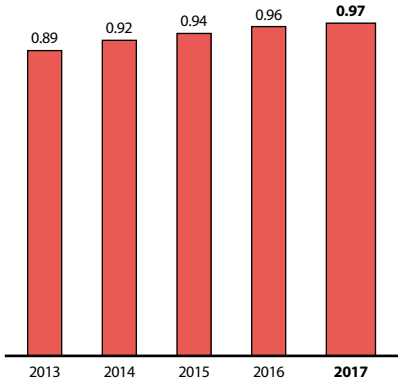
(Percentage)



Staff Productivity – Earnings Per Employee*

*Hong Kong businesses excluding property development

(HK$ million)



MTR ACADEMY

The MTR Academy ("MTRA") has continued to develop as a railway management and engineering centre that offers high quality programmes which extend the Company's rail expertise from Hong Kong to the Mainland of China and "Belt and Road" countries. MTRA also offers accredited programmes and short courses to nurture the next generation of railway professionals for the community. In 2017, over 1,000 participants from Hong Kong attended MTRA programmes.

The Academy currently offers two accredited programmes, namely the Advanced Diploma in Railway Engineering and the Diploma in Transport Studies. There are over 100 part-time students studying these programmes. The first graduating class from the Academy will be in October 2018.

Railway companies in Indonesia, Macau and Qatar looked to MTRA for customised training and development support in 2017. Over 100 executives from 17 countries attended the MTRA's Corporate and Thematic Programmes to enhance their knowledge on pursuing operational excellence. Participants came from countries including Brazil, Denmark, India, Japan, Korea, Myanmar, Singapore and the United Kingdom.

MTRA has signed Memoranda of Understanding ("MoUs") with several tertiary institutions in Hong Kong and overseas, collaborating in the development of academic programmes at various levels. This year marks the launch of the pilot subject in Professional Master Programme in Rail System Engineering & Management with the Asian Institute of Technology, Thailand and witnesses the continued partnership with the Hong Kong Polytechnic University in MSc in Electrical Engineering (Railway Systems).

The Academy supports the development and delivery of an Applied Learning subject "Railway Studies", hosted by the Hong Kong College of Technology. The programme was approved by the Education Bureau in September 2017 and has become one of the electives of the Senior Secondary School Curriculum. It is the first railway related Applied Learning subject approved for the Hong Kong Diploma of Secondary Education Examination (HKDSE). The subject will be first offered in the Secondary School Academic Year 2018/2019. Promotion of the course to secondary schools has commenced in November 2017.

Overseas, MTRA is gaining increasing recognition globally and provides professional support for organisations in various countries, such as MRT Jakarta, which is seeking support for its development of Indonesia's first mass transit system. In October 2017, MTR signed an MoU with Hangzhou Metro Group to set up a branch campus of MTRA in Hangzhou. The campus will deliver a high quality training curriculum for railway executives and professionals and conduct research in the rail transport field. Discussions are underway regarding the planning and detailed collaboration arrangements.

MTRA is also playing a key role in the Rail Transit Excellence Community ("RTEC"), a multi-faceted platform to enable railway operators of "Belt and Road" countries to network of which MTR is a founding member. It currently comprises seven other metro groups from Thailand, Malaysia, Indonesia, Philippines, Macau, Saudi Arabia and Turkey. RTEC facilitates collaborative efforts in pursuit of rail transit best practices, management systems and operational excellence. MTR hosted the inaugural forum of RTEC in October 2017.

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 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 to the Listing Rules.

CORPORATE GOVERNANCE CODE COMPLIANCE

During the year ended 31 December 2017, the Company has complied with the Code.

Starting from 2017, acting in accordance with Guidance Letter GL 73-14 issued by the Stock Exchange and taking into account the Stock Exchange's recommendation issued in January 2016, the Company's Internal Audit Department ("IAD") has reviewed the Company's continuing connected transactions and the related internal control procedures. Based on this year's review, IAD concluded that the internal control procedures put in place by the Company were adequate and effective and reported its findings to the Audit Committee of the Company to assist the Company's Independent Non-executive Directors in performing their annual review and confirmation to the Company of the continuing connected transactions in 2017.

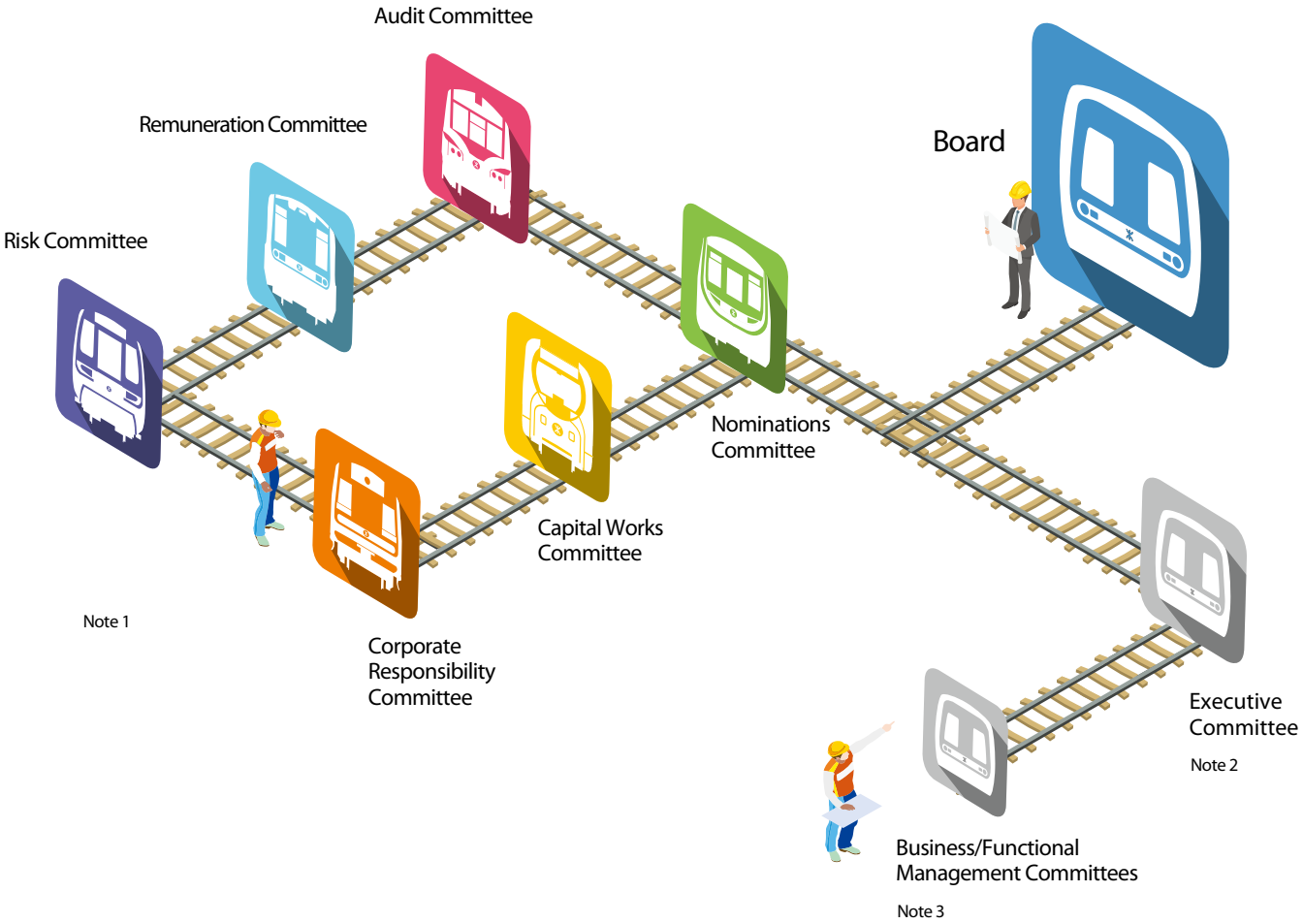
The Company continues to monitor developments in the arena of corporate governance to ensure the suitability and robustness of its corporate governance framework in light of the evolving business and regulatory environment and to meet the expectations of stakeholders. The Company is supportive of the proposals put forward by the Stock Exchange in November 2017 in a consultation paper entitled "Review of the Corporate Governance Code and Related Listing Rules" to, inter alia, upgrade the current Code provision relating to board diversity to form part of the Listing Rules, to require disclosure of a nomination policy in the Corporate Governance Report and to expand the factors for consideration when assessing the independence of a non-executive director. Pending publication of the consultation conclusions, the Company has commenced work to prepare for the roll-out of the new requirements.

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.

Below is a diagram of the governance structure of the Company:



Notes:

1. *All Board Committees are provided with sufficient resources to discharge their duties and can seek independent professional advice (as and when required) at the Company's expense, to perform their responsibilities. The Terms of Reference of each Committee are available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange.*
2. *The Executive Committee is delegated by the Board to handle day-to-day management of the Company's business pursuant to the Company's Articles of Association and the Protocol; and is chaired by the Chief Executive Officer ("CEO") (who is supported by the other 11 Members of the Executive Directorate).*
3. *Key Business/Functional Management Committees are listed out on page 128 of this Report.*

Members of the Board and the Executive Directorate Attendance of Meetings and Training in 2017

	Attendance										
	Board Meetings			Board Committees Meetings						Annual General Meeting 2017	Training[D]
	RM	SM	PM	AC	NC	RC	CWC	RiskC	CRC		
Total Number of Meetings	7	2	1	4	2	4	5	5	2	1	
Members of the Board											
Non-executive Directors ("NED")											
Professor Frederick Ma Si-hang[1] (Chairman)	7/7	2/2	1/1		2/2	4/4			2/2[C]	1/1	√
James Henry Lau Jr[2] (Secretary for Financial Services and the Treasury)	2/4	N/A	0/1		N/A	0/2				N/A	√
Secretary for Transport and Housing (Frank Chan Fan)[3]	3/4	N/A	0/1		N/A	0/2				N/A	√
Permanent Secretary for Development (Works) (Hon Chi-keung)[4]	7/7	1/2	1/1				2/5	2/5		0/1	√
Commissioner for Transport (Mable Chan)[5]	1/1	N/A	1/1	1/1				1/1		N/A	√
Independent Non-executive Directors ("INED")											
Andrew Clifford Winawer Brandler[6]	4/4	N/A	1/1	3/3				2/3		N/A	√
Dr Pamela Chan Wong Shui	7/7	2/2	1/1		2/2				2/2	1/1	√
Dr Dorothy Chan Yuen Tak-fai	7/7	2/2	1/1			4/4[C]	5/5			1/1	√
Vincent Cheng Hoi-chuen[7]	5/7	0/2	1/1			3/4			1/2	1/1	√
Anthony Chow Wing-kin[8]	6/7	2/2	1/1			4/4	4/5			1/1	√
Dr Eddy Fong Ching	7/7	2/2	1/1	4/4[C]	2/2					1/1	√
James Kwan Yuk-choi	6/7	2/2	1/1				5/5	5/5		1/1	√
Lau Ping-cheung, Kaizer[9]	6/7	1/2	1/1				5/5		2/2	1/1	√
Lucia Li Li Ka-lai[10]	7/7	2/2	1/1	4/4					1/1	1/1	√
Alasdair George Morrison[11]	7/7	2/2	1/1	4/4				5/5[C]		1/1	√
Abraham Shek Lai-him[12]	6/7	1/2	1/1		2/2[C]		5/5			1/1	√
Benjamin Tang Kwok-bun	7/7	2/2	1/1			3/4		4/5		1/1	√
Dr Allan Wong Chi-yun[13]	7/7	2/2	1/1		0/1		5/5[C]			1/1	√
Johannes Zhou Yuan[14]	4/4	N/A	1/1	3/3				3/3		N/A	√
Executive Director ("ED")											
Lincoln Leong Kwok-kuen (CEO)[15]	7/7	2/2							2/2	1/1	√
Members of the Executive Directorate & the Executive Committee											
Lincoln Leong Kwok-kuen	7/7	2/2							2/2	1/1	√
Dr Jacob Kam Chak-pui										1/1	√
Margaret Cheng Wai-ching									2/2	1/1	√
Morris Cheung Siu-wa										1/1	√
Dr Peter Ronald Ewen										1/1	√
Herbert Hui Leung-wah										1/1	√
Adi Lau Tin-shing										1/1	√
Gillian Elizabeth Meller										1/1	√
Linda So Ka-pik									2/2	1/1	√
David Tang Chi-fai										1/1	√
Dr Philco Wong Nai-keung										1/1	√
Jeny Yeung Mei-chun										1/1	√
Changes during 2017											
Non-executive Directors											
Professor Chan Ka-keung, Ceajer[16] (ex-Secretary for Financial Services and the Treasury)	2/3	2/2			1/2	2/2				0/1	√
ex-Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)[17]	2/3	0/2			2/2	2/2				0/1	√
ex-Commissioner for Transport (Ingrid Yeung Ho Poi-yan)[18]	2/4	2/2		2/2				3/3		0/1	√
Commissioner for Transport[19]	0/2			0/1				0/1		N/A	√
Independent Non-executive Directors											
Ng Leung-sing [20]	2/3	2/2			1/1			1/2		1/1	√
Audit Committee Member											
Dr Allan Wong Chi-yun[13]				1/1						1/1	√
Risk Committee Member											
Lucia Li Li Ka-lai[10]								2/2		1/1	√

Legend:

Board Meetings

RM – Regular Meeting(s) **SM** – Special Meeting(s)
PM – Private Meeting

Board Committee Meetings

AC – Audit Committee
NC – Nominations Committee
RC – Remuneration Committee
CWC – Capital Works Committee
RiskC – Risk Committee
CRC – Corporate Responsibility Committee

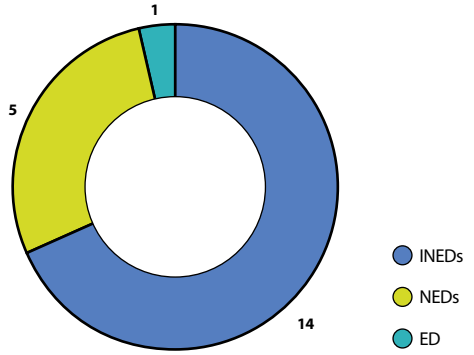
C – Chairman of the committee

Ω – This includes (i) continuous professional development through attending expert briefings/seminars/conferences relevant to the Company's business or directors' duties arranged by the Company or external organizations, and reading regulatory/corporate governance or industry related updates; and (ii) attending induction and familiarisation programmes for newly appointed Directors

Notes:

1. *Professor Frederick Ma Si-hang attended one SM by teleconference.*
2. *Mr James Henry Lau Jr (Secretary for Financial Services and the Treasury) was appointed as a NED and a member of each of the NC and the RC of the Company, all with effect from 4 July 2017. The alternate director of Mr Lau, acting on his behalf, attended one RM and two RC meetings.*
3. *Mr Frank Chan Fan, who was appointed to the post of the Secretary for Transport and Housing with effect from 1 July 2017, had, by virtue of his aforesaid appointment, become a NED and a member of each of the NC and the RC of the Company, all with effect from the same date. The alternate director of Mr Chan, acting on his behalf, attended one RM, one PM and two RC meetings.*
4. *Mr Hon Chi-keung attended one RM by teleconference. The alternate director of Mr Hon, acting on his behalf, attended one CWC and two RiskC meetings.*
5. *Ms Mable Chan, who was appointed to the post of the Commissioner for Transport with effect from 11 October 2017, had, by virtue of her aforesaid appointment, become a NED and a member of each of the AC and the RiskC of the Company, all with effect from the same date.*
6. *Mr Andrew Clifford Winawer Brandler was elected as a new Board Member and became an INED after the conclusion of the 2017 AGM held on 17 May 2017 ("2017 AGM"), and was appointed by the Board as a member of each of the AC and the RiskC of the Company at the same time. He attended one RM by teleconference.*
7. *Mr Vincent Cheng Hoi-chuen attended one RC meeting by teleconference.*
8. *Mr Anthony Chow Wing-kin attended one RC meeting by teleconference.*
9. *Mr Lau Ping-cheung, Kaizer attended one CRC meeting by teleconference.*
10. *Ms Lucia Li Li Ka-lai ceased to be a member of the RiskC; and became a member of the CRC of the Company, both with effect from the conclusion of the 2017 AGM.*
11. *Mr Alasdair George Morrison attended one RM and one SM by teleconference.*
12. *Mr Abraham Shek Lai-him attended one RM and one CWC meeting by teleconference.*
13. *Dr Allan Wong Chi-yun ceased to be a member of the AC; and became a member of the NC of the Company, both with effect from the conclusion of the 2017 AGM.*
14. *Mr Johannes Zhou Yuan was elected as a new Board Member and became an INED after the conclusion of the 2017 AGM, and was appointed by the Board as a member of each of the AC and the RiskC of the Company at the same time. He attended one AC meeting by teleconference.*
15. *Mr Lincoln Leong Kwok-kuen attended one SM by teleconference. Mr Leong was not invited to attend the PM which was held by the Chairman.*
16. *Professor Chan Ka-keung, Ceajer ceased to be a NED and a member of each of the NC and the RC of the Company, all with effect from 4 July 2017. Professor Chan attended one SM by teleconference. The alternate director of Professor Chan, acting on his behalf, attended one RM, one NC meeting and the 2017 AGM. Professor Chan did not attend the first session of the SM held on 20 March 2017 in relation to the early review of the Fare Adjustment Mechanism to avoid any actual or perceived conflict of interest.*
17. *Professor Anthony Cheung Bing-leung ceased to hold the post of the Secretary for Transport and Housing with effect from 1 July 2017, and, as a result, ceased to be a NED and a member of each of the NC and the RC of the Company, all with effect from the same date. The alternate directors of Professor Cheung, acting on his behalf, attended one RM and two SM. The alternate director of Professor Cheung did not attend the first session of the SM held on 20 March 2017 in relation to the early review of the Fare Adjustment Mechanism to avoid any actual or perceived conflict of interest.*
18. *Mrs Ingrid Yeung Ho Poi-yan ceased to hold the post of the Commissioner for Transport with effect from 15 July 2017, and, as a result, ceased to be a NED and a member of each of the AC and the RiskC of the Company, all with effect from the same date. The alternate director of Mrs Yeung, acting on her behalf, attended one RM. Mrs Yeung did not attend the first session of the SM held on 20 March 2017 in relation to the early review of the Fare Adjustment Mechanism to avoid any actual or perceived conflict of interest.*
19. *The alternate director of the Commissioner for Transport attended two RM (one of which by teleconference), one AC meeting and one RiskC meeting.*
20. *Mr Ng Leung-sing retired as an INED of the Company, and ceased to be a member of each of the NC and the RiskC of the Company, all with effect from the conclusion of the 2017 AGM.*

Composition of 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 on pages 150 to 165 of this Annual Report.

The Board currently has 20 Members, made up of INEDs, NEDs and an ED. The Nominations Committee has conducted its annual review of the structure, size and composition of the Board (including the skill and experience of Board Members), and considers that the current Board composition is appropriate in light of the Company's strategy.

As shown in the above chart, the number of INEDs currently comprises more than two-thirds of the Company's Board, which is well above the Listing Rules requirement of having one-third of a board made up of independent non-executive directors. In addition, the review by the Nominations Committee mentioned above has confirmed that the Company's Board currently possesses the appropriate balance of skills and experience and sufficiently diverse perspectives to support the execution of the Company's business strategies in an efficient and effective manner.

Government, through The Financial Secretary Incorporated, holds approximately 75.19% of the issued shares of the Company as at 31 December 2017, and is a substantial shareholder of the Company. The Chief Executive of the HKSAR, in the exercise of her right under Section 8 of the MTR Ordinance, has appointed three persons as "additional directors" of the Company (the "Additional Directors"). They are:

- The office of the Secretary for Transport and Housing (currently held by Mr Frank Chan Fan);
- The office of the Permanent Secretary for Development (Works) (currently held by Mr Hon Chi-keung); and
- The office of the Commissioner for Transport (currently held by Ms Mable Chan).

The Additional Directors are all NEDs and 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 the requirement to act in the best interests of the Company.

Another NED, Mr James Henry Lau Jr, is the Secretary for Financial Services and the Treasury.

Coming from diverse business and professional backgrounds, Members of the Board actively bring their valuable experience to the Board for promoting the best interests of the Company and its shareholders. In addition, the INEDs also 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.

Chairman and CEO

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;
- Monitoring the performance of the CEO and other Members of the Executive Directorate;
- Making sure that adequate information about the Company's business is provided to the Board on a timely basis;
- Providing leadership for the Board and promoting a culture of openness;
- Ensuring views on all issues are exchanged by all Members of the Board in a timely manner;
- Encouraging Members of the Board to make a full and effective contribution to the discussion at Board Meetings; and
- Establishing good corporate governance practices and procedures.

The CEO is:

- Head of the Executive Directorate;
- Chairman of the Executive Committee;
- Responsible to the Board for managing the business of the Company; and
- Responsible for performing a bridging function between the Board and the Executive Directorate.

Board Committees

The Board Committee memberships and the attendance record of each Member of the Board in 2017 is set out on pages 117 to 118 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 135 to 137) 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 142 to 143) of this Annual Report.

Capital Works Committee

Details of the Capital Works Committee, including its duties and work performed during the year are set out in the Capital Works Committee Report (page 144) of this Annual Report.

Remuneration Committee

Details of the Remuneration Committee, including its duties and work performed during the year are set out in the Remuneration Committee Report (pages 145 to 149) of this Annual Report.

Nominations Committee

Principal responsibilities:

- Nominating and recommending to the Board candidates for filling vacancies on the Board, and the positions of CEO, Finance Director and Chief Operating Officer (provided that the Chief Operating Officer position exists);
- Considering candidates for the position of Finance Director and Chief Operating Officer recommended by the CEO, or any other candidates (provided that the CEO shall have the right to first agree to such other candidates);
- Making recommendations to the Board on the appointment or re-appointment of Members of the Board and succession planning for Members of the Board;
- Giving consideration to the Board Diversity Policy (the "BD Policy") when identifying suitably qualified candidates to become Members of the Board, although Board appointments will continue to be made on a merit basis;
- Reviewing the size, structure and composition of the Board on an annual basis;
- Assisting the Board in reviewing the achievement of objectives pursuant to the BD Policy;
- Assisting the Board in reviewing a list of desirable skills/experience/perspectives for the Board (the "List"); and
- Assessing the independence of INEDs.

During the year, the Committee conducted reviews and made corresponding recommendations to the Board in respect of the following matters:

- The size, structure and composition of the Board and the List;
- The appointment of new Board Members by shareholders at the 2017 AGM;
- The re-election of Members of the Board retiring at the 2017 AGM; and
- An annual assessment of the independence of each INED of the Company.

Corporate Responsibility Committee

Principal responsibilities:

- Overseeing the Company's stakeholder engagement and external communication strategies;
- Recommending the Corporate Responsibility Policy to the Board for approval;
- Monitoring and overseeing the implementation of the Company's Corporate Responsibility Policy and related initiatives;
- Identifying emerging corporate responsibility issues arising from external trends;
- Reviewing the Company's annual Sustainability Report and recommending approval by the Board;
- Reviewing the Company's environmental and social performance; and
- Providing updates to the Board on matters falling within the Committee's remit as required.

Please also refer to the "Corporate Responsibility" section (pages 104 to 109) of this Annual Report.

Work performed during the year:

- Approval of a new programme for secondary schools;
- Review of a new direction and initiatives for employee volunteering;
- Monitoring of the progress of various youth, elderly and district-level community engagement and investment programmes;
- Review and recommendation of the 2016 Sustainability Report to the Board for its approval; and
- Consideration of the Company's performance on various local and international sustainability indices.

Company Secretary

Ms Gillian Elizabeth Meller, being Legal and European Business Director ("L&EBD") and a Member of the Executive Directorate, reports to the CEO. Her role as Company Secretary includes:

- Providing access to advice and services for Members of the Board;
- Ensuring the correct Board procedures are followed;
- Advising the Board on all corporate governance matters;
- Arranging for Members of the Board/Alternate Directors, upon their appointment, 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;
- Recommending Members of the Board, their Alternate Directors and Members of the Executive Directorate to attend relevant seminars and courses; and
- Arranging for training on relevant new or amended legislation or other regulations to be provided at Board meetings.

In 2017, Ms Meller undertook over 15 hours of professional training to update her skills and knowledge.

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 in accordance with the "Appointment Procedure for Members of the Board of the Company", which is available on the website of the Company (www.mtr.com.hk); or
- the Board upon the recommendation of the Nominations Committee of the Company; or
- the Chief Executive of the HKSAR in the case of the Additional Directors.

Members of the Board who are appointed by the Board must retire at the first annual general meeting after their appointment and are eligible for election at that meeting.

Except for the Additional Directors, all other Members of the Board are required to retire by rotation. At each annual general meeting of the Company, Board Members 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, are those who will retire by rotation.

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.

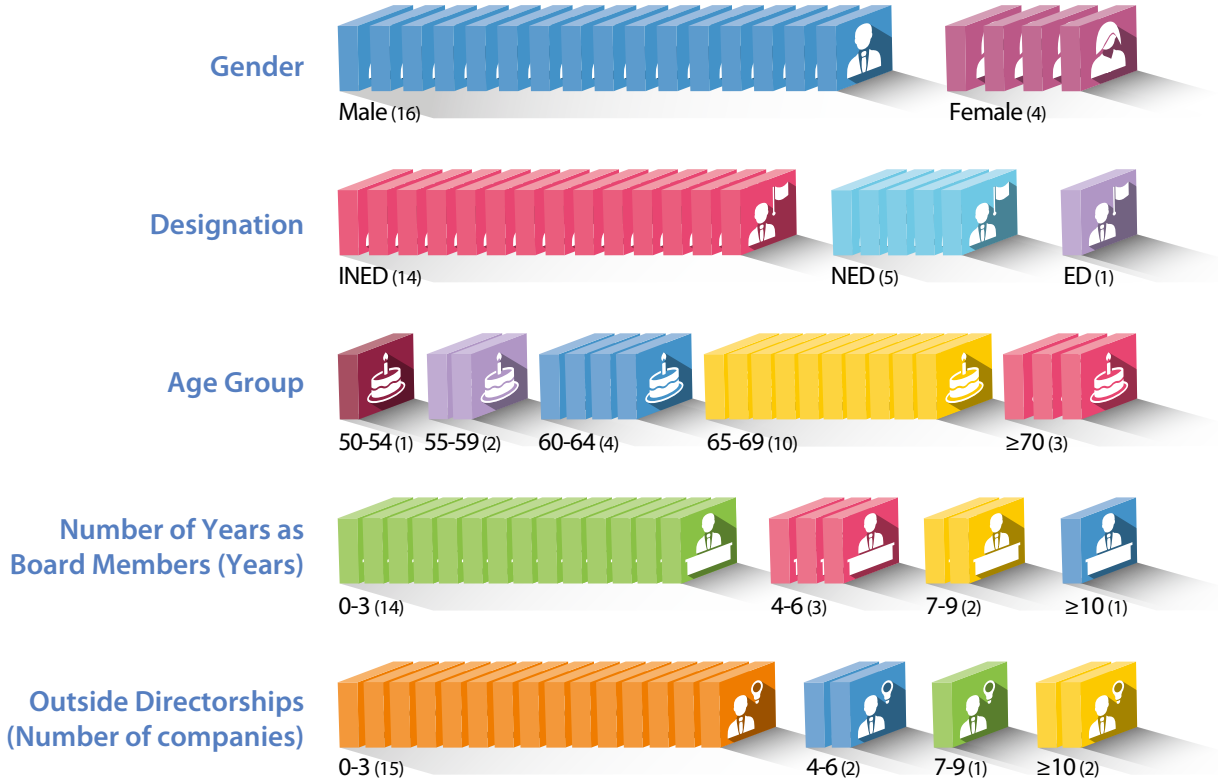
The Company has a service contract with each of the NEDs (with the exception of the Additional Directors) and the INEDs, specifying the terms of his/her continuous appointment as a NED or an INED and as the chairman or a member of the relevant Board Committee(s), for a period not exceeding three years.

Board Diversity

The Company has posted its BD Policy on the Company's website (www.mtr.com.hk). The BD 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. While the Company is conscious of maintaining an appropriate proportion of female Members on the Board, all appointments are ultimately made on a merit basis taking into account available and suitable candidates.

As mentioned above, the Nominations Committee assists the Board in reviewing the BD Policy annually to ensure its continued effectiveness.

The BD Policy was taken into account by the Nominations Committee in considering the nomination of Mr Andrew Clifford Winawer Brandler and Mr Johannes Zhou Yuan as new INEDs for appointment in May 2017. The Committee formed the view that the extensive experience of Mr Brandler in both the public and private sector and, in particular, the public utilities sector; and the rich experience of Mr Zhou in the financial sector in Hong Kong, the Mainland of China and the United States of America and in regulatory organisations would be valuable additions to the Board, thereby enhancing the diversity and effectiveness of the Board.



Statutory Confirmations

For the year ended 31 December 2017, 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 Member of the Board ensures that he/she can give sufficient time and attention to the affairs of the Company and contribute to the development of the Company's strategy and policies through independent, constructive and informed comments.

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 Company, all Members of the Board have disclosed their Commitments to the Company in a timely manner.

In light of the above, the Chairman held a Private Meeting (details of which are set out under the section titled "Private Meeting" on page 126 of this Report) in December 2017 to, amongst other things, 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. The review also assessed the performance of the Board as a whole and concluded that all Board Members have made a positive contribution to the Board and the Company.

Before each regular Board meeting, the Company reminds each Board Member to update his/her "Declaration of Other Directorships, Major Appointments and Interests" (the "Declaration"). The Declaration of each Alternate Director is sent to him/her for update on a quarterly basis. In addition, each Member of the Board and each Alternate Director is required to confirm his/her other directorships, major appointments and interests to the Company twice a year.

Save as disclosed in this Annual Report, none of the Members of the Board or the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) with another Member of the Board or the Executive Directorate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules (the "Model Code"). After having made specific enquiry, the Company confirms that all Members of the Board and (where applicable) their Alternate Directors and all Members of the Executive Directorate have complied with the Model Code throughout the year.

Senior managers, other nominated managers and staff who, because of their office in the Company, are likely to be in possession of Inside Information (which term shall bear the same meaning as in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) of the Company, 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 2017 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

The Board conducted an annual review of its Corporate Governance duties in accordance with its Terms of Reference on Corporate Governance Functions and the latest review was done in March 2018. Below is a summary of the work performed during the year ended 31 December 2017:

- Development and review of the Company's policies and practices on corporate governance, including the corporate governance framework and the BD Policy;
- Review and monitoring of the training and continuous professional development of Members of the Board and senior management;
- Review and monitoring of the Company's policies and practices on compliance with legal and regulatory requirements;
- Development, review and monitoring of the Code of Conduct and Directors' Manual; and
- Review of the Company's compliance with the Code.

The Board considers that the Company's Corporate Governance Functions 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 Corporate Governance Functions are available on the websites of the Company (www.mtr.com.hk) and the Stock Exchange.

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 the Company Secretary (the L&EBD) and approved by the Chairman of the Company. Members of the Board are advised to inform the Chairman or the Company Secretary 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 the Company Secretary with the 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.

The CEO Executive Summary, provided to the Board on a monthly basis, covers the overall strategies, principal issues and key events of the Company for the relevant month, with a look ahead to key issues or events in the following three to six months. This Summary, together with the discussions at Board meetings, ensures that Members of the Board have a general understanding of the Company's business and provides up-to-date 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 the Company Secretary, 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.

An electronic meeting solution has been introduced for the Company's Board meetings and Executive Committee meetings starting from the third quarter of 2017. Apart from contributing to the Company's environmental efforts, the electronic meeting solution also enables Members of the Board and the Executive Committee to access meeting documents and join virtual meetings remotely in a secure, efficient and convenient manner.

MATERIAL INTERESTS AND VOTING

All Members of the Board and the Executive Directorate 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. To this end, all of them are required to declare the nature and extent of their interests, if any, in any contract, transaction, arrangement or other proposal to be considered by the Board at Board meetings.

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

If a conflict arises between the interests of the Company and those of Government, each Government-nominated Director and any Director holding a senior Government position, is not included in the quorum for that part of the meeting which relates to the contract, 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 177 to 194) of this Annual Report explain how, in accordance with the Listing Rules, these transactions have been treated.

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

BOARD MEETINGS

The Board held 10 meetings in 2017 (including seven Regular Meetings, two Special Meetings and one Private Meeting), well exceeding the requirement of the Code which requires every listed issuer to hold board meetings at least four times a year.

In October 2017, the Board held its meeting in Hangzhou, followed by a visit to Beijing, and took the opportunity to understand the Company's investments and future investment opportunities in both cities.

Regular Meetings

At each Regular Meeting, the Board reviewed, discussed and, where appropriate, approved matters relating to the Company's different businesses and financial performance.

In addition, other key matters discussed at Board meetings held in 2017 included:

- Corporate Governance matters, including:
  - Receipt of shareholder analysis and investors' feedback;
  - Approval of Directors' Manual updates;
  - Review of Directors' fees for NEDs and INEDs;
  - Review of the structure, size and composition of the Board;
  - Review of the Board's Corporate Governance Functions;
  - Review of Enterprise Risk Management Reports;
  - Review of the effectiveness of the Company's risk management and internal control systems;
  - Assessment of the independence of the INEDs;
  - Receipt of Corporate Safety Governance Annual Report;
  - Receipt of the proceedings of various Board Committee meetings and MTR Academy Council meetings;
  - Approval of Sustainability Report 2016; and
  - Approval of changes of Directors and Board Committee composition;
- 2017 AGM:
  - Recommendation of the re-election of retiring Members of the Board; and
  - Recommendation of the nomination of two new Board Members;
- Projects
  - Approval of contract awards relating to railway projects;
  - Approval of the Company's proposals for submission to Government under the Railway Development Strategy 2014;
  - Receipt of updates on Government's Hong Kong 2030+ and Lok Ma Chau Loop;
  - Receipt of updates on the progress of the Shatin to Central Link and approval of the revised estimated cost for the project for submission to Government; and
  - Receipt of updates on the progress of the Express Rail Link;
- Operations
  - Receipt of 2016 train service performance summary;
  - Receipt of updates on signalling replacement and Works Management Office projects;
  - Receipt of updates on major incidents;
  - Receipt of updates on by-law review exercise; and
  - Award of contracts relating to replacement of equipment at the Company's stations and depot, and cleaning services;
- Mainland China and International Businesses
  - Receipt of updates on Mainland China and International Business and Business Development; and
  - Approval of bid submission/investment proposals for railway projects in overseas and Mainland China;
- Property
  - Approval of property development tender award in Hong Kong;
  - Receipt of updates on property development projects in Hong Kong; and
  - Approval for bid submission for overseas property development project;
- Human Resources
  - Approval of 2017 Annual Pay Review and new employee incentive scheme;
- Commercial and Marketing
  - Award of contract for advertising sales agency services relating to some of the railway lines in Hong Kong;
- Financial
  - Approval of 2016 Annual Report and Accounts;
  - Approval of 2017 Interim Report and Accounts;
  - Receipt of Ngong Ping 360 Limited 2016 performance review;
  - Receipt of Octopus Business Performance Review; and
  - Approval of 2018 Budget and Longer Term Forecast.

The minutes of Board meetings are prepared by the Company Secretary 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 comments 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 and any agreed changes will be reflected in the formal minutes of the relevant meeting. Minutes of Board meetings are kept by the Company Secretary and are open for inspection by all Members of the Board at the Company's registered office.

Special Meetings

A number of matters were covered in the two Special Meetings, including:

- Approval of property development tender award in Hong Kong;
- Review of the Fare Adjustment Mechanism (the "FAM");
- Approval of the principles for revising the Company's fares under the FAM;
- Approval of fare revision for Airport Express; and
- Approval of tender submission for an overseas franchise.

Private Meeting

The Chairman held a Private Meeting in December 2017.

During the first part of the Private Meeting, at which neither the CEO nor any other Member of the Executive Directorate was present, the Board:

- discussed the performance of Members of the Executive Directorate;
- reviewed the contribution required from a director in performing his/her responsibilities to the Company, and whether he/she had been spending sufficient time in performing them; and
- assessed the performance of the Board as a whole.

Following the discussions, the Board concluded that all Board Members have contributed positively to the Board and the Company.

During the second part of the Private Meeting, which the Human Resources Director and Legal and European Business Director were invited to join, the Board reviewed and approved the proposed terms for renewing the contract of the CEO for a further term commencing from 16 March 2018 to 31 March 2020 (both dates inclusive), the terms of which had previously been endorsed by the Remuneration Committee of the Company.

The attendance record of each Member of the Board (and each Member of the Executive Directorate) during the year is set out on pages 117 to 118 of this Annual Report.

INDUCTION PROGRAMME AND OTHER TRAINING

Induction Programme

On appointment, each new Member of the Board (including Government nominated Directors), Alternate Director and Member of the Executive Directorate is given a comprehensive, formal and tailored induction programme which covers:

- 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; and
- the general and specific duties of a director under general law (common law and legislation) and the Listing Rules.

In addition to the above, a Familiarization Programme to understand the key areas of the Company's business and operations is also provided.

All Members of the Board, Alternate Directors and Members of the Executive Directorate 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. The latest update to the Directors' Manual was approved by the Board on 16 January 2018.

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, the Company Secretary recommends them to attend relevant seminars and courses at the cost of the Company.

Board Visits

In September 2017, certain Members of the Board and the Executive Directorate visited West Kowloon Terminus and Shek Kong Stabling Sidings to gain a first hand understanding of the construction progress of the Express Rail Link.

In October 2017, the Board held a Regular Meeting in Hangzhou, and arrangements were made for Members of the

Board Visit in Hangzhou

Board and the Executive Directorate to visit the Company's railway operations in Hangzhou and Beijing. During the visits, visiting Members were briefed on the latest business and service performance of the local railway operations and appraised of the new business opportunities there.

Training

Materials on the subject of corporate governance are provided to Members of the Board, Alternate Directors and Members of the Executive Directorate from time to time to keep them abreast of the latest developments on this front.

Each Member of the Board and the Executive Directorate has also provided to the Company a record of the training he/she has received during the year, which is set out on pages 117 to 118 of this Annual Report.

Senior Executives

A comprehensive and tailored training programme has been developed for the 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.

To support the enhancement of the business acumen, leadership and management skills of the Senior Executives, professors from renowned business schools are engaged to share cutting-edge research and insights on contemporary management and business topics. For learning from other leading businesses, an "Executive Leaders Consortium" has been established with other leading companies in Hong Kong, providing a platform for Senior Executives to learn and benchmark best practices with other leading companies. Senior Executives have been actively participating in the above training activities.

ACCOUNTABILITY

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 consolidated financial position of the Group as at 31 December 2017, and of the Group's consolidated financial performance and consolidated cash flows for the year then ended. In preparing the consolidated accounts for the year ended 31 December 2017, 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 consolidated accounts for the year ended 31 December 2017, 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 of the Company (the "External Auditor") are set out on page 132 of this Annual Report.

In support of the above, the consolidated accounts presented to the Board have been reviewed by Members of the Executive Directorate. For both the annual and interim reports and consolidated 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 any changes in accounting policies adopted by the Group, have been discussed and approved at the Audit Committee before adoption by the Group.

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

Systems Overview

The Executive Committee is responsible for:

- Implementing the Board's policies on risk management and internal controls;
- Identification and evaluation of the risks faced by the Company for consideration by the Board;
- Designing, operating and monitoring a suitable internal control system and an 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.

Business/Functional Management Committees

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
- European Business Management Committee
- Australian and International Consultancy Business Management Committee
- Mainland China Business Management 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
- Cost Control Committee (Projects)
- Executive Cost Control Committee (Projects)
- Corporate Cyber Security Committee
- Corporate Security Management Committee

Internal Audit

The IAD provides independent, objective assurance and consulting services designed to add value and improve the Company's operations. Key responsibilities of the IAD include:

- Carrying out 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 CEO and the Audit Committee. The IAD 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 reports are rectified within a reasonable time. The IAD 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 risks are covered. On a half-yearly basis, the Head of Internal Audit reports to the Audit Committee including his opinion on the adequacy and effectiveness of the Company's internal control system.

ERM system

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 functions.

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 138 to 141) of this Annual Report.

Board Oversight

The Board, assisted by the Risk Committee and the Audit Committee respectively, oversees the Company's ERM system and internal control system on an ongoing basis and reviews the effectiveness of the systems at least annually. The duties of and work performed in 2017 by the Risk Committee and Audit Committee respectively are set out in the "Risk Committee Report" (pages 142 to 143) and "Audit Committee Report" (pages 135 to 137) of this Annual Report.

Control Activities and Processes

Compliance with Statutes and Regulations

To ensure the efficient and effective operation of business units and functions, and the safety of the operating railway and construction works in railway projects, 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. With necessary legal support, they are required to:

- Identify any new or updated statutes;
- Assess their impact on the Company's operations;
- Review at least once a year that the relevant statutes/regulations have been complied with; and
- Report any potential and actual significant non-compliances 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 the Audit Committee.

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

Whistle-blowing Policy

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 Committee and the Audit Committee.

Inside Information Policy

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

- A CGI, issued in 2016, which sets out:
  - (i) the internal processes for identifying, assessing and escalating potential Inside Information to the Executive Committee and the Board;
  - (ii) the responsibilities of Model Code Managers (as defined below) in preserving the confidentiality of Inside Information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and
  - (iii) the process for disclosure of Inside Information;
- Training is provided to Members of the Board and the Executive Directorate, Executive Managers, Department Heads and managers who are classified as Model Code Managers (on the basis that they are likely to be in possession of Inside Information because of their positions in the Company) from time to time. In particular, Members of the Executive Directorate, Executive Managers, Department Heads and Model Code Managers have been required to complete a computer-based training programme ("CBT Programme") on Inside Information. The CBT Programme will be re-run periodically to provide continuous training; and
- On-going training sessions on the latest developments/ requirements of the SFO are arranged as appropriate.

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

Evaluation of the Effectiveness of the Risk Management System

The Company has surpassed the relevant best practices in the Code by completing an effectiveness review of the ERM system for the Company and its subsidiaries, and extending the review to the Company's associates operating in Mainland China and overseas. For the year ended 31 December 2017, the Risk Committee, with delegated authority from the Board, evaluated the effectiveness of the ERM system of the Company and concluded that it was effective. The details are set out in the "Process of System Effectiveness Review" of the Risk Management section (page 141) of this Annual Report.

Evaluation of the Effectiveness of the Internal Control System

For the year ended 31 December 2017, the Audit Committee, with delegated authority from the Board, evaluated the effectiveness of the internal control system of the Company and its subsidiaries based on the following:

- A review of significant issues arising from internal audit reports and the external audit reports;
- Private sessions with internal and external auditors;
- A review of the annual assessment and certification of internal controls from Members of the Executive Directorate, management of overseas subsidiaries and Department Heads in their areas of responsibility;
- A review of papers submitted/prepared by the Executive Committee and the 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 Report on Outstanding Litigation and Compliance Issues; and
- The results from internal audits performed during the year on the effectiveness of the internal control system of the Company and its subsidiaries.

The Audit Committee concluded that the internal control system was effective.

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

For the year ended 31 December 2017, 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 Finance Director 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.

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 2017, 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 2017, 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 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 disseminate crisis related information. Regular Crisis Management Team exercises are held to validate the crisis management organisation and arrangements and to provide practices for members. Two exercises, one for the Crisis Management Team and one for its shadow team, were conducted in September and December 2017 respectively.

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 the fact that 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.

In 2017, the Company completed a review of the Governance Framework to refine the management governance requirements and the implementation process, promoting increased collaboration between the corresponding functions in the Company on the one hand and the subsidiaries and associates on the other hand.

Pursuant to the Governance Framework, the Company exercises its control and oversight through formulation of a governance structure that is tailored for individual subsidiaries and associates through (i) imposition of certain internal controls in key areas; and (ii) adoption of management practices and policies that are appropriate to the business nature and local situation. As a result, adequate internal controls will be adopted by subsidiaries and associates and the Company will be consulted and notified on important matters, complemented by regular reporting and assurance. Compliance with this governance structure is reported by subsidiaries and associates with significant operations on an annual basis.

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 operate transparently and 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 corporate and regulatory requirements. Following a comprehensive rewrite of the Code of Conduct in 2015, a regular review of the content is underway and the revised Code is planned to be released to all staff in the first quarter of 2018. Education programmes including seminars and mandatory computer-based training are in place to raise staff awareness. Staff members are also encouraged to report existing or perceived violations or 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. The Code of Conduct is also uploaded onto the Company's website (www.mtr.com.hk).

In addition, the Code of Conduct serves as a guideline to establish a comparable ethical culture in our subsidiaries 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 consolidated accounts on page 220 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 in accordance with the Hong Kong Institute of Certified Public Accountants/ International Federation of Accountants Code of Ethics.

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 chairman of each Board Committee, all Members of the Executive Directorate and the External Auditor of the Company to attend AGMs to answer shareholders' questions.

The 2017 AGM was held on 17 May 2017 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 proceedings were webcast and posted on the Company's website (www.mtr.com.hk) in the same evening.

The 2018 AGM has been scheduled on 16 May 2018 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.

Resolutions passed at the 2017 AGM

The Chairman proposed separate resolutions for each substantially separate issue at the 2017 AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the 2017 AGM under Article 71 of the Articles of Association to call a poll on all resolutions conducted by electronic means.

A total of 12 resolutions were passed at the 2017 AGM (with resolution no. 3 comprising five separate resolutions), each supported by over 95% of the votes cast. The full text of the resolutions is set out in the 2017 AGM Circular (which comprised Notice of the 2017 AGM) dated 10 April 2017.

For the benefit of those shareholders who did not attend the 2017 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 2016;

(2) Declaration of a final dividend of HK$0.82 per share for the year ended 31 December 2016;

(3) (a) Re-election of Professor Frederick Ma Si-hang as a Member of the Board of Directors of the Company;

(b) Re-election of Dr Pamela Chan Wong Shui as a Member of the Board of Directors of the Company;

(c) Re-election of Dr Dorothy Chan Yuen Tak-fai as a Member of the Board of Directors of the Company;

(d) Re-election of Mr Alasdair George Morrison as a Member of the Board of Directors of the Company;

(e) Re-election of Mr Abraham Shek Lai-him as a Member of the Board of Directors of the Company;

(4) Election of Mr Andrew Clifford Winawer Brandler as a new Member of the Board of Directors of the Company;

(5) Election of Mr Zhou Yuan (also known as Mr Johannes Zhou) as a new Member of the Board of Directors of the Company;

(6) Re-appointment of KPMG as Auditors of the Company and authorisation of the Board of Directors to determine their remuneration;

(7) 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 as at the date of passing of this resolution*; and

(8) Grant of a general mandate to the Board of Directors to buy back shares in the Company, not exceeding ten per cent. of the aggregate number of shares in issue as at the date of passing of this resolution*.

* *(The full text of the resolution is set out in the Notice of the 2017 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.

Calling General Meetings

Directors of the Company may call a general meeting of the Company.

Shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings may request the Directors of the Company to call a general meeting of the Company.

The requesting shareholders must state in their request the general nature of the business to be dealt with, and may include the text of a resolution to be moved at the general meeting. The request may consist of several documents in like form and may be sent to the Company in hard copy or electronic form, which must be authenticated by the requesting shareholders.

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 include a resolution to be moved at the general meeting, the notice of the general meeting must include notice of the resolution. If the resolution is to be proposed as a special resolution, the Directors of the Company are required to specify the intention to propose the resolution as a special resolution in the notice of the general meeting.

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.

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 102 to 103) of this Annual Report on other means of communication with shareholders.

CONSTITUTIONAL DOCUMENT

The Company's Articles of Association (in both English and Chinese) are available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange. During the year ended 31 December 2017, there was no change to the Articles of Association.

For and on behalf of the Board

Gillian Elizabeth Meller
Company Secretary
Hong Kong, 8 March 2018

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 six Non-executive Directors, five of whom are Independent Non-executive Directors of the Company. Details of the Committee's membership and Members' attendance records during 2017 are set out on pages 117 to 118 of this Annual Report. 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 attend all meetings of the Committee. At the discretion of the Committee, others may also be invited to attend meetings. The Committee meets four times a year, and the Chairman of the Committee, the external auditor or the FD may request an additional meeting if they consider it necessary. The Committee, upon request, also considers and, if thinks fit, approves the appointment of the Company's external auditor for undertaking non-audit work.

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), the duties of the Committee primarily comprise the following:

Oversight of the relationship with the Company's external auditor

- 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;
- Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- Discussing with the external auditor the nature and scope of its audit and reporting obligations before the audit commences; and
- Pre-approving non-audit services and ensuring that the external auditor's provision of non-audit services does not impair its independence or objectivity.

Review of the financial information of the Company

- Monitoring 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;
- Liaising with the Board and the Executive Directorate in dealing with the Company's financial information. 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; and
- Discussing 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.

Oversight of the Company's financial reporting system and internal control procedures

- Assisting the Board in overseeing the Company's financial controls and internal control systems on an ongoing basis through reviewing, at least annually, the effectiveness of the Company's financial controls and internal control systems; with a report 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;
- Overseeing Management's review of the adequacy of the resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;

- Reviewing and approving the annual Internal Audit Plan which includes audits on the efficiency of chosen activities or operations of the Company;
- Reviewing periodic reports from the Head of IA and the follow-up of major action plans recommended, and putting forward recommendations to the Board, where appropriate; and
- Reviewing the annual assessment conducted by the Head of IA on the adequacy of the resources, qualifications and experience of staff of the Company's internal audit function, and its training programmes and budget.

Further details of the above are set out in the "Risk Management and Internal Control Systems" section of the Corporate Governance Report on pages 128 to 131 of this Annual Report.

Reporting to the Board

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 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, dissenting views expressed, and suggestions for enhancing the governance and internal control systems of the Company. The draft minutes are circulated to Committee Members for comments within a reasonable time after each 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.

WORK PERFORMED BY THE COMMITTEE IN 2017

In 2017, the Committee held four meetings. Representatives of the external auditor, the FD and the Head of IA attended all four meetings to report and answer questions about their work. The Committee devoted its attention to the review of the Company's annual and interim results announcement/ accounts at the February and August meetings respectively, allowing more time to review and discuss the Company's internal controls, internal audit and other activities at the May and November meetings. The Committee invited from time to time relevant Members of the Executive Directorate to join the financial presentation by the FD, and requested the General Manager – Procurement and Contracts (Projects) to join the presentation by the Projects Director to update the Committee on the latest cost position of the Company's railway projects under construction.

Major work performed by the Committee in 2017 included:

Financial

- Review of the draft 2016 Annual Report and Accounts and 2017 Interim Report and Accounts, including the financial impact of the Company's new railway projects in progress, and the relevant disclosure notes in the said Accounts and recommendation of the same for the Board's approval;
- Review of the carrying value of the Group's fixed assets and receipt of updates on the cost to complete for the Company's railway projects under construction;

- Review of and recommendation for presentation to the Remuneration Committee of the paper headed "2016 payout under '2008 Variable Incentive Scheme' - confirmation of the financial figures"; and
- Preview of 2017 interim and annual accounting and financial reporting issues.

Internal Audit

- Review of Internal Audit Department's Reports;
- Review of Risk Management and Internal Control Systems Effectiveness for 2016 (focused on the internal control system, as the risk management system effectiveness was separately reviewed by the Risk Committee of the Company);
- Review of Continuing Connected Transactions for 2016;
- Review of Whistle-blowing Progress Reports;
- Review of the Report on Evaluation of Effectiveness of Internal Audit Department for 2016;
- Receiving an update on the Hong Kong Railway Projects Assurance Framework;
- Approval of the 2018 Internal Audit Plan; and
- Holding of private sessions with the Head of IA without the presence of Management.

External Auditor

- Review of KPMG's Audit Plan and strategy for the year ended 31 December 2017;
- Review of summary of KPMG services to the Company and fees received;
- Pre-approval of audit and non-audit services provided by KPMG;
- Receiving KPMG's report on the salient features of the 2016 Annual Accounts and 2017 Interim Accounts;
- Review of the 2016 Auditor's Report (under the new requirements for audits of listed entities);
- Review and approval of KPMG's fee proposal for the 2017 audit;
- Considering KPMG's independence and other relevant factors when approving the appointment of KPMG in providing non-audit services; and receiving/noting KPMG's confirmation of independence in its audit report in respect of the 2016 Annual Accounts and 2017 Interim Accounts; and
- Holding of private sessions with representatives of KPMG without the presence of Management.

Others

- Review of the 2016 report on outstanding litigation/potential litigation, compliance with statutes and regulations, Operating Agreement and Rail Merger Related Agreements; and
- Receiving the Audit/Risk/Governance Committee Minutes of MTR's subsidiaries.

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 2018 for approval by the Company's Shareholders at the 2018 Annual General Meeting.

Dr Eddy Fong Ching
Audit Committee Chairman
Hong Kong, 8 March 2018

The Audit Committee Report has been reviewed and endorsed by the Committee.

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:

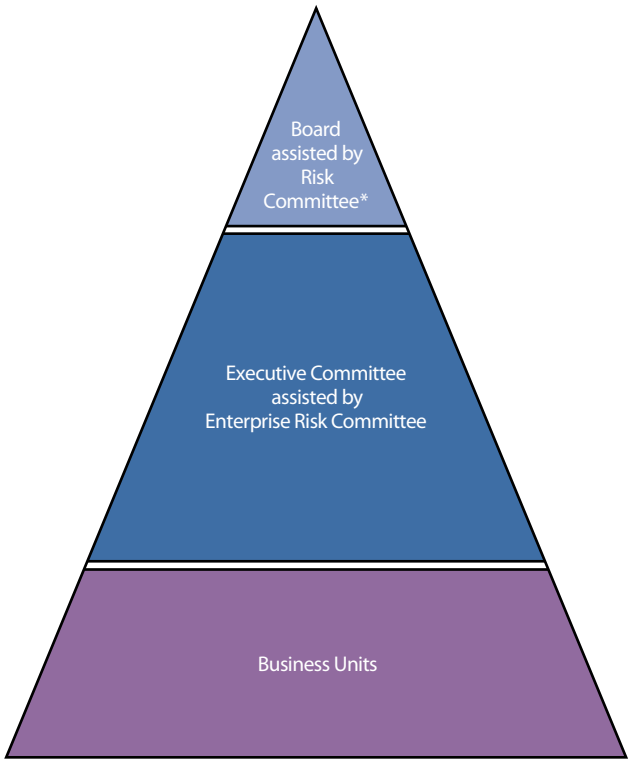
- Identify and review risks across all business units of the organisation
- Prioritise resources to manage risks
- Give management a clear view of the significant risks facing the Company
- Support decision making and project execution for better business performance

The Board, with the assistance of the Risk Committee, oversees the Company's ERM framework and top risks, whereas the Executive Committee, with the support of the Enterprise Risk Committee ("ERC"), is overall accountable for the ERM policy and system implementation and continuous improvement.

In 2017, the Company strengthened the top-down input to the Company's risk management process through the introduction of a new Risk Oversight Group, a forum attended by 3-4 Executives each time on a rotational and quarterly basis for risk discussion, and a new half-yearly Blue Sky Workshop for all Executives.

The Company's risks are rigorously identified, assessed and managed. Each risk is evaluated on the basis of 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), with E1 being a very high risk and E4 being a low risk. The risk ratings reflect the required management attention and risk treatment effort, and take into account the Company's risk appetite. The highest category of risks, "E1", is subject to Board, Risk Committee and Executive Committee oversight.

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.



- Exercise ongoing risk oversight
- Establish appropriate risk management strategies
- Oversee the ERM framework
- Review top risks and emerging risks
- Conduct annual review of ERM system effectiveness

- Implement and continuously improve ERM framework
- Enterprise Risk Committee
  - Chaired by Legal and European Business Director
  - Comprises representatives from key business functions
  - Steers framework implementation and improvement
  - Reviews Company's top risks and key emerging risks
  - Reports to Executive Committee and Risk Committee quarterly, and to Board every six months

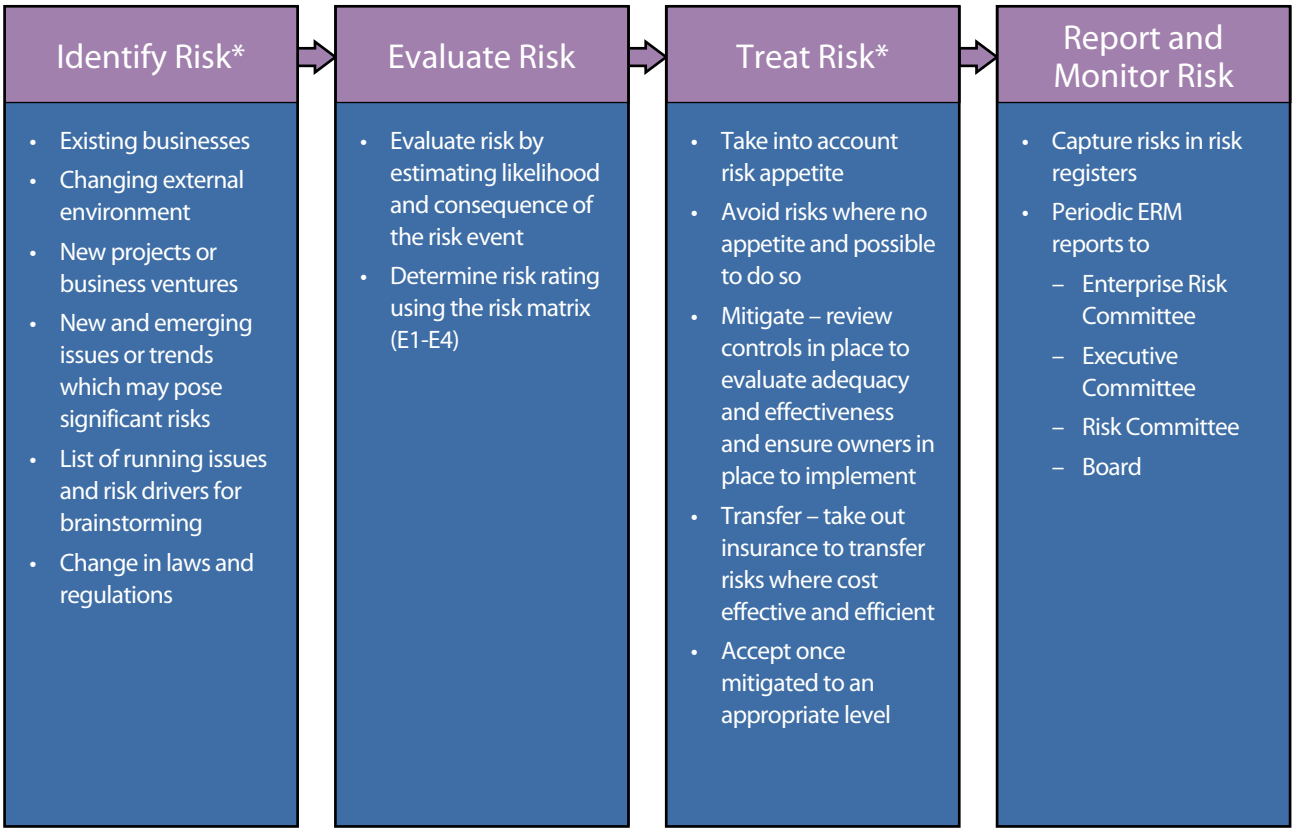
- Establish arrangements and implement risk management process consistent with the Company's ERM framework and policy
- Capture identified risks in risk registers for regular review and monitoring

* *See the Risk Committee Report (pages 142 – 143 of this Annual Report) for duties and work performed by the Committee in 2017*

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. Risk management strategies are developed for different areas including but not limited to construction, operations, finance, treasury, safety and insurance.

The ERM Team within the Legal and Secretarial Division maintains a list of running issues and risk drivers pertinent to the changing business and external environments, which is used to assist the ERC in identifying potential risks that may emerge. In addition, the ERC, the Executive Committee and the Risk Committee review the Company's enterprise risk profile and brainstorm emerging risks quarterly to ensure that key risks and those cutting across different areas of the business are captured.



* *Areas below are not exhaustive*

RISK MANAGEMENT

Focus areas for risk management of the Company include:

Effective and Balanced Relationship with Key Stakeholders	
Key Challenges	• Strive to seek a balance between the sometimes competing demands of the Company's key stakeholders
Key Controls	• Implement engagement plan for key stakeholders to maintain effective communication channels • Observe the Company's operating obligations and maintain good performance of the Company

Operations Safety and Service Incidents	
Key Challenges	• Major railway service incidents • Management of crowding
Key Controls	• Investigations/technical studies conducted on individual incidents to identify opportunities for continuous improvement • Enhanced crowd management plans in place • Signalling systems being upgraded to enable more frequent train services to be run in the longer term • Works Management Office established to oversee the integrated management of the combined risk of concurrent major capital projects that may have an impact on the operating railway

New Projects Cost and Delivery	
Key Challenges	• Shortage and ageing of contractor workers • Close proximity of construction activities to operating railway and urban developments • Management of interfaces with different parties • Adherence to the programme and cost of the projects
Key Controls	• Work with Government to facilitate recruitment of workers and applications for labour importation • Close coordination with parties involved in interfacing activities and enhancement of design and construction methodology • Training for contractor workers and staff on railway safety • Stringent control of contingency funds

Workforce Transition/Competence/Institutional Knowledge/Resourcing	
Key Challenges	• Stream of staff reaching retirement age in coming years after MTR train service has been in operation since 1979 • Manpower shortages and retention challenge in several job types
Key Controls	• Proactive manpower sourcing and succession planning • Skills and competency enhancement • Provide flexible resource pools and improve staff mobility for growth businesses • Explore innovative solutions to mitigate manpower shortage

New Business Model/Technological Disruption/Competition	
Key Challenges	• Current business model disrupted by new technology • Manage competition from other transport modes
Key Controls	• Capitalise on e-commerce and technology to explore new business models • Monitor competition from other transport modes and implement initiatives to maintain market share

Delivery of Growth Strategy	
Key Challenges	• Challenging business model for future new lines in Hong Kong • Strong competition for business opportunities outside Hong Kong
Key Controls	• Formulate innovative business models for new lines in Hong Kong • Maximise branding effect of the Company • Conduct regular environmental scan for new business opportunities outside Hong Kong

Security Threat (cyber/physical)	
Key Challenges	• Threat of cyber-attack on Operations and IT systems • Terrorist attack threat, in particular for railway operations of the Company outside Hong Kong
Key Controls	• Enhance IT network resilience to protect the Company against cyber attacks • Implement cyber security protection systems for railway operations systems • Enhance governance of corporate security framework

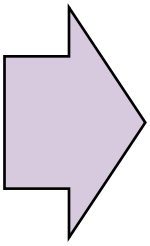
Process of System Effectiveness Review

On behalf of the Executive Committee, the ERC evaluates the effectiveness of the ERM system at least annually. The Legal and European Business Director, who chairs the ERC, presented the ERM system effectiveness review results for the year ended 31 December 2017 to the Executive Committee, which confirmed the review results, on 8 February 2018, and to the Risk Committee on 23 February 2018.

For the year ended 31 December 2017, 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 a number of review areas.

Factors considered during the review

- Review areas suggested in the Corporate Governance Code for the Board's annual review of the risk management system
- Annual internal certification of risk management effectiveness by Department Heads and Heads of subsidiaries/associates
- Enhancements resulting from the 2016 ERM system effectiveness review
- Risk management of subsidiaries and associates
- Benchmarking/roundtable/peer group ideas exchange
- Risk management trainings and promotions activities held in 2017



Conclusion

ERM system was effective and adequate for the year ended 31 December 2017

CONTINUOUS PROCESS IMPROVEMENT

Key improvements in the ERM system implemented within 2017 include:

- The risk register template has been enhanced, supplemented by guidelines, to enable better articulation of risks and risk controls, assessment of the effectiveness of controls and the reinforcement of forward risk trends
- Enterprise risks have been reviewed for further differentiation and those risks assessed to be more appropriately monitored and managed by business units as part of normal business have been archived from the enterprise risk map, to enable more focused risk discussion at the enterprise level
- In June 2017, a series of half-day risk management workshops were attended by over 100 department heads/senior managers/ERC members/divisional risk coordinators at which global risk trends and lessons learnt from external real life case studies were discussed; another series of half-day workshops focusing on risk management principles and risk awareness were also organised and attended by over 110 managers and supervisors
- In late October 2017, the Company launched its Risk Awareness Week ("RAW") event for the fourth year to continue to promote risk awareness across all levels of the organisation. The event included a workshop on forward-thinking tools applicable for risk management, a lunchtime seminar on risk assessment tools, a series of interactive half-day workshops, and an online game. Over 400 staff participated in various activities during the RAW event. Key business units outside Hong Kong also promoted risk awareness in their respective local business units to echo Headquarters' efforts

We keep ourselves abreast of the latest developments in risk management through reviews with users, cross-industry benchmarking and experience sharing through various channels:

- Sharing and learning of best practice through the tenth UK ERM Roundtable and the ninth 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 2017 and periodic teleconference meetings

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"). Details of the Committee's members and their attendance records during 2017 are set out on pages 117 to 118 of this Annual Report.

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 processes, the significant areas of risk being managed, and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section on pages 138 to 141 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 list of matters to be considered is updated as required to include any topical subjects or risks that may emerge during the year. 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 2018.

WORK PERFORMED BY THE COMMITTEE IN 2017

In 2017, the Committee held four meetings. During the year, the Committee reviewed the Company's ERM quarterly reports and the effectiveness of the Company's ERM system for the year ended 31 December 2016. A review of the Company's ERM annual report and ERM system effectiveness for the year ended 31 December 2017 was conducted by the Committee on 23 February 2018.

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 action by management.

The Legal and European Business Director, the General Manager – Governance & Risk Management and the Senior Manager – Enterprise Risk, representing the ERM function, attended all four meetings in 2017 to report and answer questions on ERM related matters.

The Committee considered the following key matters in 2017:

- MTR subsidiaries'/associates' cyber security (including railway operating systems)
- Management of terrorist attack risk
- Arson incident on 10 February 2017
- Escalator safety in railway operation and property
- Operation of Kwun Tong Line Extension and South Island Line (East) and management of crowding
- Light rail safety and management of crowding
- Governance arrangements for major projects
- Political landscape and challenges
- Meeting ageing population challenges for railway operation
- Strategic manpower planning
- Governance measures on property development projects in the Mainland of China
- New railway extensions
- Application of Building Information Modelling
- Major global rail accidents summary overviews

Alasdair George Morrison
Risk Committee Chairman
Hong Kong, 8 March 2018

The Risk Committee Report has been reviewed and endorsed by the Committee.

CAPITAL WORKS COMMITTEE REPORT

As at the date of this Report, the Capital Works Committee of the Company (referred to as the "Committee" in this report) consists of seven Non-executive Directors, six of whom are Independent Non-executive Directors of the Company ("INEDs"). Details of the Committee's members and their attendance records during 2017 are set out on pages 117 to 118 of this Annual Report.

DUTIES OF THE COMMITTEE

The Committee's Terms of Reference are available on the website of the Company (www.mtr.com.hk).

The principal duties of the Committee include overseeing any capital project of the Company in Hong Kong and outside of Hong Kong involving design and/or construction activities ("Relevant Project") with a capital value in excess of HK$10 billion and any other Relevant Project, in the event that such Relevant Project is four months or more behind programme on an overall basis; reviewing the progress of such projects, from both a programme and cost perspective; checking that there are adequate resources for and supervision of such projects; keeping under review the Company's communication strategy and crisis management plan in respect of each of such projects; and reporting to the Board on a quarterly basis and on ad hoc basis if the Committee deems appropriate, in respect of the above.

The secretary of the meetings draws up agendas for each meeting in consultation with the chairman of the Committee, which may take into account topical matters relating to the projects 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.

WORK PERFORMED BY THE COMMITTEE IN 2017

In 2017, the Committee held five meetings at which the following key matters were reviewed and considered:

- reports on the progress and cost status of the Company's capital projects under construction including the Express Rail Link and Shatin to Central Link
- half-yearly reports on projects-related audits conducted by the Company's Internal Audit Department
- half-yearly reports on the construction programme and cost status of all the awarded development projects of the Company's Property Division in Hong Kong, in particular update on the Tai Wai Station Property Development

The Projects Director and the General Manager – Procurement & Contracts (Projects) attended all five Committee meetings in 2017 to report and answer questions on progress of projects and cost related matters. Other Executives and senior managers were also invited to attend Committee meetings when required.

Dr Allan Wong Chi-yun
Capital Works Committee Chairman
Hong Kong, 8 March 2018

The Capital Works Committee Report has been reviewed and endorsed by the Committee.

REMUNERATION COMMITTEE 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.

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 Non-executive Directors;
- Determining, with delegated responsibility, the remuneration packages of Members of the Executive Directorate; and
- Reviewing and approving performance-based remuneration of Members of the Executive Directorate by reference to the Board's corporate goals and objectives.

The Committee's responsibilities are set out in its Terms of Reference and are consistent with the Code.

This Remuneration Committee 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. The current Non-executive Director remuneration framework, since 1 January 2017, is set out below:

	(HK$)
Board	
– Chairman	1,500,000
– Other Members	300,000
Audit Committee and Capital Works Committee	
– Chairman	150,000
– Other Members	90,000
Risk Committee, Remuneration Committee, Nominations Committee, and Corporate Responsibility Committee	
– Chairman	110,000
– Other Members	60,000

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 or 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 the 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 the individuals. 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 2017, 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 2017, the Company maintained the 2007 Share Option Scheme and the Executive Share Incentive Scheme (formerly the "2014 Share Incentive Scheme").

(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 2017 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 & 45 to the accounts.

(ii) Executive Share Incentive Scheme

On 15 August 2014, the Board approved the adoption of the Executive Share Incentive 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 Executive 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 Executive Share Incentive Scheme as award holders in accordance with the rules of the Executive Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares. Awards under the Executive Share Incentive Scheme were granted to selected employees of the Company, including Members of the Executive Directorate, in 2017.

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.

As part of the overall governance of the Executive Share Incentive Scheme, the Company reviews scheme features on a regular basis to ensure continued relevance and effectiveness. In 2017, the Company appointed an independent consultant to conduct a review of the Executive Share Incentive Scheme and obtained the Remuneration Committee's approval on certain refinements which have come into effect on 1 January 2018. Changes include the renaming of the 2014 Share Incentive Scheme to become "Executive Share Incentive Scheme" and the entitlement of award holders to cash dividends accrued in respect of unvested Restricted Shares that are granted on or after 1 January 2018. Certain administrative provisions of the scheme rules have also been updated to streamline the administration of the Executive Share Incentive Scheme.

Details of the Executive Share Incentive Scheme and shares granted to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme are set out in notes 10 & 45 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 defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted an MPF Exemption Certificate 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 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 defined contribution scheme registered under the ORSO and has been granted an MPF Exemption Certificate 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 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 Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). 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 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 MPFSO.

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, Macau, 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 MPFSO and, in the case of subsidiaries in Macau, the Mainland of China and overseas, their respective local laws and regulations.

WORK PERFORMED BY THE REMUNERATION COMMITTEE DURING THE YEAR

- Approved the 2016 Remuneration Report as incorporated in the 2016 Annual Report;
- reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2016 performance period;
- reviewed and approved restricted share and/or performance share awards for eligible employees under the Executive Share Incentive Scheme;
- reviewed and approved the pay structure for Executive Directors;
- conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2017;
- reviewed and approved the contract renewal arrangement for Members of Executive Directorate; and
- approved the adoption of a new Core Incentive Scheme to take effect in 2018 and refinements of Executive Share Incentive Scheme.

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	**2017**	2016
Fees	**9.8**	6.7
Base salaries, allowances and other benefits-in-kind	**61.0**	55.7
Variable remuneration related to performance	**19.5**	18.9
Retirement scheme contributions	**11.7**	9.6
Total	**102.0**	90.9

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 2017.

Dr Dorothy Chan Yuen Tak-fai
Remuneration Committee Chairperson
Hong Kong, 23 February 2018

BOARD AND EXECUTIVE DIRECTORATE

Non-executive Chairman

Chief Executive Officer

Non-executive Director

Independent Non-executive Director

Member of Audit Committee

Member of Nominations Committee

Member of Remuneration Committee

Member of Capital Works Committee

Member of Risk Committee

Member of Corporate Responsibility Committee

Director of the Company's Subsidiary(ies)


Chairman of the relevant Board Committee

MEMBERS OF THE BOARD

Professor Frederick Ma Si-hang

Age 66

Professor Ma joined the Board as an Independent Non-executive Director in July 2013. He was then re-designated as a Non-executive Director on 30 November 2015 and appointed as Non-executive Chairman since 1 January 2016.

Professor Ma has extensive experience in banking and financial sector. He is currently an independent non-executive director of FWD Group and a director of Husky Energy Inc..

Professor Ma was an independent non-executive director of Agricultural Bank of China Limited, Aluminum Corporation of China Limited and Hutchison Port Holdings Management Pte. Limited, and also a non-executive director of China Mobile Communications Corporation and COFCO Corporation. 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 the Council Chairman of The Education University of Hong Kong, a member of the International Advisory Council of China Investment Corporation and the Global Advisory Council of the Bank of America.

Professor Ma holds a Bachelor of Arts (Honours) degree majoring in economics and history from The University of Hong Kong. He was conferred the Honorary Doctor of Social Sciences by Lingnan University in October 2014 and the Honorary Doctor of Social Science by City University of Hong Kong in October 2016. Professor Ma was awarded the Gold Bauhinia Star medal in 2009 and was appointed a Justice of the Peace in 2010.

Lincoln Leong Kwok-kuen

Age 57

Mr Leong joined the Company in February 2002 as the Finance Director and has been a Member of the Executive Directorate since then. He was re-titled as the Finance & Business Development Director in May 2008, and was appointed as the Deputy CEO in July 2012 and the Acting CEO in August 2014. Mr Leong was appointed as the CEO in March 2015, and has been a Member of the Board since then. As the CEO, he is responsible for the Group's overall performance in and outside of Hong Kong.

Prior to joining the Company, Mr Leong worked in the accountancy and investment banking industries in London, Vancouver and Hong Kong.

He 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, and a vice-patron and a member of the Board of Directors of The Community Chest of Hong Kong. Mr Leong was previously an independent non-executive director of Hong Kong Aircraft Engineering Company Limited.

He qualified as a chartered accountant in England in 1985 and Canada in 1986. Mr Leong is a chartered fellow of The Chartered Institute of Logistics and Transport in Hong Kong.

He holds a Bachelor of Arts degree (subsequently a Master of Arts degree) from the University of Cambridge in the United Kingdom.

Andrew Clifford Winawer Brandler

Age 61

INED AC RiskC

Mr Brandler has joined the Board since 17 May 2017.

He is the chairman of Sir Elly Kadoorie & Sons Limited. Mr Brandler was formerly the group managing director and chief executive officer of CLP Holdings Limited from 2000 to 2013, an executive director between October 2013 and April 2014, and currently is a non-executive director of that company. He is also the non-executive deputy chairman of The Hongkong and Shanghai Hotels, Limited, and a non-executive director of Tai Ping Carpets International Limited.

Prior to joining CLP Holdings Limited in 2000, Mr Brandler was an investment banker, his last position being Head of Asia Pacific Corporate Finance at Schroders based in Hong Kong. He is the former chairman of The Hong Kong General Chamber of Commerce and a member of the Operations Review Committee of the Independent Commission Against Corruption.

Mr Brandler is also currently the Chairman of the Board of Governors of the Chinese International School. He is a member of The Institute of Chartered Accountants in England and Wales.

Mr Brandler holds a Bachelor of Arts (subsequently Master of Arts) degree in Modern and Medieval Languages from the University of Cambridge, United Kingdom and a Master of Business Administration degree from Harvard Business School, United States of America.

Dr Pamela Chan Wong Shui

Age 71

INED NC CRC

Dr Chan has joined the Board since July 2013.

She is chairman of The Insurance Complaints Bureau, vice-chairman of The Boys' and Girls' Clubs Association of Hong Kong, an independent director of the Travel Industry Council of Hong Kong and a member of the Private Columbaria Appeal Board. Dr Chan had served on the board of The Community Chest of Hong Kong for many years, and is currently its vice-patron. She is also currently patron of Consumers International.

Dr Chan was chief executive of the Consumer Council, chairman of Hong Kong Deposit Protection Board, deputy chairman of the Hong Kong Baptist University Council and the Court, chairman of the governing committee of Princess Margaret Hospital, and a member of the Law Reform Commission of Hong Kong, Hospital Authority, The Hong Kong Housing Authority and Estate Agents Authority.

She is a graduate and an Honorary Fellow of The Chinese University of Hong Kong, and was awarded a Doctor of Social Sciences, *honoris causa*, by the Hong Kong Baptist University. Dr Chan holds a Bachelor of Laws degree from Peking University.

Dr Dorothy Chan Yuen Tak-fai

Age 68

INED CWC RC Dir (Sub)

Dr Chan has joined the Board since July 2013.

She 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. Dr Chan is an independent non-executive director of AMS Public Transport Holdings Limited, the chairperson of the Sustainable Agricultural Development Fund Advisory Committee, a board member of the Hong

Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies Limited, an advisor to the Serco Group (HK) Limited and a member of the Board of Governors of the Hong Kong Institute for Public Administration. She is also an Honorary Fellow of the Chartered Institute of Logistics and Transport ('CILT') and CILT's Global Advisor for Women in Logistics and Transport.

Dr Chan was a member of the Social Welfare Advisory Committee and the Advisory Council on Environment of the HKSAR Government, and the International President of CILT. She was previously the Deputy Commissioner for Transport of Government from 1995 to 2002. From 2000 to 2002, Dr Chan was the Alternate Director to the office of the Commissioner for Transport, a Non-executive Director of the Company.

She 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

Age 69

INED RC CRC

Mr Cheng has joined the Board since July 2009.

He 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.

Mr Cheng 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, he was vice chairman of the China Banking Association, 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, a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority and a member of the Advisory Committee on Post-service Employment of Civil Servants. 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.

He 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. 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.

Anthony Chow Wing-kin

Age 67

INED RC CWC

Mr Chow has joined the Board since May 2016.

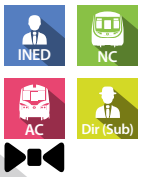
He is a solicitor admitted to practise in Hong Kong and England and Wales. Mr Chow has been a practising solicitor in Hong Kong for over 34 years and is currently the Senior Consultant and Global Chairman of the law firm Messrs. Guantao & Chow Solicitors and Notaries. He is a China Appointed Attesting Officer and an arbitrator of the South China International Economic and Trade Arbitration Commission/Shenzhen Court of International Arbitration. Mr Chow is currently the deputy chairman of the board of stewards of The Hong Kong Jockey Club, a non-executive director of Kingmaker Footwear Holdings Limited, and an independent non-executive director of S. F. Holding Co., Ltd..

He was a non-executive director of China City Construction Group Holdings Limited, an independent non-executive director of Fountain Set (Holdings) Limited, the president of The Law Society of Hong Kong from 1997 to 2000 and is the former chairman of the Process Review Panel for the Securities and Futures Commission of Hong Kong.

Mr Chow was appointed a Justice of the Peace in 1998 and awarded the Silver Bauhinia Star medal in 2003.

Dr Eddy Fong Ching

Age 71



Dr Fong has joined the Board since January 2015.

He is currently the chairman of 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 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 and the past chairman of the Council of The Open University of Hong Kong. His other past public duties include director of The Hong Kong Mortgage Corporation Limited, the Mandatory Provident Fund Schemes Authority and the Exchange Fund Investment Limited, a member of The Hong Kong Housing Authority and the Greater Pearl River Delta Business Council, and a council member 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 of China 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 holds a Bachelor degree in Social Science from and was awarded an Honorary Doctor of Civil Law by the University of Kent in the United Kingdom, and an Honorary Doctor of Social Sciences by The Open University of Hong Kong. He was appointed as a Justice of the Peace in 1996 and was awarded Gold Bauhinia Star medal in 2008.

James Kwan Yuk-choi

Age 66

Mr Kwan has joined the Board since October 2014.

He is currently an independent non-executive director of Towngas China Company Limited. Mr Kwan was previously 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.

He was also 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. Mr Kwan is 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 HKSAR Government.

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.

Mr Kwan holds a Bachelor of Science degree in Engineering from The University of Hong Kong, and a Master degree in Business Administration from The Chinese University of Hong Kong.

Lau Ping-cheung, Kaizer

Age 66

INED CWC CRC Dir (Sub)

Mr Lau has joined the Board since 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 the Mainland of China. Currently, Mr Lau is the managing director of Biel Asset Management Co., Ltd. and an independent non-executive director of Kingboard Laminates Holdings Limited. He is one of the Founders of Hong Kong Coalition of Professional Services and has been the Chairman since June 2012. Mr Lau is also a member of the Lantau Development Advisory Committee, the Economic Development Commission, the Basic Law Promotion Steering Committee, the Council of The Hong Kong Polytechnic University, and the Vice-Chairman of the Vetting Committee of the Professional Services Advancement Support Scheme. 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 is 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 is also a former non-executive director of the Urban Renewal Authority, a former member of the Council of the City University of Hong Kong, and a former member of the Long Term Housing Strategy Steering Committee.

Mr Lau holds a Higher Diploma in Quantity Surveying from the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) and a Master degree in Construction Project Management from The University of Hong Kong.

Lucia Li Li Ka-lai

Age 63

INED AC CRC

Mrs Li has joined the Board since October 2014.

She is a retired civil servant. Mrs Li was Director of Accounting Services of the HKSAR Government from October 2003 to January 2009. She has been 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.

Mrs Li was formerly a member of the Public Service Commission, a member of the Communications Authority and a board member and treasurer of Chung Ying Theatre Company (HK) Limited.

She is a Fellow member of the Hong Kong Institute of Certified Public Accountants.

Mrs Li holds a Master of Arts degree from The Chinese University of Hong Kong. She was awarded the Silver Bauhinia Star medal in 2009.

Alasdair George Morrison

Age 69

INED RiskC AC

Mr Morrison has joined the Board since July 2010.

He is also an independent non-executive director of Pacific Basin Shipping Limited and a Senior Advisor to Bain Capital Asia, LLC.

Mr Morrison was a 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 graduated from Eton College and holds a Bachelor of Arts (subsequently Master of Arts) from the University of Cambridge in the United Kingdom. Mr Morrison also attended the Program for Management Development at Harvard Business School in the United States of America.

Abraham Shek Lai-him

Age 72

INED NC CWC

Mr Shek has joined the Board since December 2007.

He is an independent non-executive director of Paliburg Holdings Limited, Lifestyle International Holdings Limited, Chuang's Consortium International Limited, NWS Holdings Limited, Regal Portfolio Management Limited, Eagle Asset Management (CP) Limited, Country Garden Holdings Company Limited, SJM Holdings Limited, China Resources Cement Holdings Limited, Cosmopolitan International Holdings Limited, Hop Hing Group Holdings Limited, Lai Fung Holdings Limited, Goldin Financial Holdings Limited, and Everbright Grand China Assets Limited. Mr Shek is chairman and an independent non-executive director of Chuang's China Investments Limited, and vice chairman and an independent non-executive director of ITC Properties Group Limited. He is also a non-executive director of the Mandatory Provident Fund Schemes Authority and a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption.

Mr Shek was vice chairman of the Independent Police Complaints Council and a director of The Hong Kong Mortgage Corporation Limited.

He holds a Bachelor of Arts degree and a Diploma in Education from The University of Sydney. Mr Shek was appointed as Justice of the Peace in 1995 and was awarded the Gold Bauhinia Star medal in 2013.

Benjamin Tang Kwok-bun

Age 66

INED RC RiskC

Mr Tang has joined the Board since October 2014.

He joined the Hong Kong Civil Service in 1974. From the late 1990s to early 2000s, Mr Tang served as the Government Printer and the Commissioner of Insurance. He was appointed by the Central Government of the People's Republic of China as the Director of Audit of the HKSAR in December 2003 until he retired in July 2012. Mr Tang 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.

He is Chairman of the Operations Review Committee and a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption, a member of the Communications Authority, a member of Croucher Foundation's Audit Committee and an independent non-executive director of BE Reinsurance Limited.

Mr Tang was previously an independent non-executive director of Principal Insurance Company (Hong Kong) Limited and a member of The University of Hong Kong's Audit Committee.

He graduated from The University of Hong Kong in Economics and Sociology. Mr Tang has also studied at the University of Oxford, London Business School, and Toronto International Leadership Centre for Financial Sector Supervision. He was awarded the Gold Bauhinia Star medal in 2012.

Dr Allan Wong Chi-yun

Age 67

INED NC CWC Dir (Sub)

Dr Wong has joined the Board since August 2015.

He is the chairman and group chief executive officer of VTech Holdings Limited, the deputy chairman and an independent non-executive director of The Bank of East Asia, Limited, an independent non-executive director of China-Hongkong Photo Products Holdings Limited and Li & Fung Limited.

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. He 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. Dr Wong was awarded the Silver Bauhinia Star medal and the Gold Bauhinia Star medal in 2003 and 2008 respectively.

Johannes Zhou Yuan

Age 62

INED AC RiskC

Mr Zhou has joined the Board since 17 May 2017.

He retired in June 2016 as Chief Strategic Officer of China Investment Corporation ('CIC'). Mr Zhou joined CIC in 2008 and held a variety of portfolios of responsibilities including alternative assets, direct investments, asset allocation, and finance/treasury. Prior to that, he led Asia business development at Chicago Mercantile Exchange. From 2001 to 2005, Mr Zhou worked as a financial researcher and consultant, working on assignments ranging in asset management, private equity, hedge funds, risk models, financial software architecture, and financial market reform, with consulting work done for China Securities Regulatory Commission, Shanghai Futures Exchange, as well as a number of western firms. From 1998 to 2001, he was chief executive officer of HKFE Clearing Corporation Limited and concurrently chief financial officer of Hong Kong Futures Exchange Limited, responsible for the Exchanges's finance, treasury, risk and clearing functions. Mr Zhou was UBS AG's China country head from 1994 to 1998, responsible for the bank's investment banking, commercial banking, asset management and private banking businesses in China. From 1988 to 1994, he worked at State Street Bank in Boston where he founded and managed the research department. Prior to that, Mr Zhou taught at Brandeis University, United States of America.

He was educated at Peking University, the Mainland of China and Brandeis University, United States of America.

James Henry Lau Jr

Age 67

NED NC RC

Mr Lau has been appointed as the Secretary for Financial Services and the Treasury of the HKSAR Government with effect from 1 July 2017 and has joined the Board since 4 July 2017.

He sits on the boards of several public bodies including the Airport Authority Hong Kong, Mandatory Provident Fund Schemes Authority and West Kowloon Cultural District Authority, and is the Chairman of the Kowloon-Canton Railway Corporation, and an ex-officio member of the Financial Services Development Council, Hong Kong in his official capacity. Mr Lau is also, in his official capacity, a director of Hongkong International Theme Parks Limited.

He joined the Hong Kong Government as an Administrative Officer ('AO') in 1979 and was promoted through the ranks to AO Staff Grade C in April 1988. Mr Lau joined the Hong Kong Monetary Authority ('HKMA') in April 1993 and was the Head and Executive Director of various divisions of the HKMA until 2004. In July 2004, he was seconded to The Hong Kong Mortgage Corporation Limited as Chief Executive Officer until he retired in December 2012. Mr Lau was the Under Secretary for Financial Services and the Treasury from January 2014 to June 2017.

He holds a Bachelor of Mathematics (Computer Science and Statistics) Honours Degree and a Master of Mathematics Degree in Computer Science from the University of Waterloo, Canada.

Secretary for Transport and Housing (Frank Chan Fan)

Age 60

Secretary for Transport and Housing (Frank Chan Fan has 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) since 1 July 2017.

Mr Chan, in his official capacity, acts as the chairman of The Hong Kong Housing Authority and a board member of Airport Authority Hong Kong.

He joined the Electrical and Mechanical Services Department as an Assistant Electronics Engineer in August 1982. Mr Chan was promoted to Chief Electronics Engineer in February 2001 and to Government Electrical and Mechanical Engineer in May 2005. He was appointed as the Deputy Director of Electrical and Mechanical Services in January 2009 and was the Director of Electrical and Mechanical Services and the General Manager of the Electrical and Mechanical Services Trading Fund from December 2011 to June 2017.

Mr Chan is a fellow of The Hong Kong Institution of Engineers and the Institution of Mechanical Engineers, United Kingdom.

He holds a Bachelor of Science degree in Engineering and a Master degree in Business Management from The University of Hong Kong, and a Master degree in Medical Physics from the University of Aberdeen, United Kingdom.)

Permanent Secretary for Development (Works) (Hon Chi-keung)

Age 59

Permanent Secretary for Development (Works) (Hon Chi-keung has 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) since 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 holds a Bachelor of Science degree in Engineering and a Master degree in Public Administration from The University of Hong Kong.)

Commissioner for Transport (Mable Chan)

Age 52

Commissioner for Transport (Mable Chan has 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) since 11 October 2017.

She joined the Administrative Service of the Hong Kong Government in 1989 and has served in various policy bureaux and departments.

Ms Chan is also, in her official capacity, 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 holds a Bachelor of Business Administration degree in General Business Management from The Chinese University of Hong Kong.)

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

MEMBERS OF THE EXECUTIVE DIRECTORATE

Lincoln Leong Kwok-kuen

His biographical details are set out on pages 150 and 151.

Dr Jacob Kam Chak-pui

Managing Director – Operations and Mainland Business

Age 56

Dir (Sub)

Dr Kam joined the Company in 1995 and had held various management positions in Operations, Projects and China & International Business Divisions. He was the Operations Director between January 2011 and April 2016. Dr Kam has been the Managing Director – Operations and Mainland Business since 1 May 2016 and a Member of the Executive Directorate since January 2011. He is responsible for overseeing the Company's transport operations in Hong Kong and its rail and property businesses in the Mainland of China. In addition, Dr Kam is responsible for overseeing railway operations standards and ensuring mutual learning of best practices among all the Company's railway operations globally.

He qualified as a chartered engineer in the United Kingdom in 1989. Dr Kam is a vice-president and a chartered fellow of The Chartered Institute of Logistics and Transport in Hong Kong, and a chartered fellow of The Institution of Occupational Safety and Health in the United Kingdom. He is also a corporate member of both the Institution of Mechanical Engineers in the United Kingdom and The Hong Kong Institution of Engineers.

Dr Kam is the chairman of the Regional and Suburban Railways Assembly of the International Association of Public Transport (UITP), a council member of Vocational Training Council and a member of Hong Kong Quality Assurance Agency Governing Council.

A composite photograph at the West Kowloon Station construction site.

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 the United Kingdom.

Margaret Cheng Wai-ching

Human Resources Director

Age 52

Ms Cheng has been the Human Resources Director and a Member of the Executive Directorate since 1 June 2016. She is responsible for all of the Company's human resources and administration affairs.

Ms Cheng is a seasoned human resources practitioner with rich senior management experience. She took up different human resources roles in Citibank, N.A. between 1993 and 1997, and was with JP Morgan as Vice President, Human Resources between 1997 and 2001. From 2001 to 2013, Ms Cheng was with The Hongkong and Shanghai Banking Corporation Limited ('HSBC') and was Head of Human Resources, Hong Kong and Global Business, Asia Pacific when she left HSBC. Before joining the Company, she was Group Head of Human Resources of the Hong Kong Exchanges and Clearing Limited.

Ms Cheng is currently a vice president of the Executive Council and a fellow member, of the Hong Kong Institute of Human Resource Management, and a council member of The Hong Kong Management Association. She is also serving as the vice chairman of the Cross-Industry Training Advisory Committee for the Human Resource Management Sector under the Qualifications Framework, a member of the Standing Committee on Language Education and Research, Education Bureau, a member of the Manpower Development Committee of the Labour and Welfare Bureau, a member of The Standing Committee on Disciplined Services Salaries and Conditions of Service of the HKSAR Government and the chairman of its Police Sub-Committee, and a council member of the Hong Kong Council for Accreditation of Academic and Vocational Qualifications.

Ms Cheng holds a Bachelor of Arts degree in Business Administration from The California State University, the United States of America.

Morris Cheung Siu-wa

President of MTR Academy

Age 56

Dir (Sub)

Mr Cheung joined the Company in 1983 as a Graduate Engineer, and has progressed over the years to senior management positions in Operations and Projects Divisions. He was seconded to Ngong Ping 360 Limited as its Managing Director from 2007 to 2009. In July 2009, Mr Cheung was appointed Chief of Operating and in January 2011, he took up the position of Chief of Operations Engineering. Mr Cheung was the Human Resources Director between July 2012 and June 2015 and the European Business Director between June 2015 and June 2016. He has been the President of MTR Academy since 1 July 2016 and a Member of the Executive Directorate since July 2012. Mr Cheung is responsible for spearheading and overseeing the development of the MTR Academy, with an objective to develop competent railway professionals and raise the quality of local and regional rail services through offering programmes related to railway management, operations, engineering and customer service, and undertaking rail-related research. He has a wide range of management experience and deep knowledge of the Company.

Mr Cheung 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.

He holds a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering from The University of Hong Kong, a Master of Business Administration degree from the City Polytechnic of Hong Kong (now called City University of Hong Kong) and a Master of Science degree in Financial Analysis from The Hong Kong University of Science and Technology.

Dr Peter Ronald Ewen

Engineering Director

Age 58

Dir (Sub)

Dr Ewen has been the Engineering Director and a Member of the Executive Directorate since 22 February 2016. He is responsible for driving excellence in the Company's engineering functions and strengthening its control and check and balance processes, and overseeing the procurement and contract administration function.

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 is a chartered engineer and a fellow of the Royal Aeronautical Society.

He holds a Bachelor of Science (First Class Honours) degree in Engineering Management from the University of Lincoln, United Kingdom and a Doctor of Philosophy degree from International Management Centres Association, United Kingdom. Dr Ewen was awarded Companion of the Most Honourable Order of the Bath in 2015.

Herbert Hui Leung-wah

Finance Director

Age 55

Mr Hui joined the Company as Finance Director – Designate and a Member of the Executive Committee on 1 June 2016. He has been the Finance Director and a Member of the Executive Directorate since 2 July 2016. Mr Hui is responsible for the financial management of all of the Company's affairs, including financial planning and control, budgeting, accounting and reporting, corporate financing, and the treasury function. He also leads the Company's information technology, investor relations as well as materials and stores functions.

Mr Hui is a chartered financial analyst and has extensive corporate finance and investment banking experience. He began his career at Morgan Stanley Asia Limited in 1988. Mr Hui left in 1990 to pursue a career in corporate finance with Wardley Corporate Finance Limited (later known as Corporate, Investment Banking and Markets Division of The Hongkong and Shanghai Banking Corporation Limited) and was the Chief Operating Officer, Investment Banking, Asia Pacific and Co-Head, Corporate Finance Execution when he left in 2004. Mr Hui was General Manager – Corporate Finance of the Company from 2004 to 2011, and the Chief Financial Officer of Digital China Holdings Limited from 2011 to 2012. He was the Chief Financial Officer of K. Wah International Holdings Limited before re-joining the Company in 2016.

Mr Hui holds a Bachelor of Science degree in Business Studies (First Class Honours) from the City University Business School, London and a Master of Business Administration degree from The Chinese University of Hong Kong. He has completed the Advanced Management Program in Wharton Business School, University of Pennsylvania.

Adi Lau Tin-shing

Operations Director

Age 58

Mr Lau joined the Company in 1982 and had held various management positions related to the design, construction, operations and maintenance of the Company's railway system in Hong Kong and the Company's rail businesses in the Mainland of China. He took up the position of Chief of Operating in October 2011 and was appointed as the Deputy Director – Operating between August 2013 and April 2016, and Chairman of Ngong Ping 360 Limited between January 2012 and December 2017. Mr Lau has been the Operations Director and a Member of the Executive Directorate since 1 May 2016. He is responsible for overseeing the Company's railway operations in Hong Kong.

Mr Lau is a chartered engineer, a corporate member of the Institution of Civil Engineers in the United Kingdom and a fellow of The Hong Kong Institution of Engineers. He is also a chartered fellow of The Chartered Institute of Logistics and Transport in Hong Kong. Mr Lau is the president of the China Hong Kong Railway Institution, vice president of the International Association of Public Transport (UITP) Asia-Pacific Executive Committee and the chairman of the UITP Asia-Pacific Urban Rail Platform.

He 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.

Gillian Elizabeth Meller

Legal and European Business Director

Age 45

Ms Meller joined the Company in August 2004 as Legal Adviser and became Deputy Legal Director in December 2010. She was the Legal Director & Secretary between September 2011 and June 2016. Ms Meller has been the Legal and European Business Director since 1 July 2016 and a Member of the Executive Directorate since September 2011. She is responsible for the provision of commercial legal support and advice to all aspects of the Company's business. Ms Meller is also responsible for managing and overseeing the growth of the Company's European Business, in addition to her responsibility for the strategic management of the Company's insurance programmes and its governance and risk management function.

Before joining the Company, she 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.

Ms Meller is qualified to practise as a solicitor in Hong Kong and England and Wales. She is a vice chairman of the Legal Committee of The Hong Kong General Chamber of Commerce, a member of the Standing Committee on Company Law Reform, a vice-president of The Hong Kong Institute of Chartered Secretaries ('HKICS') and a fellow of both The Institute of Chartered Secretaries and Administrators and the HKICS.

Ms Meller holds a Master of Arts degree in Geography from the University of Oxford and obtained her postgraduate qualifications in law from The College of Law in Guildford, both in the United Kingdom.

Linda So Ka-pik

Corporate Affairs Director

Age 50

Ms So has been the Corporate Affairs Director and a Member of the Executive Directorate since 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 Constitutional Affairs Branch, Transport Branch and Security Bureau. Ms So 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 leaving the Government, she took up the role of the Director General of the Federation of Hong Kong Industries.

Ms So is currently a member of the Hong Kong Public Libraries Advisory Committee and the Advisory Board of The Hong Kong Red Cross.

She holds a Bachelor of Arts degree in Economics (subsequently a Master of Arts degree) from the University of Cambridge in the United Kingdom.

David Tang Chi-fai

Property Director

Age 53

Mr Tang joined the Company in August 2004 as Contracts & Commercial Manager – China Business. 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. Mr Tang was appointed Deputy Property Director in July 2011 and has been the Property Director and a Member of the Executive Directorate since October 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.

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 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 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.

Mr Tang holds a Bachelor of Science (Honours) degree in Quantity Surveying from the University of the West of England (formerly Bristol Polytechnic) in the United Kingdom.

Dr Philco Wong Nai-keung

Projects Director

Age 63

Dr Wong joined the Company in November 2011 as General Manager – Shatin to Central Link and was appointed as Projects Director – Designate in August 2014. He has been the Projects Director and a Member of the Executive Directorate since October 2014. Dr Wong is responsible for overseeing the Company's railway network expansion projects in Hong Kong.

He 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.

Dr Wong is the senior vice president of The Hong Kong Institution of Engineers ('HKIE') and the chairman of the Benevolent Fund Committee of The Lighthouse Club.

He was formerly the chairman of Engineering Discipline, Construction Collaborative Degree Programmes Advisory Committee of Vocational Training Council, a council member of Construction Industry Council, and a member of the Occupational Deafness Compensation Board.

Dr Wong is a fellow member of HKIE and the Institution of Civil Engineers in the United Kingdom.

He holds a Bachelor of Science degree in Civil Engineering from the University of Manitoba, Canada, a Master of Engineering degree in Construction Management and Engineering from the University of Toronto, Canada, and a Doctor of Business Administration degree from Curtin University, Australia.

Jeny Yeung Mei-chun

Commercial Director

Age 53

Dir (Sub)

Ms Yeung joined the Company in November 1999 as the Marketing Manager and became a member of the Executive Committee in 2004. She was then appointed as General Manager – Marketing & Station Commercial until August 2011. Ms Yeung has been the Commercial Director and a Member of the Executive Directorate since September 2011. 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. She is also the chairman of the board of Ngong Ping 360 Limited.

Before joining the Company, Ms Yeung held various marketing and business development positions in Standard Chartered Bank (Hong Kong) Limited and Citibank in Hong Kong.

She is a fellow of The Chartered Institute of Marketing and a chartered fellow of The Chartered Institute of Logistics and Transport in Hong Kong. Ms Yeung is a director of Hong Kong Cyberport Management Company Limited. She is also a member of the Hong Kong Tourism Board, the Advisory Committee on Enhancing Self-Reliance Through District Partnership Programme, the Marketing Management Committee of The Hong Kong Management Association, and the Hong Kong Trade Development Council Infrastructure Development Advisory Committee.

Ms Yeung was a member of the Advisory Committee on Publicity and Public Education in Innovation and Technology of the Innovation and Technology Commission of the HKSAR Government.

She holds a Bachelor of Social Sciences degree majoring in Management Studies from The University of Hong Kong.

CHANGES IN INFORMATION

Changes in information of Directors during 2017 and up to the date of this Report which are required to be disclosed pursuant to the Listing Rules are set out below:

(i) Changes in Biographical Details

Name of Director	Name of Organisation and Position Held	Nature and Effective Date of Change
Members of the Board		
Professor Frederick Ma Si-hang	The Hong Kong Polytechnic University • Professor of Finance Practice of the Institute of Advanced Executive Education	Cessation (26 January 2017)
	The Education University of Hong Kong • Council Chairman	Appointment (25 April 2017)
	COFCO Corporation • Non-executive Director	Cessation (4 December 2017)
Professor Chan Ka-keung, Ceajer (Resigned on 4 July 2017)	Government • Secretary for Financial Services and the Treasury	Cessation (1 July 2017)
	Airport Authority Hong Kong • Member of the Board	Cessation (1 July 2017)
	Mandatory Provident Fund Schemes Authority (Hong Kong) • Board of Director	Cessation (1 July 2017)
	West Kowloon Cultural District Authority (Hong Kong) • Member of the Board	Cessation (1 July 2017)
	Kowloon-Canton Railway Corporation • Chairman	Cessation (1 July 2017)
	Financial Services Development Council, Hong Kong • Ex-officio Member	Cessation (1 July 2017)
	Hongkong International Theme Parks Limited • Director	Cessation (1 July 2017)
Dr Pamela Chan Wong Shui	Hong Kong Baptist University • Deputy Chairman of the Council and the Court	Cessation (1 January 2017)
	Private Columbaria Appeal Board (Hong Kong) • Member	Appointment (29 September 2017)
	The Insurance Complaints Bureau (Hong Kong) • Chairman	Appointment (16 January 2018)
Lau Ping-cheung, Kaizer	Vetting Committee of the Professional Services Advancement Support Scheme (Hong Kong) • Vice-Chairman	Appointment (1 January 2017)
	Biel Asset Management Company Limited • Managing Director	Appointment (1 November 2017)
	SOCAM Asset Management (HK) Limited • Project Director	Cessation (1 November 2017)
Lucia Li Li Ka-lai	Communications Authority (Hong Kong) • Member	Cessation (1 April 2017)
	Public Service Commission of Government • Member	Cessation (1 February 2018)
Ng Leung-sing (Retired on 17 May 2017)	Chiyu Banking Corporation • Vice Chairman	Cessation (27 March 2017)
Abraham Shek Lai-him	Independent Commission Against Corruption (Hong Kong) • Member of the Advisory Committee on Corruption	Appointment (1 January 2017)
	TUS International Limited • Independent Non-executive Director	Cessation (6 January 2017)
	Goldin Financial Holdings Limited • Independent Non-executive Director	Appointment (9 January 2017)

Name of Director	Name of Organisation and Position Held	Nature and Effective Date of Change
Abraham Shek Lai-him (Continued)	ITC Corporation Limited • Independent Non-executive Director	Cessation (28 March 2017)
	Everbright Grand China Assets Limited • Independent Non-executive Director	Appointment (16 January 2018)
	Midas International Holdings Limited • Independent Non-executive Director	Cessation (26 January 2018)
Benjamin Tang Kwok-bun	Communications Authority (Hong Kong) • Member	Appointment (1 April 2017)
	The University of Hong Kong • Member of Audit Committee	Cessation (23 November 2017)
	Principal Insurance Company (Hong Kong) Limited • Independent Non-executive Director	Cessation (1 December 2017)
	Independent Commission Against Corruption (Hong Kong) • Chairman of the Operations Review Committee • Member of the Advisory Committee on Corruption	Appointment (1 January 2018)
Members of the Executive Directorate		
Dr Jacob Kam Chak-pui	International Association of Public Transport (UITP) • Chairman of the Regional and Suburban Railways Assembly	Appointment (May 2017)
	Hong Kong Quality Assurance Agency • Member of the Governing Council	Appointment (21 November 2017)
Margaret Cheng Wai-ching	Education Bureau of Government • Member of the Standing Committee on Language Education and Research	Appointment (1 July 2017)
	Hong Kong Council for Accreditation of Academic and Vocational Qualifications • Council Member	Appointment (1 October 2017)
	The Standing Committee on Disciplined Services Salaries and Conditions of Service of Government • Chairman of the Police Sub-Committee	Appointment (1 January 2018)
Morris Cheung Siu-wa	International Association of Public Transport (UITP) • Chairman of the Asia Pacific Division	Cessation (May 2017)
Adi Lau Tin-shing	Ngong Ping 360 Limited • Chairman of the board	Cessation (1 January 2018)
Gillian Elizabeth Meller	Standing Committee on Company Law Reform (Hong Kong) • Member	Appointment (1 February 2017)
	The Hong Kong General Chamber of Commerce • Vice Chairman of the Legal Committee	Appointment (13 June 2017)
	The Hong Kong Institute of Chartered Secretaries • Vice-President	Appointment (1 March 2018)
Linda So Ka-pik	The Hong Kong Red Cross • Member of the Advisory Board	Appointment (24 November 2017)
Dr Philco Wong Nai-keung	The Hong Kong Institution of Engineers • Senior Vice President	Appointment (28 June 2017)
	Construction Industry Council • Council Member	Cessation (1 February 2018)
Jeny Yeung Mei-chun	Innovation and Technology Commission of Government • Member of the Advisory Committee on Publicity and Public Education in Innovation and Technology	Cessation (1 July 2017)
	Ngong Ping 360 Limited • Chairman of the board	Appointment (1 January 2018)

(ii) Changes in Directors' Remuneration

For details of the changes in Directors' remuneration, please refer to pages 145 to 146 and 221 to 225 of the Annual Report.

KEY CORPORATE MANAGEMENT

Lincoln Leong Kwok-kuen
Chief Executive Officer
Jacob Kam Chak-pui
Managing Director – Operations and Mainland Business

Commercial & Marketing

Jeny Yeung Mei-chun
Commercial Director
Karen Woo Kit-sum
General Manager – Branding and Mainland China & International Business Marketing
Annie Leung Ching-man
General Manager – Customer Experience Development
Raymond Yuen Lap-hang
General Manager – Marketing & Planning
Margaret Chu Fung-kuen
General Manager – Station Retail

Corporate Affairs

Linda So Ka-pik
Corporate Affairs Director
Osbert Kwan Wing-cheung
Deputy General Manager – Media & Corporate Communications
Lam Chan Lam-sang
Deputy General Manager – Projects & Property Communications
Maggie So Man-kit
General Manager – Corporate Relations

Corporate Strategy

Denise Ng Kee Wing-man
General Manager – Corporate Strategy

Engineering

Peter Ewen
Engineering Director
Dono Tong Kwok-wai
Design & Delivery Director – SMC&SW
Stephen Chik Wai-keung
General Manager – Planning & Civil Engineering
Scott Mackenzie
General Manager – Procurement & Contracts (Projects)
Vincent Simon Ho
Head of Corporate Safety
Wong Sha
Head of E&M Engineering
Angus Lee Chun-ming
Head of Intelligent Portfolio Office
Raymond Au Koon-shan
Principal Contracts Administration Manager – SCL
Tim Edmonds
Principal Contracts Administration Manager – XRL
Stephen Hamill
Project Manager – Technical Support

Finance

Herbert Hui Leung-wah
Finance Director
Sammy Jim Kwok-wah
General Manager – Corporate Finance
Lisa Seto Siu-wah
General Manager – Financial Control
Ted Suen Yiu-tat
Head of Information Technology
Candy Ng Chui-lok
Head of Investor Relations and Retirement Benefits
David Pang Hoi-hing
Treasurer

Human Resources & Administration

Margaret Cheng Wai-ching
Human Resources Director
Ray Ng Shan-ho
General Manager – Corporate Security
Alison Wong Yuen-fan
General Manager – Human Resources
Vinnie Chi Man-yan
General Manager – Human Resources (International & Talent Management)
Doreen Siu Wai-man
General Manager – Reward Management (w.e.f. 1 January 2018)

Internal Audit

Paul Chow Yuen-ming
Head of Internal Audit

Legal & Secretarial

Gillian Meller
Legal and European Business Director
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)

Mainland China & International Business

Australia

Terry Wong Ping-sau
Deputy Director – Australian Business
Michael Houghton
Chief Executive Officer (Metro Trains Melbourne)
Ivan Lai Ching-kai
Chief Executive Officer – Metro Trains Sydney (w.e.f. 1 March 2018)
David Yam Pak-nin
General Manager – Business Development
Andrew Lezala
Managing Director (Metro Trains Australia)
Roger Ho Ho-wai
Trains and Systems Director (Sydney Metro Northwest Project)

Europe

Jeremy Long
Chief Executive Officer – European Business
Mats Johannesson
Chief Executive Officer – MTR Express
Peter Viinapuu
Chief Executive Officer – MTR Nordic (up to 14 January 2018)
Håkan Nilsson
Acting Chief Executive Officer – MTR Nordic (w.e.f. 15 January 2018)
Dan Hildebrand
Chief Executive Officer – MTR Pendeltågen
Johan Oscarsson
Chief Executive Officer – MTR Tech
Henrik Dahlin
Chief Executive Officer – MTR Tunnelbanan
Steve Murphy
Managing Director (MTR Crossrail)

Headquarters

Choi Tak-tsan
General Manager – Global Operations Standards

Mainland China

Jeremy Xu Muhan
Deputy Director – Mainland China Business
Yi Min
Chief Advisor – Mainland China Business
Rick Wong Hoi-wah
Chief of Engineering (Beijing)
Edmund Wong Wai-ming
Deputy General Manager – Operations (Beijing)
Ben Lui Gon-yee
Deputy General Manager – Operations (Hangzhou) (w.e.f. 1 January 2018)
Lawrence Chung Kwok-leung
Deputy General Manager – Projects (Beijing)
Charles Fok Chi-cheong
Deputy General Manager – Projects (Hangzhou Line 5) (w.e.f. 1 March 2018)
John Kwok Chor-kwong
Deputy General Manager – Special Projects (up to 31 December 2017)
Wilson Shao Shing-ming
General Manager – Beijing & Tianjin
Jia Jun
General Manager – Business Development (Mainland China)
Frank Liu Zhui-ming
General Manager – Hangzhou
Nelson Ng Wai-hung
General Manager – Hangzhou Line 5
Felix Leung Ping-kin
General Manager – Jingjinji Property
Oscar Ho Ka-wa
General Manager – Mainland China Property
Sammy Wong Kwan-wai
General Manager – Shenzhen Line 4

MTR Academy

Morris Cheung Siu-wa
President of MTR Academy (up to 16 July 2018)

Operations

Adi Lau Tin-shing
Operations Director
Francis Li Shing-kee
Chief of Operating
Tony Lee Kar-yun
Chief of Operations Engineering
Philip Wong Wai-ming
Chief Signal Engineer (Operations)
Alan Cheng Kwan-hing
Deputy Chief of Operating (w.e.f. 1 January 2018)
Allen Ding Ka-chun
Deputy General Manager – Planning & Development
Manho John-william
Deputy General Manager – Train Services & Systems Engineering
Terry Wong Wing-kin
General Manager – Infrastructure Maintenance
Carmen Li Wai-ching
General Manager – Intercity
Ronald Cheng Kin-wai
General Manager – Planning & Development
Richard Keefe
General Manager – Rolling Stock Fleet
Cheris Lee Yuen-ling
General Manager – Safety & Quality
Chan Keng-sam
General Manager – Works Management
Lu Wong Ho-leung
Head of Infrastructure Works
Cheung Chi-keung
Head of Operating – West Region
Siman Tang
Head of Operations Strategic Business Management
Lee Kim-hung
Head of Workshops
Stella Kwan Mun-yee
Managing Director of Ngong Ping 360
Gordon Lam Bik-shun
Project Manager – Signalling (DUAT)
John Woo Shui-wah
Senior Head of Operating – North & East Regions

Projects

Philco Wong Nai-keung
Projects Director
Andrew Mead
Chief Architect (ARBUK)
Clement Ngai Yum-keung
Chief Design Manager – SCL and Head of Project Engineering
Henry Young
Chief Programming Engineer
Peter Leung Man-fat
General Manager – Operations Projects
Ken Wong Kin-wai
General Manager – Projects
Patrick Lun Tak-wo
General Manager – Projects Management Office (up to 20 March 2018)
Lee Tze-man
General Manager – SCL and Head of E&M Construction
Jason Wong Chi-chung
General Manager – SCL Civil – EWL and PMO (w.e.f. 21 March 2018)
Aidan Rooney
General Manager – SCL Civil – NSL
Simon Tang Wai-yung
General Manager – XRL
Leung Chi-lap
General Manager – XRL E&M
Nelson Cheng Wai-hung
Project Manager – Cost Control
Chan Chun-sing
Project Manager – Rolling Stock
David Salisbury
Project Manager – SCL Civil – EWL 1
Neil Ng Wai-hang
Project Manager – SCL Civil – NSL 1
Tim Leung Chi-tim
Project Manager – SCL E&M
Terence Law Che-chung
Project Manager – Signalling
Tommy Lam Choi-fung
Project Manager – XRL Railway Systems
Calum Smith
Project Manager – XRL Terminus (up to 15 February 2018)
Charles Lau Kam-keung
Project Manager – XRL Terminus
Andrew Yim Kin-on
Project Manager – XRL Terminus Building Services

Property

David Tang Chi-fai
Property Director
Melissa Pang Mee-yuk
Deputy Head of Property Development
James Chow So-hung
Deputy Head of Property Project
Kenneth Lung Tze-ho
Head of Investment Property – East Region (w.e.f. 1 January 2018)
Theresa Leung Nga-yee
Head of Investment Property – West Region (up to 31 January 2018)
James Hor Wai-hong
Head of Property Development
Kenny Chow Chun-ling
Head of Property Management
Wilfred Yeung Sze-wai
Head of Property Project
Steve Yiu Chin
Principal Advisor – Property Planning

REPORT OF THE MEMBERS OF THE BOARD

The Members of the Board have pleasure in submitting their Report and the audited statement of Consolidated Accounts for the financial year ended 31 December 2017.

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 in Hong Kong and the Mainland of China; 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; investment in Octopus Holdings Limited; and provision of railway management, engineering and technology training.

The principal businesses of the Company's subsidiaries and associates as at 31 December 2017 are set out in notes 27 and 28 to the Consolidated 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. A summary of the relevant sections in the Company's Annual Report 2017 covering the required disclosures under the Companies Ordinance is set out below for ease of reference.

Required Disclosures	Relevant Sections
(1) A fair review of the Group's business and a discussion and an analysis of the Group's performance during the year ended 31 December 2017	• Chairman's Letter (pages 14 to 17) • CEO's Review of Operations and Outlook (pages 18 to 37) • Business Review (pages 38 to 87) • Financial Review (pages 88 to 99)
(2) Particulars of important events affecting the Group that have occurred since the end of the financial year 2017	• Chairman's Letter (pages 14 to 17) • CEO's Review of Operations and Outlook (pages 18 to 37) • Business Review (pages 38 to 87)
(3) Description of the significant risks and uncertainties facing the Group	• CEO's Review of Operations and Outlook (pages 18 to 37) • Business Review (pages 38 to 87) • Risk Management (pages 138 to 141)
(4) Outlook for the Group's business	• Chairman's Letter (pages 14 to 17) • CEO's Review of Operations and Outlook (pages 18 to 37) • Business Review (pages 38 to 87)
(5) Details regarding the Group's compliance with relevant laws and regulations which have a significant impact on the Group	• Corporate Governance Report (pages 115 to 134)
(6) Description of the Group's relationships with its key stakeholders and the Group's environmental policies and performance	• Chairman's Letter (pages 14 to 17) • CEO's Review of Operations and Outlook (pages 18 to 37) • Business Review (pages 38 to 87) • Investor Relations (pages 102 to 103) • Corporate Responsibility (pages 104 to 109) • Human Resources (pages 110 to 113) • Corporate Governance Report (pages 115 to 134) • Company's 2017 Sustainability Report to be published in late May 2018

DIVIDENDS

The Board has recommended to pay a final dividend of HK$0.87 per share (2016: HK$0.82 per share) and proposes that a scrip dividend option will be offered to all shareholders except for shareholders with registered addresses in New Zealand or the United States of America or any of its territories or possessions. Subject to the approval of the shareholders at the forthcoming annual general meeting ("AGM"), the proposed 2017 final dividend, with a scrip dividend option, is expected to be distributed on 11 July 2018 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 28 May 2018.

ACCOUNTS

The financial position of the Group as at 31 December 2017 and the Group's financial performance and cash flows for the year are set out in the Consolidated Accounts on pages 201 to 294.

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 100 to 101.

MEMBERS OF THE BOARD

Members of the Board during the year and up to the date of this Report (unless otherwise stated) were:

Name	First Elected at AGM	Last Re-elected at AGM	To be elected/ re-elected at 2018 AGM
Non-Executive Directors			
Professor Frederick Ma Si-hang (Chairman)	2014	2017	
James Henry Lau Jr (since 4 July 2017) (Secretary for Financial Services and the Treasury)			✓
Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)		Resigned on 4 July 2017	
Secretary for Transport and Housing (Frank Chan Fan (since 1 July 2017) and Professor Anthony Cheung Bing-leung (up to 30 June 2017))		Not subject to retirement by rotation*	
Permanent Secretary for Development (Works) (Hon Chi-keung)		Not subject to retirement by rotation*	
Commissioner for Transport (Mable Chan (since 11 October 2017) and Ingrid Yeung Ho Poi-yan (up to 14 July 2017))		Not subject to retirement by rotation*	
Independent Non-Executive Directors			
Andrew Clifford Winawer Brandler (since 17 May 2017)	2017		
Dr Pamela Chan Wong Shui	2014	2017	
Dr Dorothy Chan Yuen Tak-fai	2014	2017	
Vincent Cheng Hoi-chuen	2010	2016	
Anthony Chow Wing-kin	2016		
Dr Eddy Fong Ching	2015		✓
James Kwan Yuk-choi	2015		✓

MEMBERS OF THE BOARD (CONTINUED)

Name	First Elected at AGM	Last Re-elected at AGM	To be elected/ re-elected at 2018 AGM
Lau Ping-cheung, Kaizer	2016		
Lucia Li Li Ka-lai	2015		✓
Alasdair George Morrison[Δ]	2011	2017	
Ng Leung-sing		Retired at 2017 AGM held on 17 May 2017	
Abraham Shek Lai-him[Δ]	2008	2017	
Benjamin Tang Kwok-bun	2015		✓
Dr Allan Wong Chi-yun	2016		
Johannes Zhou Yuan (since 17 May 2017)	2017		
Executive Director			
Lincoln Leong Kwok-kuen (Chief Executive Officer)	2015		✓

* *Pursuant to the Articles of Association, Directors appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance are not required to retire by rotation.*

Δ *As previously disclosed, Mr Alasdair George Morrison and Mr Abraham Shek Lai-him informed the Company that they would retire after the conclusion of the Company's 2018 AGM and 2019 AGM respectively.*

In February 2018, the Company announced that Mr Lincoln Leong Kwok-kuen has been re-appointed as the Company's Chief Executive Officer until 31 March 2020.

In addition, a resolution for electing Ms Rose Lee Wai-mun as a new Director will be proposed at the 2018 AGM. Please refer to the Company's circular containing the Notice of the 2018 AGM sent together with this Report.

Biographical details of Members of the Board are set out on pages 150 to 157.

ALTERNATE DIRECTORS

The Alternate Directors in office during the year and up to the date of this Report (unless otherwise stated) were:

Name	Alternate to
Andrew Lai Chi-wah (since 10 July 2017)	James Henry Lau Jr
Andrew Lai Chi-wah (up to 3 July 2017)	Professor Chan Ka-keung, Ceajer
(i) Under Secretary for Transport and Housing (Dr Raymond So Wai-man (since 25 September 2017) and Yau Shing-mu (up to 30 June 2017)) (ii) Permanent Secretary for Transport and Housing (Transport) (Joseph Lai Yee-tak) (iii) Deputy Secretaries for Transport and Housing (Transport) (Rebecca Pun Ting-ting, Kevin Choi (since 11 September 2017) and Andy Chan Shui-fu (up to 2 August 2017))	Secretary for Transport and Housing
Deputy Secretary for Development (Works)2 (Mak Shing-cheung)	Permanent Secretary for Development (Works)
Deputy Commissioner for Transport/Transport Services and Management (Macella Lee Sui-chun)	Commissioner for Transport

EXECUTIVE DIRECTORATE

Members of the Executive Directorate during the year and up to the date of this Report (unless otherwise stated) were:

Name	Position Held
Lincoln Leong Kwok-kuen	Chief Executive Officer and a Member of the Board
Dr Jacob Kam Chak-pui	Managing Director – Operations and Mainland Business
Margaret Cheng Wai-ching	Human Resources Director
Morris Cheung Siu-wa*	President of MTR Academy
Dr Peter Ronald Ewen	Engineering Director
Herbert Hui Leung-wah	Finance Director
Adi Lau Tin-shing	Operations Director
Gillian Elizabeth Meller	Legal and European Business Director
Linda So Ka-pik	Corporate Affairs Director
David Tang Chi-fai	Property Director
Dr Philco Wong Nai-keung	Projects Director
Jeny Yeung Mei-chun	Commercial Director

* *Subsequent to the approval of this Report by the Board on 8 March 2018 and as announced by the Company on 15 March 2018, Mr Morris Cheung Siu-wa has notified the Company of his wish to retire from his position as President of the MTR Academy upon expiration of his current service contract.*

Biographical details of Members of the Executive Directorate are set out on pages 158 to 163.

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 196.

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.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for, in respect of Professor Chan Ka-keung, Ceajer (up to 3 July 2017) and Mr James Henry Lau Jr (since 4 July 2017) (Secretary for Financial Services and the Treasury), Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung (up to 30 June 2017) and Mr Frank Chan Fan (since 1 July 2017)), Permanent Secretary for Development (Works) (Mr Hon Chi-keung), and Commissioner for Transport (Mrs Ingrid Yeung Ho Poi-yan (up to 14 July 2017) and Ms Mable Chan (since 11 October 2017)), 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 177 to 194, 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 2017, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

Member of the Board/ Alternate Director/Member of 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[Δ]
	Personal interests*	Family interests†	Other interests	Corporate interests	Personal interests*	Personal interests*		
Professor Frederick Ma Si-hang	–	270,000 (Note 1)	270,000 (Note 1)	–	–	–	270,000	0.00449
Lincoln Leong Kwok-kuen	1,221,748	–	–	23,000 (Note 2)	–	382,202	1,626,950	0.02708
Dr Pamela Chan Wong Shui	9,051	1,675 (Note 3)	–	–	–	–	10,726	0.00018
Vincent Cheng Hoi-chuen	1,675	1,675 (Note 4)	–	–	–	–	3,350	0.00006
Lucia Li Li Ka-lai	–	1,614 (Note 5)	2,215 (Note 5)	–	–	–	3,829	0.00006
Mak Shing-cheung	558	8,058 (Note 6)	–	–	–	–	8,616	0.00014
Dr Raymond So Wai-man (Note 7)	–	1,675 (Note 7)	–	–	–	–	1,675	0.00003
Dr Jacob Kam Chak-pui	183,668	–	–	–	–	101,367	285,035	0.00474
Margaret Cheng Wai-ching	23,809	–	–	–	–	94,969	118,778	0.00198
Morris Cheung Siu-wa	50,909	–	–	–	–	52,717	103,626	0.00172
Dr Peter Ronald Ewen	–	–	–	–	–	50,750	50,750	0.00084
Herbert Hui Leung-wah	50	2,233 (Note 8)	–	–	–	45,600	47,883	0.00080
Adi Lau Tin-shing	27,892	–	–	–	26,000	63,768	117,660	0.00196
Gillian Elizabeth Meller	17,643	–	–	–	–	90,984	108,627	0.00181
Linda So Ka-pik	5,466	–	–	–	–	70,284	75,750	0.00126
David Tang Chi-fai	98,943	–	–	–	–	92,967	191,910	0.00319
Dr Philco Wong Nai-keung	21,694	–	–	–	55,000	98,868	175,562	0.00292
Jeny Yeung Mei-chun	575,583	–	–	–	–	94,317	669,900	0.01115

Notes

1 *The 270,000 shares were indirectly held by The Ma Family Trust established by Professor Frederick Ma Si-hang for himself and his family of which his spouse was also a beneficiary.*
2 *The 23,000 shares were held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr Lincoln Leong Kwok-kuen.*
3 *The 1,675 shares were held by Dr Pamela Chan Wong Shui's spouse.*
4 *The 1,675 shares were held by Mr Vincent Cheng Hoi-chuen's spouse.*
5 *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.*
6 *The 8,058 shares were held by Mr Mak Shing-cheung's spouse.*
7 *The 1,675 shares were held by Dr Raymond So Wai-man's spouse.*
8 *The 2,233 shares were held by Mr Herbert Hui Leung-wah's spouse.*

Details of the Share Options and Share Awards are set out in the sections headed "2007 Share Option Scheme" and "Executive Share Incentive Scheme" respectively on pages 173 to 175

* *Interests as beneficial owner*

† *Interests of spouse or child under 18 as beneficial owner*

Δ *The Company's total number of voting shares in issue as at 31 December 2017 was 6,007,777,302*

Save as disclosed above and in the sections headed "2007 Share Option Scheme" and "Executive Share Incentive Scheme":

A as at 31 December 2017, no Member of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the year ended 31 December 2017, 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 2017 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[Δ]
The Financial Secretary Incorporated ("FSI") (in trust on behalf of Government)	4,517,196,134	75.19%

Δ *The Company's total number of voting shares in issue as at 31 December 2017 was 6,007,777,302*

The Company has been informed by the Hong Kong Monetary Authority that, as at 31 December 2017, approximately 0.42% of the Ordinary Shares in issue (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' INTERESTS

Pursuant to section 337 of the SFO, the Company has maintained a register recording the shareholding information provided by persons in response to the Company's requests pursuant to section 329 of the SFO.

Save as disclosed above and in the sections headed "Directors' Interests in Shares and Underlying Shares of the Company" and "Substantial Shareholders' Interests", as at 31 December 2017, the Company has not been notified of any other persons who had any interests or short positions in the shares or underlying shares of the Company which would be required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

2007 SHARE OPTION SCHEME

Movements in the outstanding share options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme during the year ended 31 December 2017 are set out below:

Executive Directorate and eligible employees	Date granted	Options granted (Notes 1 to 3)	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2017	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2017	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Adi Lau Tin-shing	6/5/2013	78,000	26/4/2014 – 26/4/2020	78,000	–	–	78,000	31.40	–	46.40
	30/5/2014	80,000	23/5/2015 – 23/5/2021	80,000	26,000	–	54,000	28.65	26,000	46.40
Dr Philco Wong Nai-keung	30/5/2014	83,000	23/5/2015 – 23/5/2021	55,000	27,000	–	–	28.65	55,000	–
Other eligible employees	21/7/2010	270,000	28/6/2011 – 28/6/2017	45,000	–	–	45,000	27.73	–	45.10
	17/12/2010	4,907,000	16/12/2011 – 16/12/2017	594,000	–	–	594,000	28.84	–	45.01
	18/12/2010	673,000	16/12/2011 – 16/12/2017	225,500	–	–	225,500	28.84	–	45.60
	20/12/2010	4,789,500	16/12/2011 – 16/12/2017	552,500	–	25,000	527,500	28.84	–	44.89
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	485,000	–	–	485,000	28.84	–	45.07
	22/12/2010	975,000	16/12/2011 – 16/12/2017	308,000	–	–	308,000	28.84	–	45.32
	23/12/2010	189,000	16/12/2011 – 16/12/2017	33,000	–	–	33,000	28.84	–	47.03
	30/3/2012	15,868,500	23/3/2013 – 23/3/2019	3,362,000	–	–	1,568,500	27.48	1,793,500	45.09
	6/5/2013	20,331,500	26/4/2014 – 26/4/2020	7,104,000	–	29,500	3,060,000	31.40	4,014,500	45.40
	1/11/2013	188,500	25/10/2014 – 25/10/2020	24,500	–	–	24,500	29.87	–	45.45
	30/5/2014	19,812,500	23/5/2015 – 23/5/2021	12,658,500	5,745,500	96,500	4,657,000	28.65	7,905,000	44.86

Notes

1 *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.*

2 *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.*

3 *The share options granted were subject to a vesting schedule in tranches of one-third each per annum starting from the first anniversary of the date of offer of the options (the "Offer Anniversary") and became fully vested on the third Offer Anniversary.*

4 *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.*

5 *Other details of the 2007 Share Option Scheme are set out in notes 10B and 45(i) to the Consolidated 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 2017 or subsisted at the end of the year.

EXECUTIVE SHARE INCENTIVE SCHEME

The Company adopted the Executive Share Incentive Scheme (formerly the "2014 Share Incentive Scheme") on 15 August 2014. The purposes of the Executive 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 Executive Share Incentive Scheme as award holders in accordance with the rules of the Executive Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares (together, the "Award Shares"). The Award Shares to be granted under the Executive 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 held as part of the funds of the trust to acquire existing Ordinary Shares 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 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.

As part of the overall governance of the Executive Share Incentive Scheme, the Company reviews scheme features on a regular basis to ensure continued relevance and effectiveness. In 2017, the Company appointed an independent consultant to conduct a review of the Executive Share Incentive Scheme and obtained the Remuneration Committee's approval on certain refinements which have come into effect on 1 January 2018. Changes include the renaming of the 2014 Share Incentive Scheme to become "Executive Share Incentive Scheme" and entitlement of award holders to cash dividends accrued in respect of unvested Restricted Shares that are granted on or after 1 January 2018. Certain administrative provisions of the scheme rules have also been updated to streamline the administration of the Executive Share Incentive Scheme.

The maximum number of Award Shares that may at any time be the subject of an outstanding award granted under the Executive Share Incentive Scheme shall not exceed 2.5% of the number of issued Ordinary Shares as at 1 January 2015, the effective date of the Executive Share Incentive Scheme (the "Effective Date").

For the year ended 31 December 2017, a total of 2,357,400 Award Shares (2016: 2,659,778 Award Shares) were awarded under the Executive Share Incentive Scheme. As at 31 December 2017, a total of 6,142,188 Award Shares (2016: 5,524,599 Award Shares) were neither vested, lapsed nor had been forfeited, representing 0.11% of the issued Ordinary Shares (2016: 0.09%) as at the Effective Date.

Further details of the Executive Share Incentive Scheme are set out in the section headed "Long-Term Incentives" under the Remuneration Committee Report (pages 147 to 148) and notes 10C and 45(ii) to the Consolidated Accounts.

The particulars of the Award Shares granted are as follows:

Executive Directorate and eligible employees	Date of award	Types of Award Shares granted: Restricted Shares	Types of Award Shares granted: Performance Shares	Award Shares outstanding as at 1 January 2017	Award Shares vested during the year	Award Shares lapsed and/or forfeited during the year	Award Shares outstanding as at 31 December 2017
Lincoln Leong Kwok-kuen	27/4/2015	60,200	255,000	295,134	20,066	–	275,068
	8/4/2016	64,850	–	64,850	21,616	–	43,234
	10/4/2017	63,900	–	–	–	–	63,900
Dr Jacob Kam Chak-pui	27/4/2015	22,050	57,600	72,300	7,350	–	64,950
	8/4/2016	21,550	–	21,550	7,183	–	14,367
	10/4/2017	22,050	–	–	–	–	22,050
Margaret Cheng Wai-ching	19/8/2016	71,428	–	71,428	23,809	–	47,619
	10/4/2017	16,950	30,400	–	–	–	47,350
Morris Cheung Siu-wa	27/4/2015	–	28,800	28,800	–	–	28,800
	8/4/2016	14,950	–	14,950	4,983	–	9,967
	10/4/2017	13,950	–	–	–	–	13,950
Dr Peter Ronald Ewen	8/4/2016	–	35,700	35,700	–	–	35,700
	10/4/2017	15,050	–	–	–	–	15,050
Herbert Hui Leung-wah	10/4/2017	15,200	30,400	–	–	–	45,600
Adi Lau Tin-shing	27/4/2015	8,600	12,550	18,284	2,866	–	15,418
	8/4/2016	8,400	–	8,400	2,800	–	5,600
	10/4/2017	17,700	25,050	–	–	–	42,750
Gillian Elizabeth Meller	27/4/2015	16,950	57,600	68,900	5,650	–	63,250
	8/4/2016	17,300	–	17,300	5,766	–	11,534
	10/4/2017	16,200	–	–	–	–	16,200
Linda So Ka-pik	8/4/2016	16,400	44,050	60,450	5,466	–	54,984
	10/4/2017	15,300	–	–	–	–	15,300
David Tang Chi-fai	27/4/2015	18,450	57,600	69,900	6,150	–	63,750
	8/4/2016	17,950	–	17,950	5,983	–	11,967
	10/4/2017	17,250	–	–	–	–	17,250
Dr Philco Wong Nai-keung	27/4/2015	21,700	57,600	72,067	7,233	–	64,834
	8/4/2016	21,200	–	21,200	7,066	–	14,134
	10/4/2017	19,900	–	–	–	–	19,900
Jeny Yeung Mei-chun	27/4/2015	19,350	57,600	70,500	6,450	–	64,050
	8/4/2016	18,850	–	18,850	6,283	–	12,567
	10/4/2017	17,700	–	–	–	–	17,700
Other eligible employees	27/4/2015	2,172,750	1,051,650	2,239,386	676,202	38,956	1,524,228
	8/4/2016	2,199,700	107,450	2,236,700	731,298	84,985	1,420,417
	10/4/2017	1,994,050	26,350	–	15,827	45,823	1,958,750

SHARES ISSUED

	No. of Ordinary Shares issued	Consideration/Value (HK$)
As at 31 December 2016	5,905,290,065	N/A
Shares issued under the 2007 Share Option Scheme (Further details can be found in note 45(i) to the Consolidated Accounts)	11,660,000	341 million (received by the Company)
Scrip shares issued in respect of 2016 final dividend	87,794,562	3,863 million
Scrip shares issued in respect of 2017 interim dividend	3,032,675	137 million
As at 31 December 2017	6,007,777,302	N/A

Details of the movements in share capital of the Company during the year are set out in note 42 to the Consolidated Accounts.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

MTR Corporation (C.I.) Limited, the Company's wholly owned subsidiary, redeemed its US$550 million bonds at par on 12 April 2017. The bonds were listed on the HKSE prior to the redemption. Save as disclosed above, the Group did not purchase, sell or redeem any of the Group's listed securities during the year ended 31 December 2017. The Trustee of the Executive Share Incentive Scheme, did not purchase any Ordinary Shares on the HKSE 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 2017 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	18.01%
	As a percentage of the Group's total revenue
Total revenue attributable to the Group's five largest customers	30.99%
Total revenue attributable to the Group's largest customer	12.22%

As at 31 December 2017, Government, being one of the Group's five largest customers, through the FSI, the substantial shareholder of the Company, held approximately 75.19% of all the Company's voting shares in issue (see the section headed "Substantial Shareholders' Interests" above for further details).

As at 31 December 2017, the Non-executive Directors of the Company (excluding Professor Frederick Ma Si-hang and all the Independent Non-executive Directors) and their Alternate Directors, whose names are listed on pages 168 and 169, were officials of Government.

Save as disclosed above and as at 31 December 2017, 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, owned 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 and sponsored approximately HK$21.8 million (2016: approximately HK$13.5 million) to charitable and other organisations.

BANK OVERDRAFTS, BANK LOANS AND OTHER BORROWINGS

The total borrowings of the Group as at 31 December 2017 amounted to HK$42,043 million (2016: HK$39,939 million). Particulars of the borrowings are set out in note 36 to the Consolidated Accounts.

BONDS AND NOTES ISSUED

The Group issued notes with total face value amounting to HK$7,655 million equivalent during the year ended 31 December 2017 (2016: HK$7,868 million equivalent), details of which are set out in note 36C to the Consolidated 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 2017, the Group had borrowings of HK$37,770 million (2016: HK$34,700 million) with maturities ranging from 2018 to 2055 and undrawn committed banking facilities of HK$11,900 million (2016: HK$14,000 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 and 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.

Land Agreements

A On 4 January 2017, the Company accepted an offer dated 24 November 2016 from Government to allow the Company to proceed with the proposed Ho Man Tin Property Development Package One at Site A of Kowloon Inland Lot No. 11264 (the "Lot No. 11264") at a land premium of HK$6,282,370,000 and on the terms and conditions of the land grant by private treaty of the Lot No. 11264 to be entered into between the Company and Government (the "Land Grant"). The Land Grant was executed on 27 February 2017.

B On 9 March 2017, the Company accepted an offer dated 25 January 2017 from Government to proceed with the proposed land exchange involving a surrender by the Company of Aberdeen Inland Lot No. 464 in exchange for the grant of Aberdeen Inland Lot No. 467 (the "Lot No. 467") comprising the Wong Chuk Hang Station and the Wong Chuk Hang Depot to the Company and to allow the Company to proceed with the proposed Wong Chuk Hang Station Property Development Package One at Site A of the Lot No. 467 subject to payment of a land premium for Site A of the Lot No. 467 at HK$4,684,540,000 and on the terms and conditions of the relevant Conditions of Exchange which was subsequently entered into between the Company and Government and dated 12 June 2017 and registered at the Land Registry as Conditions of Exchange No. 20304.

C On 14 December 2017, the Company accepted an offer dated 6 November 2017 from Government to allow the Company to proceed with the proposed Wong Chuk Hang Station Property Development Package Two at Site B of Aberdeen Inland Lot No. 467 subject to payment of a land premium of HK$5,213,810,000 and on the terms and conditions of the relevant Conditions of Exchange No. 20304.

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.

Metro Trains Melbourne Pty. Ltd. ("MTM") is a company incorporated in Australia, which is wholly-owned by Metro Trains Australia Pty Ltd ("MTA"). The Company, UGL and John Holland MTA Pty Ltd ("JHMTA") own 60%, 20% and 20% respectively of MTA and are, therefore, substantial shareholders of MTA. Accordingly, UGL and JHMTA are connected persons of the Company. In addition, as JHL is an associate of JHMTA, JHL is also a connected person of the Company.

Since both UGL and LCAL are indirect wholly-owned subsidiaries of CIMIC Group Limited, LCAL is an associate of UGL and is also a connected person of the Company.

Therefore, each of Government, KCRC, the AA, UGL, LCAL, and JHL is a "connected person" of the Company for the purposes of the Listing Rules and, during 2017, each transaction set out at paragraphs I, II and III below constituted a continuing connected transaction for the Company under the Listing Rules.

In accordance with Guidance Letter GL 73-14 issued by the Stock Exchange and taking into account the Stock Exchange's recommendation issued in January 2016, the Company's Internal Audit Department ("IAD") has reviewed the

Company's continuing connected transactions set out below and the related internal control procedures. IAD found that the internal control procedures put in place by the Company were adequate and effective and reported the same to the Audit Committee of the Company to assist the Company's Independent Non-executive Directors in their annual review and confirmation required to be given pursuant to the Merger-related Waiver (as defined below), the Waiver and the Listing Rules (as appropriate).

I Merger-related Continuing Connected Transactions

Each of the transactions listed in paragraphs A to D below (together, the "Merger-related Continuing Connected Transactions") 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 180 to 182 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.

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 the following parties who remain counterparties, Wilmington Trust Company, Landesbank Sachsen Aktiengesellschaft, Bayerische Landesbank Girozentrale, 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.

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 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). 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").

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 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 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 pages 192 to 193).

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.

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.

II Non Merger-related Continuing Connected Transactions

The following disclosures, in paragraphs A1 to D below together with the Third XRL Agreement (as defined below) (together, the "Non Merger-related Continuing Connected Transactions"), 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;
  - 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 are set out in the section below headed " The Third Agreement in Relation to the Express Rail Link"), 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 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 are set out in the section below headed "The Third Agreement in Relation to the Express Rail Link"); 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.

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, 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 was subject to (a) the obtaining of approval of the Company's independent shareholders (which was obtained on 1 February 2016) and (b) the obtaining of approval of the Legislative Council for Government's additional funding obligations (which was obtained on 11 March 2016).

The first tranche of the special dividend of HK$2.20 per share was distributed on 13 July 2016 and the second tranche, also of HK$2.20 per share, was distributed on 12 July 2017.

Pursuant to the Third XRL Agreement, certain amendments have been 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).

C Maintenance Agreement for the Automated People Mover System at the Hong Kong International Airport

On 5 July 2013, the Company entered into a Maintenance Contract with the AA for the renewal of the then expired maintenance agreement for the maintenance of the Automated People Mover system at the Hong Kong International Airport (the "System") for a seven year period (the "Maintenance Contract"), effective from 6 July 2013. It is expected that the highest amount per year receivable from the AA under the Maintenance Contract will be no more than HK$85 million.

The Maintenance Contract contains provisions relating to the operation and maintenance by the Company of 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 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 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 (which period was extended to no later than 30 June 2018 by a supplemental agreement between the Company and Government dated 23 December 2016), 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.

III Non-Governmental Continuing Connected Transactions

The following disclosures, in paragraphs A and B below (together, the "Non-Governmental Continuing Connected Transactions") are made in accordance with Rule 14A.71 of the Listing Rules.

A Contract 903 between the Company and LCAL relating to certain works on the South Island Line (East)

As explained above, LCAL is 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;
- 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.

B Contract 904 between the Company, LCAL and JHL relating to certain works on the South Island Line (East)

As explained above, each of LCAL and JHL is a "connected person" of the Company within the meaning of Chapter 14A of 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;
- 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 Merger-related Continuing Connected Transactions, the Non Merger-related Continuing Connected Transactions and the Non-Governmental Continuing Connected Transactions (collectively "Transactions") and in accordance with (i) in the case of the Merger-related Continuing Connected Transactions, paragraph B(I)(i) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(I)(iii)(a) of the Waiver; and (iii) in the case of the Non-Governmental Continuing Connected Transactions, Rule 14A.55 of the Listing Rules, the Company confirms that the Independent Non-executive Directors of the Company have reviewed and confirmed that each of the Transactions 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.

The Company has engaged the auditors of the Company to carry out a review of the 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 (i) in the case of the Merger-related Continuing Connected Transactions, paragraph B(I)(ii) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(I)(iii)(b) of the Waiver; and (iii) in the case of the Non-Governmental Continuing Connected Transactions, 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 any of the Transactions has not been approved by the Board;

(b) nothing has come to their attention that causes them to believe that any of the Transactions was not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

in the case of the Non-Governmental Continuing Connected Transactions, in addition, that:

(c) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that such transactions were not, in all material respects, in accordance with the pricing policies of the Group; and

(d) with respect to the aggregate amount of each of such transactions, nothing has come to their attention that causes them to believe that such transactions have exceeded the relevant annual caps as set by the Company in respect of each of such transactions.

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 179) in consideration for the execution of the Property Package Agreements (as described on pages 180 to 182 and in paragraph E below) and the sale of the shares in the KCRC Subsidiaries (as defined on page 180) 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 and the second was conducted in 2017. The Company and Government agreed on 16 April 2013 to amend the fare adjustment mechanism. On 21 March 2017, the Company announced that it and

Government had agreed to maintain the fare adjustment mechanism formula and direct-drive nature of such formula, save for certain consequential changes as a result of the review of the formula having been advanced by one year. 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 review, 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").

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.

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 portfolio 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.

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 9001:2015. Disaster recovery rehearsal on critical applications is conducted annually. For cyber security, 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. The Corporate Cyber Security Committee sets the direction, strategy, and policies related to cyber security for the Company. It steers and oversees the management and performance of all matters relating to cyber security. Various security controls have been implemented and are reviewed regularly to protect the Company from cyber-attacks.

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 2017 and on 8 March 2018 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 Consolidated Accounts on pages 201 to 294 have been prepared on a going concern basis. The Board has reviewed the Group's budget for 2018, 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.

For and on behalf of the Board

Gillian Elizabeth Meller
Company Secretary
Hong Kong, 8 March 2018

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
Beacham, Alan Edward*	√(Resigned)	
Bellette, Irene Vera		√(Resigned)
Chan Chi-kun	√	
Chan Hin-fu*	√(Resigned)	
Chan Wai-man, Raymond*	√	
Dr Chan Yuen Tak-fai, Dorothy	√	
Cheng Kin-wai	√(Resigned)	
Cheng Wai-ching, Margaret*	√	
Cheung Siu-wa, Morris*	√	
Choi Tak-tsan*		√
Chow Chiu-wai		√
Chow Chun-ling*	√	
Chu Fung-kuen, Margaret	√	
Collis, Charles G.	√	
Damm, Bo Fredrik	√	
Downie, Brian Francis*	√	√
Espinoza Ceballos, Natalia		√
Dr Ewen, Peter Ronald	√	
Dr Fong Ching, Eddy	√	
Fung Wai-yee*	√	
Hammarström, Stig Christer		√(Resigned)
Hellners, Karl Erik Hjalmar*	√	
Ho Ka-wa*	√	
Holmberg Wallberg, Lena Cecilia*	√(Resigned)	
Hor Wai-hong	√	
Houghton, Michael David	√	
Hui Leung-wah, Herbert*	√	
Inglis, Stuart Andrew*		√(Resigned)
Jerbi, Mohamed Moncef		√(Resigned)
Jim Kwok-wah*		√
Johnson, Glenn H.		√(Resigned)
Jones, Niel L.		√
Dr Kam Chak-pui, Jacob*	√	
Kee Wing-man, Denise		√
Keefe, Richard Michael*	√	
Kwan Mun-yee, Stella*	√	
Kwan Wai-hung	√(Resigned)	
Kwok Lai-kay, Lena*	√	√
Kwong Chung-hing*		√
Lai Ching-kai	√	
Langridge, Neil Andrew*		√(Resigned)
Lau Ping-cheung, Kaizer	√	
Lau Tin-shing, Adi	√	
Lau Wai-ming	√	
Law Sui-wah*	√	
Lee Kar-yun*	√	
Lee Wai-ying*	√	
Lee Yuen-ling*	√	
Leong Kwok-kuen, Lincoln*	√	

Name	Director	Alternate Director
Leung Nga-yee, Theresa*	√(Resigned)	
Leung Ping-kin	√	
Leung Yiu-fai, David	√	
Lezala, Andrew Peter*	√	
Li Sau-lin, Linda*	√(Ceased)	√
Lo, Julian		√
Long, Jeremy Paul Warwick*	√	
Lundqvist, Curt Ove	√(Resigned)	
Lung Tze-ho*	√	√
Professor Ma Si-hang, Frederick	√	
McCusker, Andrew*	√	
McKenzie, Andrew Charles*		√
Meller, Gillian Elizabeth*	√	
Meyer, Peter*	√	√(Resigned)
Mociak, Karl Heinz*	√(Resigned)	√(Ceased)
Moros, Tony Antonio	√	
Murphy, Stephen John	√	
Mylvaganam, Deva Rajan*	√	
Nelson, Michael John*	√	
Nilsson, Per Håkan Lennart*	√	
Norris, Mark Frederick*	√	
Oscarsson, Karl Johan	√	
Pang Hoi-hing*	√	
Pira, Tomas*	√	
Qian Yu-hong	√	
Seabury, Gary George*		√
Seto Siu-wah, Lisa*	√	√
Suen Yiu-tat	√	
Tang Chi-fai, David*	√	
Tong Ying-fai		√(Resigned)
Viinapuu, Hans Peter*	√(Resigned)	
Wan Chi-wah	√	
Warren, Nicholas P.	√(Resigned)	
Wennerberg, Matti Sigfrid Hasse	√	
Wong Chi-chung	√	
Dr Wong Chi-yun, Allan	√	
Wong Kwan-wai, Sammy*	√	
Wong Ping-sau*	√	
Wong Wing-kin	√	
Woo Shui-wah*	√(Resigned)	
Xia Jing	√	
Xu Muhan*	√	
Yam Pak-nin*	√	√
Yeung Mei-chun, Jeny*	√	
Young Ka-fan, Glen		√
Yu Hon-kit, Henry	√(Resigned)	
Yu Ka-yin*	√(Resigned)	√(Resigned)
Yuen Lai-ki*	√	
Yuen Lap-hang	√	√(Resigned)

* *Person who serves as a director and/or an alternate director in more than one subsidiary.*

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(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated accounts of MTR Corporation Limited ("the Company") and its subsidiaries ("the Group") set out on pages 201 to 294, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated accounts, including a summary of significant accounting policies.

In our opinion, the consolidated accounts give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated accounts* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of our audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Railway construction in progress under entrustment by the HKSAR Government	
Refer to note 24 to the consolidated accounts and the accounting policies in note 2Z	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group and the Government of the Hong Kong Special Administrative Region ("HKSAR Government") have entered into certain entrustment arrangements whereby the Group has been entrusted by the HKSAR Government to proceed with the planning, design, construction, testing and commissioning of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("the XRL") and the Shatin to Central Link ("the SCL"). As the HKSAR Government is the owner of both the XRL and the SCL, the financing of the development of these two railway lines is borne by the HKSAR Government, with the Group receiving project management fees. Pursuant to an agreement entered into with the HKSAR Government on 30 November 2015, the Group will bear and finance project costs for the XRL which exceed HK$84.42 billion and the HKSAR Government reserves the right to refer to arbitration the question of the Group's liability, if any, in respect of the project costs borne and financed by the HKSAR Government which exceed HK$65 billion up to HK$84.42 billion. In the event that the Group is found to be liable under the relevant XRL entrustment agreements, the Group's liability for such costs is currently limited to the amount of the project management fees and certain other additional fees received by the Group under the agreements. Management engaged an independent civil engineering consultant to provide an independent assessment of the completion status of the XRL project and of management's estimates of the remaining costs to complete the XRL project, project claims and the overall forecast total project costs. In December 2017, the Group completed a detailed review of the estimated costs to complete for the SCL under the entrustment agreement for the construction and commissioning of the SCL dated 29 May 2012 ("SCL Entrustment Agreement"). Following the review, the latest cost estimate has been increased from HK$70.83 billion to HK$87.33 billion and was submitted to the HKSAR Government for review. In the event that the Group is found to be liable under the SCL Entrustment Agreement, the Group's liability is currently limited to the aggregate fees received by the Group under the relevant SCL agreements. We identified railway construction in progress under entrustment by the HKSAR Government as a key audit matter because the arrangements in respect of these railway projects are highly complex and convey rights and obligations on the Group which could potentially have significant financial implications for the Group.	Our audit procedures in relation to railway construction in progress under entrustment by the HKSAR Government included the following: • inspecting the minutes of the relevant committees of the Group and discussing with management the current status of the XRL and SCL projects, including the costs incurred to date, the remaining critical milestones and estimated costs to complete including contract claims, and the assessment of the financial implications of these projects for the Group; • assessing the design and implementation of management's key internal controls over the determination of estimated costs to complete the XRL and the SCL and the allocation of costs to each of these projects; • evaluating the qualifications, experience, expertise, independence and objectivity of the independent civil engineering consultant engaged by management for XRL; • discussing with the independent civil engineering consultant the XRL project status and the estimated costs to complete the project, including the forecast total project costs and the risk of these exceeding HK$84.42 billion; • comparing, on a sample basis, the costs to complete the XRL and SCL as assessed by management and, for the XRL, as assessed by the independent civil engineering consultant, with relevant underlying documentation; • comparing costs incurred during the current year in respect of the XRL and SCL with underlying contracts and interim certificates certifying the value of work performed; • holding discussions with management and the Group's external legal advisors to assess the Company's legal obligations and financial exposure in connection with these projects; • inspecting the relevant entrustment agreements to ascertain project management fees receivable and comparing the receipt of such project management fees for the year with bank statements and other relevant documentation; and • assessing the disclosures in the consolidated accounts in relation to the XRL and SCL projects with reference to the requirements of the prevailing accounting standards.

Valuation of completed investment properties ("IP")	
Refer to note 19 to the consolidated accounts and the accounting policies in note 2F(i)	
The Key Audit Matter	**How the matter was addressed in our audit**
The fair value of the Group's IP as at 31 December 2017 was HK$77,086 million, with a revaluation gain for the year ended 31 December 2017 recorded in the consolidated profit and loss account of HK$6,314 million. The Group's IP, which are located in Hong Kong, principally comprise shopping malls and office premises. The fair values of the Group's IP were assessed by an external property valuer based on independent valuations. We identified valuation of the Group's IP as a key audit matter because of the significance of IP to the consolidated accounts and because the determination of the fair values involves significant judgement and estimation, particularly in selecting the appropriate valuation methodology, market yields and market rents.	Our audit procedures to assess the valuation of the Group's IP included the following: • obtaining and inspecting the IP valuation report prepared by the external property valuer; • evaluating the independence, qualifications, expertise and objectivity of the external property valuer; • evaluating the valuation methodologies adopted with reference to those applied by other external property valuers for similar property types; • holding discussions with management and the external property valuer and challenging the key assumptions and estimates adopted in the valuations, including prevailing market rents and market yields applied by comparing, on a sample basis, the key estimates adopted with comparable available market data and government produced market statistics; and • comparing the tenancy information, including occupancy rates and market rents, provided by the Group to the external property valuer with underlying contracts and documentation, on a sample basis.

Assessing potential impairment of fixed assets other than assets carried at revalued amounts	
Refer to notes 20-21 to the consolidated accounts and the accounting policies in note 2H	
The Key Audit Matter	**How the matter was addressed in our audit**
The carrying value of the Group's fixed assets other than assets carried at revalued amounts as at 31 December 2017 totalled HK$128,938 million and the related depreciation and amortisation charge for the year ended 31 December 2017 amounted to HK$5,162 million. The carrying values of these assets are reviewed annually by management for potential indicators of impairment. For assets where such indicators exist, management performs detailed impairment reviews, taking into account, inter alia, the impact of revenue assumptions and technical factors which may affect the expected remaining useful lives and carrying value of the assets. We identified the potential impairment of fixed assets other than assets carried at revalued amounts as a key audit matter because the assessment can involve a significant degree of management judgement in determining the key assumptions such as expected revenue levels.	Our audit procedures to assess the potential impairment of fixed assets other than assets carried at revalued amounts included the following: • obtaining, discussing with management and evaluating the key assumptions underlying management's assessment of potential impairment of these assets; • where potential indicators of impairment were identified, evaluating management's impairment assessments and the assumptions adopted therein, including revenue assumptions, with reference to the actual revenue levels achieved in the current year, future operating plans and broader city specific developments; • assessing the discount rates adopted by management in the impairment assessments by comparison with available financial information of other similar companies taking into account regional and industry specific risk premiums; • comparing the assumptions adopted in the prior year's impairment assessments with actual results for the current year, investigating significant variances identified and considering the impact on the current year's impairment assessments; and • performing sensitivity analyses for the discount rates applied and the assumptions for revenue levels adopted and considering the information used to derive the most sensitive assumptions and whether there were any indicators of management bias in their selection.

Information other than the consolidated accounts and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated accounts and our auditor's report thereon.

Our opinion on the consolidated accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated accounts

The directors are responsible for the preparation of the consolidated accounts that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated accounts, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounts.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Melissa M C Wu.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
8 March 2018

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December in HK$ million	Note	2017	2016
Revenue from Hong Kong transport operations	4	**18,201**	17,655
Revenue from Hong Kong station commercial businesses	5	**5,975**	5,544
Revenue from Hong Kong property rental and management businesses	6	**4,900**	4,741
Revenue from Mainland of China and international railway, property rental and management subsidiaries	7	**16,990**	13,478
Revenue from other businesses	8	**2,378**	2,423
		48,444	43,841
Revenue from Mainland of China property development	7	**6,996**	1,348
		55,440	45,189
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses	9A	**(5,748)**	(5,191)
– Energy and utilities		**(1,543)**	(1,511)
– Operational rent and rates		**(242)**	(149)
– Stores and spares consumed		**(553)**	(538)
– Maintenance and related works	9B	**(1,436)**	(1,379)
– Railway support services		**(284)**	(277)
– General and administration expenses		**(607)**	(659)
– Other expenses		**(313)**	(318)
		(10,726)	(10,022)
Expenses relating to Hong Kong station commercial businesses		**(501)**	(532)
Expenses relating to Hong Kong property rental and management businesses		**(802)**	(811)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	7	**(16,088)**	(12,890)
Expenses relating to other businesses		**(2,318)**	(2,278)
Project study and business development expenses	9C	**(332)**	(361)
		(30,767)	(26,894)
Expenses relating to Mainland of China property development	7	**(4,682)**	(982)
Operating expenses before depreciation, amortisation and variable annual payment	9D, E&F	**(35,449)**	(27,876)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment			
– Arising from recurrent businesses		**17,677**	16,947
– Arising from Mainland of China property development		**2,314**	366
		19,991	17,313
Profit on Hong Kong property development	11	**1,097**	311
Operating profit before depreciation, amortisation and variable annual payment		**21,088**	17,624
Depreciation and amortisation	12	**(4,855)**	(4,127)
Variable annual payment		**(1,933)**	(1,787)
Operating profit before interest and finance charges		**14,300**	11,710
Interest and finance charges	13	**(905)**	(612)
Investment property revaluation	19	**6,314**	808
Share of profit or loss of associates and joint venture	28	**494**	535
Profit before taxation		**20,203**	12,441
Income tax	14A	**(3,318)**	(2,093)
Profit for the year		**16,885**	10,348
Attributable to:			
– Shareholders of the Company		**16,829**	10,254
– Non-controlling interests		**56**	94
Profit for the year		**16,885**	10,348
Profit for the year attributable to shareholders of the Company:			
– Arising from recurrent businesses		**8,580**	8,916
– Arising from property development		**1,935**	530
– Arising from underlying businesses		**10,515**	9,446
– Arising from investment property revaluation		**6,314**	808
		16,829	10,254
Earnings per share:	16		
– Basic		**HK$2.83**	HK$1.74
– Diluted		**HK$2.82**	HK$1.74

The notes on pages 206 to 294 form part of the accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December in HK$ million	Note	2017	2016
Profit for the year		**16,885**	10,348
Other comprehensive income for the year (after taxation and reclassification adjustments):	18		
Items that will not be reclassified to profit or loss:			
– Surplus on revaluation of self-occupied land and buildings		**253**	131
– Remeasurement of net liability of defined benefit schemes		**838**	123
		1,091	254
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of overseas subsidiaries, associates and joint venture		**981**	(856)
– non-controlling interests		**16**	(7)
– Cash flow hedges: net movement in hedging reserve		**(149)**	375
		848	(488)
		1,939	(234)
Total comprehensive income for the year		**18,824**	10,114
Attributable to:			
– Shareholders of the Company		**18,752**	10,027
– Non-controlling interests		**72**	87
Total comprehensive income for the year		**18,824**	10,114

The notes on pages 206 to 294 form part of the accounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in HK$ million	Note	At 31 December 2017	At 31 December 2016
Assets			
Fixed assets			
– Investment properties	19	**77,086**	70,060
– Other property, plant and equipment	20	**102,889**	103,613
– Service concession assets	21	**29,797**	28,269
		209,772	201,942
Property management rights	22	**26**	27
Goodwill		**63**	57
Property development in progress	25A	**14,810**	17,484
Deferred expenditure	26	**710**	463
Interests in associates and joint venture	28	**6,838**	7,015
Deferred tax assets	41B	**69**	25
Investments in securities	29	**443**	370
Properties held for sale	30	**1,347**	1,394
Derivative financial assets	31	**168**	183
Stores and spares	32	**1,540**	1,484
Debtors and other receivables	33	**7,058**	4,073
Amounts due from related parties	34	**2,570**	2,171
Tax recoverable	41A	**–**	362
Cash, bank balances and deposits	35	**18,354**	20,290
		263,768	257,340
Liabilities			
Bank overdrafts	36A	**4**	–
Short-term loans	36A	**325**	1,350
Creditors and other payables	37	**28,166**	32,629
Current taxation	41A	**1,080**	123
Amounts due to related parties	38	**2,226**	11,783
Loans and other obligations	36A	**41,714**	38,589
Obligations under service concession	39	**10,470**	10,507
Derivative financial liabilities	31	**451**	569
Loan from holders of non-controlling interests	40	**146**	109
Deferred tax liabilities	41B	**12,760**	12,125
		97,342	107,784
Net assets		**166,426**	149,556
Capital and reserves			
Share capital	42A	**52,307**	47,929
Shares held for Share Incentive Scheme	42	**(173)**	(227)
Other reserves	42	**114,170**	101,759
Total equity attributable to shareholders of the Company		**166,304**	149,461
Non-controlling interests		**122**	95
Total equity		**166,426**	149,556

Approved and authorised for issue by the Members of the Board on 8 March 2018

Frederick S H Ma	Lincoln K K Leong	Herbert L W Hui
Chairman	Chief Executive Officer	Finance Director

The notes on pages 206 to 294 form part of the accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December in HK$ million	Note	Share capital	Shares held for Share Incentive Scheme	Other reserves: Fixed assets revaluation reserve	Other reserves: Hedging reserve	Other reserves: Employee share-based capital reserve	Other reserves: Exchange reserve	Other reserves: Retained profits	Total equity attributable to shareholders of the Company	Non-controlling interests	Total equity
2017											
Balance as at 1 January 2017		**47,929**	**(227)**	**3,043**	**150**	**182**	**(1,008)**	**99,392**	**149,461**	**95**	**149,556**
Changes in equity for the year ended 31 December 2017:											
– Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**16,829**	**16,829**	**56**	**16,885**
– Other comprehensive income for the year	18	**–**	**–**	**253**	**(149)**	**–**	**981**	**838**	**1,923**	**16**	**1,939**
– Total comprehensive income for the year		**–**	**–**	**253**	**(149)**	**–**	**981**	**17,667**	**18,752**	**72**	**18,824**
– Special dividend	15	**–**	**–**	**–**	**–**	**–**	**–**	**(20)**	**(20)**	**–**	**(20)**
– 2016 final ordinary dividend	15	**–**	**–**	**–**	**–**	**–**	**–**	**(4,844)**	**(4,844)**	**–**	**(4,844)**
– Shares issued in respect of scrip dividend of 2016 final ordinary dividend	42A	**3,863**	**(4)**	**–**	**–**	**–**	**–**	**–**	**3,859**	**–**	**3,859**
– 2017 interim ordinary dividend	15	**–**	**–**	**–**	**–**	**–**	**–**	**(1,500)**	**(1,500)**	**–**	**(1,500)**
– Shares issued in respect of scrip dividend of 2017 interim ordinary dividend	42A	**137**	**(1)**	**–**	**–**	**–**	**–**	**–**	**136**	**–**	**136**
– Vesting and forfeiture of award shares of Share Incentive Scheme		**2**	**59**	**–**	**–**	**(63)**	**–**	**2**	**–**	**–**	**–**
– Ordinary dividends paid to holders of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(102)**	**(102)**
– Increase in non-controlling interests arising from shares issued by a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**57**	**57**
– Employee share-based payments		**–**	**–**	**–**	**–**	**119**	**–**	**–**	**119**	**–**	**119**
– Employee share options exercised	42A	**376**	**–**	**–**	**–**	**(35)**	**–**	**–**	**341**	**–**	**341**
Balance as at 31 December 2017		**52,307**	**(173)**	**3,296**	**1**	**203**	**(27)**	**110,697**	**166,304**	**122**	**166,426**
2016											
Balance as at 1 January 2016		46,317	(151)	2,912	(225)	210	(152)	121,144	170,055	116	170,171
Changes in equity for the year ended 31 December 2016:											
– Profit for the year		–	–	–	–	–	–	10,254	10,254	94	10,348
– Other comprehensive income for the year	18	–	–	131	375	–	(856)	123	(227)	(7)	(234)
– Total comprehensive income for the year		–	–	131	375	–	(856)	10,377	10,027	87	10,114
– Special dividend	15	–	–	–	–	–	–	(25,902)	(25,902)	–	(25,902)
– 2015 final ordinary dividend	15	–	–	–	–	–	–	(4,758)	(4,758)	–	(4,758)
– Shares issued in respect of scrip dividend of 2015 final ordinary dividend	42A	566	(5)	–	–	–	–	–	561	–	561
– 2016 interim ordinary dividend	15	–	–	–	–	–	–	(1,473)	(1,473)	–	(1,473)
– Shares issued in respect of scrip dividend of 2016 interim ordinary dividend	42A	101	(2)	–	–	–	–	–	99	–	99
– Shares purchased for Share Incentive Scheme		–	(99)	–	–	–	–	–	(99)	–	(99)
– Vesting and forfeiture of award shares of Share Incentive Scheme		1	30	–	–	(34)	–	3	–	–	–
– Ordinary dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	(108)	(108)
– Employee share-based payments		–	–	–	–	106	–	–	106	–	106
– Employee share options exercised	42A	944	–	–	–	(99)	–	–	845	–	845
– Employee share options forfeited		–	–	–	–	(1)	–	1	–	–	–
Balance as at 31 December 2016		47,929	(227)	3,043	150	182	(1,008)	99,392	149,461	95	149,556

The notes on pages 206 to 294 form part of the accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December in HK$ million	Note	2017	2016
Cash flows from operating activities			
Cash generated from operations	43	**22,239**	19,156
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		**588**	625
Purchase of tax reserve certificates		**(1,816)**	(20)
Current tax paid			
– Hong Kong Profits Tax paid		**(240)**	(2,271)
– Mainland of China and overseas tax paid		**(1,168)**	(355)
Net cash generated from operating activities		**19,603**	17,135
Cash flows from investing activities			
Capital expenditure			
– Purchase of assets for Hong Kong transport and related operations		**(5,226)**	(4,615)
– Shenzhen Metro Longhua Line Project and related operations		**(93)**	(220)
– Hong Kong railway extension projects		**(1,342)**	(5,243)
– Hong Kong and Shenzhen property development		**(1,040)**	(1,200)
– Investment property projects and fitting out work		**(713)**	(589)
– Other capital projects		**(109)**	(72)
Fixed annual payment		**(750)**	(750)
Variable annual payment		**(1,787)**	(1,649)
Receipts in respect of Hong Kong and Shenzhen property development		**3,344**	5,403
Decrease/(increase) in bank deposits with more than three months to maturity when placed or pledged		**8,842**	(7,212)
Purchase of investments in securities		**(164)**	(143)
Proceeds from sale or redemption of investments in securities		**93**	109
Proceeds from disposal of fixed assets		**5**	4
Acquisition of a subsidiary, net of cash acquired		**–**	44
Investments in associates and joint venture		**(310)**	(1,273)
Receipt of loan repayment from an associate		**–**	93
Loan to an associate		**(92)**	(13)
Shares issued to and loan from holders of non-controlling interests		**84**	–
Dividends received from associates		**158**	208
Net cash generated from/(used in) investing activities		**900**	(17,118)
Cash flows from financing activities			
Proceeds from shares issued under share option schemes		**341**	845
Purchase of shares for Share Incentive Scheme		**–**	(99)
Proceeds from loans and capital market instruments		**25,424**	41,759
Repayment of loans and capital market instruments		**(23,934)**	(22,278)
Interest and finance charges paid		**(923)**	(789)
Interest received		**345**	270
Dividends paid to shareholders of the Company		**(15,358)**	(18,508)
Dividends paid to holders of non-controlling interests		**(102)**	(108)
Net cash (used in)/generated from financing activities		**(14,207)**	1,092
Net increase in cash and cash equivalents		**6,296**	1,109
Cash and cash equivalents at 1 January		**7,037**	6,227
Effect of exchange rate changes		**606**	(299)
Cash and cash equivalents at 31 December	35	**13,939**	7,037

The notes on pages 206 to 294 form part of the accounts.

NOTES TO THE CONSOLIDATED 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 2017. 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 2F(i));
- self-occupied land and buildings (note 2F(ii));
- financial instruments classified as investments in securities other than those intended to be held to maturity (note 2M); and
- derivative financial instruments (note 2T).

(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 52.

(iii) The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the group. However, additional disclosure has been included in note 43B to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new or revised standard or interpretation that is not yet effective for the current accounting period (note 53).

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 and joint venture (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 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 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 or a joint venture (note 2D).

Investments in subsidiaries are carried in the Company's statement of financial position at cost less any impairment losses (note 2H(ii)).

D Associates and Joint Ventures

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.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture 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 or the joint venture, 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 or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture 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.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, 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 or joint control 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 and joint venture are stated at cost less impairment losses (note 2H(ii)).

E Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2H(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 Principal Accounting Policies *(continued)*

F 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 2H(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.

(iii) Civil works and plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2H(ii)).

(iv) Assets under construction are stated at cost less impairment losses (note 2H(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 2I(iv) and 2H(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 2F(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 2H(ii)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in note 2Z(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.

2 Principal Accounting Policies *(continued)*

F Fixed Assets *(continued)*

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 at rates sufficient to write off their cost less their estimated residual value, if any, 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 2H(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.

G 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 2H(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

H 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, except in the case of goodwill, 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;
- goodwill;
- railway construction in progress;
- property development in progress;
- deferred expenditure; and
- investments in subsidiaries, associates and joint venture.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount for goodwill is estimated annually whether or not there is any indication of impairment.

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. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset. An impairment loss in respect of goodwill is not reversed.

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.

2 Principal Accounting Policies *(continued)*

I 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 2F(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

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 – 45 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.

J 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 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.

2 Principal Accounting Policies *(continued)*

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. 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 2L(iii) after netting off any related balance in property development in progress at that time.

L 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 which is included in creditors and other payables. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

(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 the development , the Group's share of the profit is initially recognised once the amounts of revenue (including the fair value of any unsold properties) and costs for the development as a whole can be estimated reliably. The Group's interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2L(v) and included within properties held for sale; 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 other payables".

(v) Where properties are held for sale, those properties are stated initially at their cost and subsequently carried at the lower of cost and net realisable value.

For those properties in Hong Kong, cost represents the fair value, as determined by reference to an independent open market valuation, upon the recognition of profits arising from the development as set out in note 2L(iii).

For those properties in Mainland of China, cost is determined by the apportionment of the development costs attributable to the unsold properties.

Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

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.

When properties held for sale are sold, the carrying amount of those properties is recognised to the profit and loss account.

(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.

2 Principal Accounting Policies *(continued)*

M 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 net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

N 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 2H(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

O Long-term Contracts

The accounting policy for contract revenue is set out in note 2Z(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 and other receivables". Amounts received before the related work is performed are included in the statement of financial position as a liability under "Creditors and other payables".

P 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.

Q Debtors and Other Receivables

Debtors and other receivables 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 2H(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.

R Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value net of transaction costs incurred. The interest-bearing fixed rate 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.

S Creditors and Other Payables

Creditors and other payables are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

T 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.

2 Principal Accounting Policies *(continued)*

T Derivative Financial Instruments and Hedging Activities *(continued)*

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; (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; or (3) a hedge of a net investment: to hedge the variability in cash flows of a monetary item that is receivable from or payable to a foreign operation where the settlement for the monetary item is neither planned nor likely to occur in foreseeable future.

(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.

(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) Hedge of a Net Investment

The effective portion of changes in the fair value of derivatives that are designated and qualified as hedges of net investments in foreign operations is recognised in other comprehensive income which is accumulated separately in equity in the exchange 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 as a reclassification adjustment on the disposal or partial disposal of the foreign operation.

(iv) 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.

U Employee Benefits

(i) Salaries, annual leave, other allowances, contributions to defined contribution retirement schemes, 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 schemes is calculated separately for each scheme 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 scheme 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 scheme or reductions in future contributions to the scheme. 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 scheme are changed, or when a scheme 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 scheme 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 scheme's obligations.

2 Principal Accounting Policies *(continued)*

U Employee Benefits *(continued)*

Remeasurements arising from defined benefit retirement schemes are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise of actuarial gains and losses, the return on scheme 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.
- For award shares under the Executive Share Incentive Scheme (formerly 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 and 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 ordinary dividends received (the "ordinary 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 ordinary 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.

V 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 2U(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 2U(ii).

W 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.

2 Principal Accounting Policies *(continued)*

W Income Tax *(continued)*

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 2F(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.

(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.

X 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 other payables. 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 2Y 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 other payables in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

Y 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.

2 Principal Accounting Policies *(continued)*

Z 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.

AA 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.

BB 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.

CC 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.

DD 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.

EE 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 schemes for the benefit of employees 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.

2 Principal Accounting Policies *(continued)*

FF 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 49C);
- 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;
- 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	**2017**	2016
Fare revenue:		
– Domestic Service	**12,840**	12,395
– Cross-boundary Service	**3,277**	3,252
– Airport Express	**1,076**	998
– Light Rail and Bus	**707**	707
– Intercity Service	**135**	137
	18,035	17,489
Other rail-related income	**166**	166
	18,201	17,655

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, South 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.

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK$ million	2017	2016
Duty free shops and kiosks rental	**4,143**	3,723
Advertising	**1,071**	1,090
Telecommunication income	**635**	561
Other station commercial income	**126**	170
	5,975	5,544

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK$ million	2017	2016
Property rental income	**4,608**	4,451
Property management income	**292**	290
	4,900	4,741

7 Revenue and Expenses Relating to Mainland of China and International Subsidiaries

Revenue and expenses relating to Mainland of China and international subsidiaries comprise:

	2017		2016	
in HK$ million	Revenue	Expenses	Revenue	Expenses
Railway-related subsidiaries outside of Hong Kong				
– Melbourne Train	**8,673**	**8,459**	7,944	7,639
– MTR Nordic*	**4,982**	**4,748**	2,952	2,887
– London Crossrail	**1,173**	**1,114**	1,071	1,005
– Shenzhen Metro Longhua Line	**673**	**549**	673	535
– Sydney Metro Northwest	**1,351**	**1,100**	697	712
	16,852	**15,970**	13,337	12,778
Property rental and management businesses in Mainland of China	**138**	**118**	141	112
	16,990	**16,088**	13,478	12,890
Property development in Mainland of China	**6,996**	**4,682**	1,348	982
Total Mainland of China and international subsidiaries	**23,986**	**20,770**	14,826	13,872

* MTR Nordic comprises the Stockholm Metro, MTR Tech, MTR Express and Stockholm Commuter Rail ("Stockholms pendeltåg") operations in Sweden.

In September 2017, a new concession to operate and maintain the Melbourne train system for seven years was awarded to the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd.. The new franchise commenced from 30 November 2017 to 1 December 2024, with an option to extend for an additional three years.

8 Revenue from Other Businesses

Revenue from other businesses comprises incomes from:

in HK$ million	2017	2016
Ngong Ping 360	**263**	391
Consultancy business	**356**	216
Project management for HKSAR Government	**1,725**	1,790
Miscellaneous businesses	**34**	26
	2,378	2,423

9 Operating Expenses

A Total staff costs include:

in HK$ million	2017	2016
Amounts charged to profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**5,748**	5,191
– maintenance and related works for Hong Kong transport operations	**111**	97
– other expense line items for Hong Kong transport operations	**88**	69
– expenses relating to Hong Kong station commercial businesses	**94**	87
– expenses relating to Hong Kong property rental and management businesses	**136**	115
– expenses relating to Mainland of China and international subsidiaries	**7,049**	5,825
– expenses relating to other businesses	**2,152**	2,053
– project study and business development expenses	**363**	208
– profit on Hong Kong property development	**23**	26
Amounts capitalised under:		
– railway construction in progress before offset by government grant	**–**	399
– property development in progress	**123**	144
– assets under construction and other projects	**657**	487
– service concession assets	**411**	355
Amounts recoverable	**551**	559
Total staff costs	**17,506**	15,615

Amounts recoverable relate to property management, entrustment works and other agreements.

The following expenditures are included in total staff costs:

in HK$ million	2017	2016
Share-based payments	**119**	106
Contributions to defined contribution retirement schemes and Mandatory Provident Fund	**770**	688
Amounts recognised in respect of defined benefit retirement schemes	**454**	442
	1,343	1,236

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.

9 Operating Expenses *(continued)*

C Project study and business development expenses comprise:

in HK$ million	2017	2016
Business development expenses	**303**	333
Miscellaneous project study expenses	**29**	28
	332	361

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	2017	2016
Audit services	**18**	17
Tax services	**2**	1
Other audit related services	**6**	6
	26	24

E The following charges are included in operating expenses:

in HK$ million	2017	2016
Loss on disposal of fixed assets	**44**	65
Derivative financial instruments – transferred from hedging reserve (note 18B)	**2**	12
Unrealised loss on revaluation of investments in securities	**2**	–

F Operating lease expenses charged to the consolidated profit and loss account comprise:

in HK$ million	2017	2016
Shopping centre, office building, staff quarters and bus depot	**103**	99
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for subsidiaries	**1,556**	995
	1,659	1,094

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
2017					
Members of the Board					
– Frederick Ma Si-hang	**1.7**	–	–	–	**1.7**
– Andrew Clifford Winawer Brandler (appointed on 17 May 2017)*	**0.3**	–	–	–	**0.3**
– Pamela Chan Wong Shui	**0.4**	–	–	–	**0.4**
– Dorothy Chan Yuen Tak-fai	**0.5**	–	–	–	**0.5**
– Vincent Cheng Hoi-chuen	**0.4**	–	–	–	**0.4**
– Anthony Chow Wing-kin	**0.5**	–	–	–	**0.5**
– Eddy Fong Ching	**0.5**	–	–	–	**0.5**
– James Kwan Yuk-choi	**0.5**	–	–	–	**0.5**
– Kaizer Lau Ping-cheung	**0.5**	–	–	–	**0.5**
– Lucia Li Li Ka-lai	**0.5**	–	–	–	**0.5**
– Alasdair George Morrison	**0.5**	–	–	–	**0.5**
– Ng Leung-sing (retired on 17 May 2017)**	**0.2**	–	–	–	**0.2**
– Abraham Shek Lai-him	**0.5**	–	–	–	**0.5**
– Benjamin Tang Kwok-bun	**0.4**	–	–	–	**0.4**
– Allan Wong Chi-yun	**0.5**	–	–	–	**0.5**
– Johannes Zhou Yuan (appointed on 17 May 2017)*	**0.3**	–	–	–	**0.3**
– Ceajer Chan Ka-keung (resigned on 4 July 2017)	**0.2**	–	–	–	**0.2**
– James Henry Lau Jr (appointed on 4 July 2017)	**0.2**	–	–	–	**0.2**
– Secretary for Transport and Housing	**0.4**	–	–	–	**0.4**
– Permanent Secretary for Development (Works)	**0.4**	–	–	–	**0.4**
– Commissioner for Transport	**0.4**	–	–	–	**0.4**
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen	–	**9.3**	**1.4**	**4.5**	**15.2**
– Jacob Kam Chak-pui	–	**6.6**	**1.0**	**2.2**	**9.8**
– Margaret Cheng Wai-ching	–	**4.6**	**0.6**	**1.3**	**6.5**
– Morris Cheung Siu-wa	–	**4.6**	**1.5**	**1.2**	**7.3**
– Peter Ronald Ewen	–	**4.0**	**0.5**	**1.1**	**5.6**
– Herbert Hui Leung-wah	–	**4.7**	**0.6**	**1.1**	**6.4**
– Adi Lau Tin-shing	–	**4.7**	**2.8**	**1.3**	**8.8**
– Gillian Elizabeth Meller	–	**4.2**	**0.6**	**1.3**	**6.1**
– Linda So Ka-pik	–	**3.7**	**0.5**	**1.1**	**5.3**
– David Tang Chi-fai	–	**4.5**	**0.7**	**1.4**	**6.6**
– Philco Wong Nai-keung	–	**5.6**	**0.8**	**1.6**	**8.0**
– Jeny Yeung Mei-chun	–	**4.5**	**0.7**	**1.4**	**6.6**
	9.8	**61.0**	**11.7**	**19.5**	**102.0**

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
2016					
Members of the Board					
– Frederick Ma Si-hang	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
– Anthony Chow Wing-kin (appointed on 18 May 2016)	0.2	–	–	–	0.2
– Eddy Fong Ching	0.4	–	–	–	0.4
– Edward Ho Sing-tin (retired on 18 May 2016)	0.1	–	–	–	0.1
– James Kwan Yuk-choi	0.3	–	–	–	0.3
– Kaizer Lau Ping-cheung	0.3	–	–	–	0.3
– Lucia Li Li Ka-lai	0.3	–	–	–	0.3
– Alasdair George Morrison	0.4	–	–	–	0.4
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.4	–	–	–	0.4
– Benjamin Tang Kwok-bun	0.3	–	–	–	0.3
– Allan Wong Chi-yun	0.3	–	–	–	0.3
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Secretary for Transport and Housing	0.3	–	–	–	0.3
– Permanent Secretary for Development (Works)	0.3	–	–	–	0.3
– Commissioner for Transport	0.3	–	–	–	0.3
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen	–	8.8	1.4	4.6	14.8
– Jacob Kam Chak-pui	–	6.1	0.9	2.2	9.2
– Margaret Cheng Wai-ching (appointed on 1 June 2016)***	–	2.6	0.3	0.6	3.5
– Morris Cheung Siu-wa	–	4.3	1.3	1.2	6.8
– Peter Ronald Ewen (appointed on 22 February 2016)***	–	3.3	0.5	0.9	4.7
– Stephen Law Cheuk-kin (up to 1 July 2016)	–	3.5	0.3	0.8	4.6
– Herbert Hui Leung-wah (appointed on 2 July 2016)***	–	2.3	0.3	0.5	3.1
– Adi Lau Tin-shing (appointed on 1 May 2016)***	–	3.1	1.5	1.0	5.6
– Gillian Elizabeth Meller	–	4.0	0.6	1.3	5.9
– Linda So Ka-pik	–	3.6	0.5	1.1	5.2
– David Tang Chi-fai	–	4.3	0.6	1.5	6.4
– Philco Wong Nai-keung	–	5.3	0.8	1.7	7.8
– Jeny Yeung Mei-chun	–	4.5	0.6	1.5	6.6
	6.7	55.7	9.6	18.9	90.9

* Andrew C W Brandler and Johannes Y Zhou were appointed as Members of the Board on the date shown in the above table. The amounts of their emoluments shown in the above table cover the period from the date of their appointment to 31 December 2017.

** L S Ng retired as a Member of the Board on the date shown in the above table. The amount of his emolument shown in the above table cover the period from 1 January 2017 to his resignation date.

*** Margaret W C Cheng, Peter R Ewen, Herbert L W Hui and Adi T S Lau were appointed as Members of the Executive Directorate on the respective dates shown in the above table. The amounts of their emoluments shown in the above table cover the period from the date of their appointment to 31 December 2016.

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 above emoluments do not include the fair value of share options granted under 2007 Share Option Scheme as well as Award Shares granted under Executive Share Incentive Scheme.

The director's fees in respect of the office of the Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung for the period from 1 January 2017 to 1 July 2017 and Frank Chan Fan for the period from 1 July 2017 to 31 December 2017), 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 for the period from 1 January 2017 to 15 July 2017 and Mable Chan for the period from 11 October 2017 to 31 December 2017), 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 (for the period from 1 January 2017 to 3 July 2017) and James Henry Lau Jr (for the period from 4 July 2017 to 31 December 2017), being the Secretary for Financial Services and the Treasury of the HKSAR Government for the respective periods, was received by the HKSAR Government rather than by the individuals personally.

Alternate Directors were not entitled to director's fees.

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 no options were vested in 2017 (2016: 85,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$nil (2016: HK$20,961);
- Jacob C P Kam was granted options in respect of 75,000 shares on 13 December 2007, 65,000 shares each on 8 December 2008 and 14 December 2009, 50,000 shares on 21 July 2010, 170,000 shares on 17 December 2010, 172,000 shares on 30 March 2012 and 202,500 shares on 6 May 2013, of which no options were vested in 2017 (2016: 67,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$nil (2016: HK$16,646);
- Morris S W Cheung was granted options in respect of 65,000 shares each on 12 December 2007, 10 December 2008 and 11 December 2009, 35,000 shares on 21 July 2010, 65,000 shares on 20 December 2010, 122,000 shares on 30 March 2012 and 180,500 shares on 6 May 2013, of which no options were vested in 2017 (2016: 59,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$nil (2016: HK$14,673);
- Adi T S Lau was granted options in respect of 75,000 shares on 12 December 2007, 65,000 shares on 11 December 2008 and 75,000 shares each on 11 December 2009 and 21 December 2010, 69,000 shares on 30 March 2012, 78,000 shares on 6 May 2013 and 80,000 shares on 30 May 2014, of which 26,000 options were vested in 2017 (2016: 53,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$7,108 (2016: HK$35,876);
- Gillian E Meller was granted options in respect of 55,000 shares on 12 December 2007, 70,000 shares on 11 December 2008, 65,000 shares on 10 December 2009, 90,000 shares on 17 December 2010, 158,500 shares on 30 March 2012 and 184,000 shares on 6 May 2013, of which no options were vested in 2017 (2016: 61,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$nil (2016: HK$15,043);
- David C F Tang was granted options in respect of 65,000 shares each on 13 December 2007, 12 December 2008, 15 December 2009 and 17 December 2010, 163,500 shares on 30 March 2012 and 182,500 shares on 6 May 2013, of which no options were vested in 2017 (2016: 60,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$nil (2016: HK$14,920);
- 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 27,000 options were vested in 2017 (2016: 55,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$7,381 (2016: HK$37,240);
- Jeny M C Yeung was granted options in respect of 75,000 shares on 12 December 2007 and 65,000 shares each on 10 December 2008, 10 December 2009 and 17 December 2010, 161,000 shares on 30 March 2012 and 187,000 shares on 6 May 2013, of which no options were vested in 2017 (2016: 62,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$nil (2016: HK$15,290); and
- Stephen C K Law was granted options in respect of 196,000 shares on 1 November 2013, of which 65,000 options were vested in 2016, and the fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$53,727.

Restricted Shares and Performance Shares were granted to Members of the Executive Directorate under the Company's Executive Share Incentive Scheme on 27 April 2015, 8 April 2016, 19 August 2016 and 10 April 2017. Performance Shares offered to Members of the Executive Directorate under such grants, in general, covered a period of three years from the date of grant. 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, 64,850 Restricted Shares on 8 April 2016 and 63,900 Restricted Shares on 10 April 2017, of which a total of 41,682 Restricted Shares were vested in 2017 (2016: 20,066), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$5.8 million (2016: HK$5.3 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)*

- Jacob C P Kam was granted 22,050 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 21,550 Restricted Shares on 8 April 2016 and 22,050 Restricted Shares on 10 April 2017, of which a total of 14,533 Restricted Shares were vested in 2017 (2016: 7,350), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$1.6 million (2016: HK$1.4 million);
- Margaret W C Cheng was granted 71,428 Restricted Shares on 19 August 2016 and 16,950 Restricted Shares and 30,400 Performance Shares on 10 April 2017, of which a total of 23,809 Restricted Shares were vested in 2017 (2016: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$2.8 million (2016: HK$0.7 million);
- Morris S W Cheung was granted 28,800 Performance Shares on 27 April 2015, 14,950 Restricted Shares on 8 April 2016 and 13,950 Restricted Shares on 10 April 2017, of which a total of 4,983 Restricted Shares were vested in 2017 (2016: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$0.9 million (2016: HK$0.6 million);
- Peter Ronald Ewen was granted 35,700 Performance Shares on 8 April 2016 and 15,050 Restricted Shares on 10 April 2017, of which no Restricted Shares were vested in 2017 (2016: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$1.0 million (2016: HK$0.4 million);
- Herbert L W Hui was granted 15,200 Restricted Shares and 30,400 Performance Shares on 10 April 2017, of which no Restricted Shares were vested in 2017 (2016: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$1.3 million (2016: HK$nil);
- Adi T S Lau was granted 8,600 Restricted Shares and 12,550 Performance Shares on 27 April 2015, 8,400 Restricted Shares on 8 April 2016 and 17,700 Restricted Shares and 25,050 Performance Shares on 10 April 2017, of which a total of 5,666 Restricted Shares were vested in 2017 (2016: 2,866), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$1.5 million (2016: HK$0.4 million);
- Gillian E Meller was granted 16,950 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 17,300 Restricted Shares on 8 April 2016 and 16,200 Restricted Shares on 10 April 2017, of which a total of 11,416 Restricted Shares were vested in 2017 (2016: 5,650), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$1.4 million (2016: HK$1.3 million);
- Linda K P So was granted 16,400 Restricted Shares and 44,050 Performance Shares on 8 April 2016 and 15,300 Restricted Shares on 10 April 2017, of which a total of 5,466 Restricted Shares were vested in 2017 (2016: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$1.4 million (2016: HK$0.9 million);
- David C F Tang was granted 18,450 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 17,950 Restricted Shares on 8 April 2016 and 17,250 Restricted Shares on 10 April 2017, of which a total of 12,133 Restricted Shares were vested in 2017 (2016: 6,150), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$1.4 million (2016: HK$1.3 million);
- Philco N K Wong was granted 21,700 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 21,200 Restricted Shares on 8 April 2016 and 19,900 Restricted Shares on 10 April 2017, of which a total of 14,299 Restricted Shares were vested in 2017 (2016: 7,233), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$1.6 million (2016: HK$1.4 million);
- Jeny M C Yeung was granted 19,350 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 18,850 Restricted Shares on 8 April 2016 and 17,700 Restricted Shares on 10 April 2017, of which a total of 12,733 Restricted Shares were vested in 2017 (2016: 6,450), and the respective fair value of the share-based payments recognised for the year ended 31 December 2017 was HK$1.5 million (2016: HK$1.4 million); and
- Stephen C K Law was granted 16,700 Restricted Shares and 57,600 Performance Shares on 27 April 2015, of which a total of 11,132 Restricted Shares were vested in 2016, and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$0.2 million.

None of the Performance Shares awarded to the Members of the Executive Directorate were vested in 2017.

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 45.

For the year ended 31 December 2017, three (2016: three) 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	**2017**	2016
Base pay, allowances and benefits in kind	**29.7**	31.7
Variable remuneration related to performance	**16.6**	10.2
Retirement scheme contributions	**5.4**	5.4
	51.7	47.3

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 emoluments of the top 5 highest paid individuals for the year are within the following bands:

	2017	2016
HK$7,500,001 – HK$8,000,000	**–**	3
HK$8,000,001 – HK$8,500,000	**1**	–
HK$8,500,001 – HK$9,000,000	**1**	–
HK$9,000,001 – HK$9,500,000	**–**	1
HK$9,500,001 – HK$10,000,000	**2**	–
HK$14,500,001 – HK$15,500,000	**1**	1
	5	5

(ii) The aggregate emoluments of Members of the Board and the Executive Directorate for the year was HK$124.2 million (2016: HK$106.4 million).

(iii) The Company has a service contract with each of the independent non-executive Directors ("INED")/non-executive Directors ("NED") (including Professor Frederick Ma Si-hang (appointed as non-executive Chairman for 3 years commencing on 1 January 2016), Professor Ceajer Chan Ka-keung (up to 3 July 2017) and Mr James Henry Lau Jr. (appointed on 4 July 2017) 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/election at the Company's annual general meetings in accordance with Articles 89, 91 and 92(a) of the Company's Articles of Association when applicable. Professor Frederick Ma Si-hang was appointed by the HKSAR government as the 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 2017 are set out in the Report of the Members of the Board.

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 45(i), all Members of the Executive Directorate were granted options to acquire shares between 2007 and 2014 (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 2017 are set out in the Report of the Members of the Board.

Under the Executive Share Incentive Scheme as described in note 45(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	2017	2016
Share of surplus from property development	**609**	270
Income from receipt of properties for investment purpose	**–**	83
Agency fee and other income from West Rail property development (note 25C)	**535**	48
Other overhead costs net of miscellaneous income	**(47)**	(90)
	1,097	311

12 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2017	2016
Depreciation charge on assets relating to:		
– Hong Kong transport operations	**3,617**	3,042
– Hong Kong station commercial businesses	**125**	115
– Hong Kong property rental and management businesses	**11**	13
– Mainland of China and international subsidiaries	**117**	101
– Other businesses	**65**	65
	3,935	3,336
Amortisation charge on:		
– Service concession assets relating to:		
– Rail Merger with KCRC	**900**	771
– Mainland of China and international subsidiaries	**447**	426
– Property management rights	**1**	1
	1,348	1,198
– Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(428)**	(407)
	920	791
	4,855	4,127

13 Interest and Finance Charges

in HK$ million	2017		2016	
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments	**986**		739	
– Obligations under service concession	**707**		710	
– Other obligations (note 20F)	**21**		20	
Finance charges	**61**		74	
Exchange loss	**191**		75	
		1,966		1,618
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(126)**		(143)
Derivative financial instruments:				
– Fair value hedges	**(6)**		(2)	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**4**		20	
– transferred from hedging reserve to offset exchange loss	**(235)**		(11)	
– Hedge of net investments:				
– ineffective portion	**1**		–	
– Derivatives not qualified for hedge accounting	**–**		5	
		(236)		12
Interest expenses capitalised		**(373)**		(632)
		1,231		855
Interest income in respect of deposits with banks		**(326)**		(243)
		905		612

During the year ended 31 December 2017, 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 2.2% to 2.5% per annum (2016: 2.3% to 6.7% per annum).

During the year ended 31 December 2017, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line were HK$126 million (2016: HK$143 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2017, the loss resulting from fair value changes of the underlying financial assets and liabilities being hedged was HK$103 million (2016: HK$34 million of gain) while the gain resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$109 million (2016: HK$32 million of loss), thus resulting in a net gain of HK$6 million (2016: HK$2 million).

14 Income Tax

A Income tax in the consolidated profit and loss account represents:

in HK$ million	2017	2016
Current tax		
– Hong Kong Profits Tax	**1,305**	989
– Mainland of China and overseas tax	**1,650**	326
	2,955	1,315
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(47)**	(75)
	2,908	1,240
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**4**	49
– depreciation allowances in excess of related depreciation	**361**	771
– provisions and others	**45**	33
	410	853
	3,318	2,093

The provision for Hong Kong Profits Tax for the year ended 31 December 2017 is calculated at 16.5% (2016: 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.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant Mainland of China tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions. During the year ended 31 December 2017, Land Appreciation Tax of HK$735 million (2016: HK$84 million) was charged to profit or loss.

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

The Company purchased tax reserve certificates during the year. Please refer to note 33 to the consolidated accounts for details.

B Reconciliation between tax expense and accounting profit at applicable tax rates:

	2017		2016	
	HK$ million	%	HK$ million	%
Profit before taxation	**20,203**		12,441	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**3,615**	**17.9**	2,089	16.8
Land Appreciation Tax (net of tax effect on deduction of Enterprise Income Tax)	**551**	**2.7**	63	0.5
Tax effect of non-deductible expenses	**685**	**3.4**	386	3.1
Tax effect of non-taxable revenue	**(1,441)**	**(7.1)**	(415)	(3.3)
Tax effect of unused tax losses not recognised	**(45)**	**(0.2)**	45	0.3
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(47)**	**(0.2)**	(75)	(0.6)
Actual tax expenses	**3,318**	**16.5**	2,093	16.8

15 Dividends

During the year, ordinary dividends paid and proposed to shareholders of the Company comprise:

in HK$ million	2017	2016
Ordinary dividends payable attributable to the year		
– Interim ordinary dividend declared HK$0.25 (2016: HK$0.25) per share	**1,501**	1,475
– Final ordinary dividend proposed after the end of reporting period of HK$0.87 (2016: HK$0.82) per share	**5,227**	4,842
	6,728	6,317
Ordinary dividends paid attributable to the previous year		
– Final ordinary dividend of HK$0.82 (2015: HK$0.81) per share approved and payable/paid during the year	**4,848**	4,763

The final ordinary dividend proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

For 2017 interim and 2017 final ordinary dividends, scrip dividend elections were offered to all shareholders except shareholders with registered addresses in New Zealand or 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 Company's independent shareholders gave their approval 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. The first tranche of special dividend was paid on 13 July 2016 and the second tranche was paid on 12 July 2017. There was no scrip alternative for the special dividend. Details are set out in note 24A.

Details of ordinary dividends and special dividend paid to the Financial Secretary Incorporated are disclosed in note 49O.

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 shareholders of HK$16,829 million (2016: HK$10,254 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme, which is calculated as follows:

	2017	2016
Issued ordinary shares at 1 January	**5,905,290,065**	5,858,228,236
Effect of scrip dividend issued	**42,276,913**	7,891,191
Effect of share options exercised	**6,517,718**	17,603,974
Less: Shares held for Share Incentive Scheme	**(4,968,141)**	(5,242,719)
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 31 December	**5,949,116,555**	5,878,480,682

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 shareholders of HK$16,829 million (2016: HK$10,254 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 scheme and Share Incentive Scheme, which is calculated as follows:

	2017	2016
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 31 December	**5,949,116,555**	5,878,480,682
Effect of dilutive potential shares under the share option scheme	**6,358,526**	9,498,438
Effect of shares awarded under Share Incentive Scheme	**5,836,521**	4,961,616
Weighted average number of shares (diluted) at 31 December	**5,961,311,602**	5,892,940,736

C Basic and diluted earnings per share would have been HK$1.77 (2016: HK$1.61) and HK$1.76 (2016: HK$1.60) respectively, if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$10,515 million (2016: HK$9,446 million).

17 Segmental Information

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

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

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

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

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

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

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

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

(vii) Other businesses: Businesses not directly relating to transport operations or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business and the provision of project management services to the 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 manage-ment businesses	Hong Kong property develop-ment	Mainland of China and international affiliates: Mainland of China and international railway, property rental and management businesses	Mainland of China and international affiliates: Mainland of China property develop-ment	Other businesses	Un-allocated amount	Total
2017									
Revenue	18,201	5,975	4,900	–	16,990	6,996	2,378	–	55,440
Operating expenses	(10,726)	(501)	(802)	–	(16,088)	(4,682)	(2,318)	–	(35,117)
Project study and business development expenses	–	–	–	–	–	–	–	(332)	(332)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	7,475	5,474	4,098	–	902	2,314	60	(332)	19,991
Profit on Hong Kong property development	–	–	–	1,097	–	–	–	–	1,097
Operating profit before depreciation, amortisation and variable annual payment	7,475	5,474	4,098	1,097	902	2,314	60	(332)	21,088
Depreciation and amortisation	(4,479)	(163)	(12)	–	(136)	–	(65)	–	(4,855)
Variable annual payment	(1,340)	(589)	(4)	–	–	–	–	–	(1,933)
Operating profit before interest and finance charges	1,656	4,722	4,082	1,097	766	2,314	(5)	(332)	14,300
Interest and finance charges	–	–	–	–	(13)	146	–	(1,038)	(905)
Investment property revaluation	–	–	6,314	–	–	–	–	–	6,314
Share of profit or loss of associates and joint venture	–	–	–	–	321	–	173	–	494
Income tax	–	–	–	(181)	(139)	(1,441)	–	(1,557)	(3,318)
Profit for the year ended 31 December 2017	1,656	4,722	10,396	916	935	1,019	168	(2,927)	16,885
Assets									
Fixed assets	121,904	2,171	77,148	1	7,760	70	718	–	209,772
Other segment assets *	2,256	239	343	716	5,517	5,380	1,898	13,341	29,690
Property management rights	–	–	26	–	–	–	–	–	26
Goodwill	–	–	–	–	63	–	–	–	63
Property development in progress	–	–	–	14,810	–	–	–	–	14,810
Deferred expenditure	58	–	19	–	–	–	633	–	710
Deferred tax assets	–	2	–	–	64	–	3	–	69
Investments in securities	–	–	–	–	–	–	443	–	443
Properties held for sale	–	–	–	876	–	471	–	–	1,347
Interests in associates and joint venture	–	–	–	–	5,926	–	912	–	6,838
Total assets	124,218	2,412	77,536	16,403	19,330	5,921	4,607	13,341	263,768
Liabilities									
Segment liabilities	9,419	3,242	2,091	8,433	7,675	1,217	2,201	52,594	86,872
Obligations under service concession	10,292	–	–	–	178	–	–	–	10,470
Total liabilities	19,711	3,242	2,091	8,433	7,853	1,217	2,201	52,594	97,342
Other Information									
Capital expenditure on:									
Fixed assets	4,708	315	726	1	190	70	98	–	6,108
Property development in progress	–	–	–	483	–	272	–	–	755
Non-cash expenses other than depreciation and amortisation	38	3	–	–	1	–	2	–	44

* Other segment assets mainly include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

17 Segmental Information *(continued)*

in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and manage-ment businesses	Hong Kong property develop-ment	Mainland of China and international affiliates: Mainland of China and international railway, property rental and management businesses	Mainland of China and international affiliates: Mainland of China property develop-ment	Other businesses	Un-allocated amount	Total
2016									
Revenue	17,655	5,544	4,741	–	13,478	1,348	2,423	–	45,189
Operating expenses	(10,022)	(532)	(811)	–	(12,890)	(982)	(2,278)	–	(27,515)
Project study and business development expenses	–	–	–	–	–	–	–	(361)	(361)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	7,633	5,012	3,930	–	588	366	145	(361)	17,313
Profit on Hong Kong property development	–	–	–	311	–	–	–	–	311
Operating profit before depreciation, amortisation and variable annual payment	7,633	5,012	3,930	311	588	366	145	(361)	17,624
Depreciation and amortisation	(3,780)	(148)	(14)	–	(120)	–	(65)	–	(4,127)
Variable annual payment	(1,281)	(502)	(4)	–	–	–	–	–	(1,787)
Operating profit before interest and finance charges	2,572	4,362	3,912	311	468	366	80	(361)	11,710
Interest and finance charges	–	–	–	–	(16)	90	–	(686)	(612)
Investment property revaluation	–	–	808	–	–	–	–	–	808
Share of profit or loss of associates	–	–	–	–	288	(2)	249	–	535
Income tax	–	–	–	(44)	(130)	(191)	–	(1,728)	(2,093)
Profit for the year ended 31 December 2016	2,572	4,362	4,720	267	610	263	329	(2,775)	10,348
Assets									
Fixed assets	121,418	2,059	70,116	–	7,659	–	690	–	201,942
Other segment assets *	2,291	297	332	623	3,902	5,915	1,781	13,422	28,563
Property management rights	–	–	27	–	–	–	–	–	27
Goodwill	–	–	–	–	57	–	–	–	57
Property development in progress	–	–	–	14,479	–	3,005	–	–	17,484
Deferred expenditure	30	–	12	–	–	–	421	–	463
Deferred tax assets	–	2	–	–	12	11	–	–	25
Investments in securities	–	–	–	–	–	–	370	–	370
Properties held for sale	–	–	–	985	–	409	–	–	1,394
Interests in associates	–	–	–	–	4,915	1,230	870	–	7,015
Total assets	123,739	2,358	70,487	16,087	16,545	10,570	4,132	13,422	257,340
Liabilities									
Segment liabilities	24,361	2,989	2,005	2,339	7,226	7,267	2,019	49,071	97,277
Obligations under service concession	10,344	–	–	–	163	–	–	–	10,507
Total liabilities	34,705	2,989	2,005	2,339	7,389	7,267	2,019	49,071	107,784
Other Information									
Capital expenditure on:									
Fixed assets	4,968	285	679	–	183	–	15	–	6,130
Railway construction in progress	5,376	–	–	–	–	–	–	–	5,376
Property development in progress	–	–	–	435	–	525	–	–	960
Non-cash expenses other than depreciation and amortisation	57	5	–	–	3	–	–	–	65

* Other segment assets mainly 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, tax reserve certificates, derivative financial assets and liabilities, interest-bearing loans and borrowings, current taxation as well as deferred tax liabilities.

For the year ended 31 December 2017, revenue from one (2016: one) customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue. Approximately 12.22 % (2016: 14.38%) of the Group's total revenue 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, goodwill, railway construction in progress, property development in progress, deferred expenditure and interests in associates and joint venture ("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, property management rights and goodwill, and the location of operation in the case of interests in associates and joint venture.

	Revenue from external customers		Specified non-current assets	
in HK$ million	**2017**	2016	**2017**	2016
Hong Kong (place of domicile)	**31,194**	30,246	**218,401**	210,120
Australia	**10,024**	8,641	**376**	355
Mainland of China	**7,846**	2,176	**12,525**	15,702
Sweden	**4,982**	2,952	**807**	719
United Kingdom	**1,184**	1,086	**110**	92
Other countries	**210**	88	**–**	–
	24,246	14,943	**13,818**	16,868
	55,440	45,189	**232,219**	226,988

18 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below:

	2017			2016		
in HK$ million	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before-tax amount	Tax expense	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries, associates and joint venture	**981**	**–**	**981**	(856)	–	(856)
– Non-controlling interests	**16**	**–**	**16**	(7)	–	(7)
	997	**–**	**997**	(863)	–	(863)
Surplus on revaluation of self-occupied land and buildings	**302**	**(49)**	**253**	156	(25)	131
Remeasurement of net liability of defined benefit schemes	**1,004**	**(166)**	**838**	149	(26)	123
Cash flow hedges: net movement in hedging reserve (note 18B)	**(181)**	**32**	**(149)**	450	(75)	375
Other comprehensive income	**2,122**	**(183)**	**1,939**	(108)	(126)	(234)

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	2017	2016
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**50**	427
Amounts transferred to initial carrying amount of hedged items	**(2)**	2
Amounts transferred to profit or loss:		
– Interest and finance charges (note 13)	**(231)**	9
– Other expenses (note 9E)	**2**	12
	(181)	450
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the year	**(7)**	(71)
– Amounts transferred to profit or loss	**39**	(4)
	(149)	375

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:

	The Group		The Company	
in HK$ million	2017	2016	2017	2016
At 1 January	**70,060**	68,388	**68,517**	66,900
Additions	**712**	672	**699**	646
Transfer from other property, plant and equipment (note 20)	**–**	192	**–**	192
Change in fair value	**6,314**	808	**6,136**	779
At 31 December	**77,086**	70,060	**75,352**	68,517
Long leases	**17**	18	**17**	18
Medium-term leases	**77,069**	70,042	**75,335**	68,499
	77,086	70,060	**75,352**	68,517

All investment properties of the Group were revalued at 31 December 2017 and 2016. Details of the fair value measurement are disclosed in note 44. The net increase in fair value of HK$6,314 million (2016: HK$808 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. The amount as at 31 December 2016 include investment properties under development of HK$2,585 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
2017						
Cost or Valuation						
At 1 January 2017	**1,757**	**3,566**	**61,508**	**84,146**	**3,297**	**154,274**
Additions	**–**	**–**	**–**	**244**	**2,630**	**2,874**
Disposals/write-offs	**–**	**–**	**(4)**	**(461)**	**(11)**	**(476)**
Surplus on revaluation	**–**	**182**	**–**	**–**	**–**	**182**
Reclassification within other property, plant and equipment	**–**	**–**	**350**	**(348)**	**(2)**	**–**
Transfer to additional concession property (note 21)	**–**	**–**	**–**	**(6)**	**5**	**(1)**
Other assets commissioned	**–**	**–**	**127**	**2,010**	**(2,137)**	**–**
Exchange differences	**–**	**–**	**–**	**132**	**4**	**136**
At 31 December 2017	**1,757**	**3,748**	**61,981**	**85,717**	**3,786**	**156,989**
At Cost	**1,757**	**–**	**61,981**	**85,717**	**3,786**	**153,241**
At 31 December 2017 Valuation	**–**	**3,748**	**–**	**–**	**–**	**3,748**
Aggregate depreciation						
At 1 January 2017	**272**	**–**	**7,824**	**42,565**	**–**	**50,661**
Charge for the year	**34**	**120**	**526**	**3,255**	**–**	**3,935**
Written back on disposals	**–**	**–**	**(4)**	**(418)**	**–**	**(422)**
Written back on revaluation	**–**	**(120)**	**–**	**–**	**–**	**(120)**
Exchange differences	**–**	**–**	**–**	**46**	**–**	**46**
At 31 December 2017	**306**	**–**	**8,346**	**45,448**	**–**	**54,100**
Net book value at 31 December 2017	**1,451**	**3,748**	**53,635**	**40,269**	**3,786**	**102,889**
2016						
Cost or Valuation						
At 1 January 2016	732	3,721	47,408	73,670	1,967	127,498
Additions	–	–	–	285	2,841	3,126
Disposals/write-offs	–	–	(1)	(523)	(19)	(543)
Surplus on revaluation	–	37	–	–	–	37
Reclassification within other property, plant and equipment	–	–	(2)	2	–	–
Transfer to investment properties (note 19)	–	(192)	–	–	–	(192)
Transfer to additional concession property (note 21)	–	–	–	(7)	(10)	(17)
Transfer from railway construction in progress (note 23)	1,025	–	13,822	9,313	280	24,440
Other assets commissioned	–	–	281	1,480	(1,761)	–
Exchange differences	–	–	–	(74)	(1)	(75)
At 31 December 2016	1,757	3,566	61,508	84,146	3,297	154,274
At Cost	1,757	–	61,508	84,146	3,297	150,708
At 31 December 2016 Valuation	–	3,566	–	–	–	3,566
Aggregate depreciation						
At 1 January 2016	258	–	7,414	40,250	–	47,922
Charge for the year	14	119	410	2,793	–	3,336
Written back on disposals	–	–	–	(459)	–	(459)
Written back on revaluation	–	(119)	–	–	–	(119)
Exchange differences	–	–	–	(19)	–	(19)
At 31 December 2016	272	–	7,824	42,565	–	50,661
Net book value at 31 December 2016	1,485	3,566	53,684	41,581	3,297	103,613

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
2017						
Cost or Valuation						
At 1 January 2017	**1,757**	**3,566**	**61,508**	**81,848**	**3,218**	**151,897**
Additions	**–**	**–**	**–**	**64**	**2,543**	**2,607**
Disposals/write-offs	**–**	**–**	**(4)**	**(457)**	**(11)**	**(472)**
Surplus on revaluation	**–**	**182**	**–**	**–**	**–**	**182**
Reclassification within other property, plant and equipment	**–**	**–**	**350**	**(350)**	**–**	**–**
Transfer to additional concession property (note 21)	**–**	**–**	**–**	**(6)**	**5**	**(1)**
Other assets commissioned	**–**	**–**	**128**	**1,929**	**(2,057)**	**–**
At 31 December 2017	**1,757**	**3,748**	**61,982**	**83,028**	**3,698**	**154,213**
At Cost	**1,757**	**–**	**61,982**	**83,028**	**3,698**	**150,465**
At 31 December 2017 Valuation	**–**	**3,748**	**–**	**–**	**–**	**3,748**
Aggregate depreciation						
At 1 January 2017	**272**	**–**	**7,824**	**41,473**	**–**	**49,569**
Charge for the year	**34**	**120**	**526**	**3,098**	**–**	**3,778**
Written back on disposals	**–**	**–**	**(4)**	**(415)**	**–**	**(419)**
Written back on revaluation	**–**	**(120)**	**–**	**–**	**–**	**(120)**
At 31 December 2017	**306**	**–**	**8,346**	**44,156**	**–**	**52,808**
Net book value at 31 December 2017	**1,451**	**3,748**	**53,636**	**38,872**	**3,698**	**101,405**
2016						
Cost or Valuation						
At 1 January 2016	732	3,721	47,408	71,424	1,933	125,218
Additions	–	–	–	174	2,775	2,949
Disposals/write-offs	–	–	(1)	(518)	(19)	(538)
Surplus on revaluation	–	37	–	–	–	37
Reclassification within other property, plant and equipment	–	–	(2)	2	–	–
Transfer to investment properties (note 19)	–	(192)	–	–	–	(192)
Transfer to additional concession property (note 21)	–	–	–	(7)	(10)	(17)
Transfer from railway construction in progress (note 23)	1,025	–	13,822	9,313	280	24,440
Other assets commissioned	–	–	281	1,460	(1,741)	–
At 31 December 2016	1,757	3,566	61,508	81,848	3,218	151,897
At Cost	1,757	–	61,508	81,848	3,218	148,331
At 31 December 2016 Valuation	–	3,566	–	–	–	3,566
Aggregate depreciation						
At 1 January 2016	258	–	7,414	39,282	–	46,954
Charge for the year	14	119	410	2,649	–	3,192
Written back on disposals	–	–	–	(458)	–	(458)
Written back on revaluation	–	(119)	–	–	–	(119)
At 31 December 2016	272	–	7,824	41,473	–	49,569
Net book value at 31 December 2016	1,485	3,566	53,684	40,375	3,218	102,328

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	**2017**	2016
At net book value		
– long leases	**125**	128
– medium-term leases	**1,326**	1,357
	1,451	1,485

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 49A, 49B and 49C).

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 44. The revaluation surplus of HK$302 million (2016: HK$156 million) and the related deferred tax expenses of HK$49 million (2016: HK$25 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 42F). The carrying amount of the self-occupied land and buildings at 31 December 2017 would have been HK$744 million (2016: HK$770 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$77,086 million (2016: HK$67,475 million) and HK$75,352 million (2016: HK$65,932 million) respectively. The costs of station kiosks of the Group and the Company held for use in operating leases were HK$733 million (2016: HK$686 million) and the related accumulated depreciation charges were HK$415 million (2016: HK$377 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	The Group		**The Company**	
in HK$ million	**2017**	2016	**2017**	2016
Within 1 year	**7,852**	7,262	**7,393**	6,934
After 1 year but within 5 years	**15,663**	15,412	**14,566**	14,819
Later than 5 years	**648**	2,326	**124**	2,031
	24,163	25,000	**22,083**	23,784

20 Other Property, Plant and Equipment *(continued)*

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.

At the end of the reporting period, the net book value of plant and equipment under finance lease of the Group was HK$484 million (2016: HK$437 million).

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					
	Initial concession property	Additional concession property	Shenzhen Metro Longhua Line	MTR Nordic	London Crossrail	Total
2017						
Cost						
At 1 January 2017	**15,226**	**10,747**	**8,430**	**65**	**53**	**34,521**
Net additions during the year	**–**	**2,440**	**52**	**18**	**–**	**2,510**
Disposals	**–**	**(74)**	**(34)**	**–**	**–**	**(108)**
Transfer from other property, plant and equipment (note 20)	**–**	**1**	**–**	**–**	**–**	**1**
Capitalisation adjustments	**–**	**–**	**(90)**	**–**	**–**	**(90)**
Exchange differences	**–**	**–**	**642**	**1**	**6**	**649**
At 31 December 2017	**15,226**	**13,114**	**9,000**	**84**	**59**	**37,483**
Accumulated amortisation						
At 1 January 2017	**2,766**	**1,697**	**1,723**	**54**	**12**	**6,252**
Charge for the year	**304**	**596**	**431**	**8**	**8**	**1,347**
Written-off on disposals	**–**	**(51)**	**(12)**	**–**	**–**	**(63)**
Exchange differences	**–**	**–**	**148**	**–**	**2**	**150**
At 31 December 2017	**3,070**	**2,242**	**2,290**	**62**	**22**	**7,686**
Net book value at 31 December 2017	**12,156**	**10,872**	**6,710**	**22**	**37**	**29,797**
2016						
Cost						
At 1 January 2016	15,226	8,569	9,070	65	64	32,994
Net additions during the year	–	2,252	75	5	–	2,332
Disposals	–	(91)	(8)	–	–	(99)
Transfer to other property, plant and equipment (note 20)	–	17	–	–	–	17
Recoveries from Government for entrustment works	–	–	(125)	–	–	(125)
Exchange differences	–	–	(582)	(5)	(11)	(598)
At 31 December 2016	15,226	10,747	8,430	65	53	34,521
Accumulated amortisation						
At 1 January 2016	2,461	1,294	1,428	51	5	5,239
Charge for the year	305	466	411	7	8	1,197
Written-off on disposals	–	(63)	(4)	–	–	(67)
Exchange differences	–	–	(112)	(4)	(1)	(117)
At 31 December 2016	2,766	1,697	1,723	54	12	6,252
Net book value at 31 December 2016	12,460	9,050	6,707	11	41	28,269

21 Service Concession Assets *(continued)*

The Company

in HK$ million	KCRC Rail Merger		Total
	Initial concession property	Additional concession property	
2017			
Cost			
At 1 January 2017	**15,226**	**10,715**	**25,941**
Net additions during the year	**–**	**2,440**	**2,440**
Disposals	**–**	**(74)**	**(74)**
Transfer from other property, plant and equipment (note 20)	**–**	**1**	**1**
At 31 December 2017	**15,226**	**13,082**	**28,308**
Accumulated amortisation			
At 1 January 2017	**2,766**	**1,697**	**4,463**
Charge for the year	**304**	**596**	**900**
Written-off on disposals	**–**	**(51)**	**(51)**
At 31 December 2017	**3,070**	**2,242**	**5,312**
Net book value at 31 December 2017	**12,156**	**10,840**	**22,996**
2016			
Cost			
At 1 January 2016	15,226	8,569	23,795
Net additions during the year	–	2,220	2,220
Disposals	–	(91)	(91)
Transfer to other property, plant and equipment (note 20)	–	17	17
At 31 December 2016	15,226	10,715	25,941
Accumulated amortisation			
At 1 January 2016	2,461	1,294	3,755
Charge for the year	305	466	771
Written-off on disposals	–	(63)	(63)
At 31 December 2016	2,766	1,697	4,463
Net book value at 31 December 2016	12,460	9,018	21,478

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.

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	**2017**	2016
Cost at 1 January and 31 December	**40**	40
Accumulated amortisation		
At 1 January	**13**	12
Charge for the year	**1**	1
At 31 December	**14**	13
Net book value at 31 December	**26**	27

23 Railway Construction in Progress

A Island Line Extension Project

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

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

B South Island Line ("SIL") 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.

During the year ended 31 December 2016, HK$17.6 billion has been transferred out from Railway Construction in Progress to Other Property, Plant and Equipment upon the opening of the South Island Line on 28 December 2016.

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 2016, HK$6.8 billion has been transferred out from Railway Construction in Progress to Other Property, Plant and Equipment upon the opening of the Kwun Tong Line Extension on 23 October 2016.

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

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

(b) XRL Entrustment Agreement: In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the XRL on the understanding that the Company would subsequently be invited to undertake the operation of the XRL under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the XRL (the "XRL Entrustment Agreement"). Pursuant to the XRL Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the XRL and the HKSAR Government, as owner of XRL, is responsible for bearing and financing the full amount of the total cost of such activities (the "Entrustment Cost") and for paying to the Company a fee in accordance with an agreed payment schedule (the "Project Management Fee") (subsequent amendments to these arrangements are described below). As at 31 December 2017 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.

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.

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.

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)*

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

- the XRL being completed in the third quarter of 2018 (including programme contingency of six months) (the "XRL Revised Programme"); and
- the total project cost of HK$85.3 billion (including contingency), based on the XRL Revised Programme.

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

(c) XRL Agreement: On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "XRL Agreement") relating to the further funding and completion of the XRL. The XRL Agreement contains an integrated package of terms (subject to conditions as set out in note 24A(c)(vi) below) and provides that:

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

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

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

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

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
- seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;

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

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

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

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

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)*

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

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

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in note 24A(c)(iv) above), given that a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the XRL Agreement, cannot take place until after commencement of commercial operations on the XRL) (as of 31 December 2017 and up to the date of this annual report); b) the Company has the benefit of the Liability Cap; and c) as a result of the XRL Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and

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

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

(e) During the year ended 31 December 2017, project management fee of HK$733 million (2016: HK$811 million) was recognised in the consolidated profit and loss account.

B Shatin to Central Link ("SCL") Project

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

(b) SCL Advance Works Entrustment Agreement: On 17 May 2011, the Company entered into another entrustment agreement with the HKSAR Government for the financing, construction, procurement of services and equipment and other matters associated with certain enabling works in relation to the SCL ("SCL Advance Works Entrustment Agreement"). Pursuant to the SCL Advance Works Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the agreed works while the HKSAR Government is responsible to bear and pay to the Company all the work costs ("SCL Advance Works Costs").

In August 2015, the Company notified the HKSAR Government that the Company estimated that the cost for the works carried out under the SCL Advance Works Entrustment Agreement will exceed the original estimate of HK$7,350 million. In February 2016, the Company notified the HKSAR Government that the estimated exceedance would be HK$1,267 million (including contingency). In December 2016, the Company completed its review for the project cost estimate of the works under the SCL Advance Works Entrustment Agreement and notified the HKSAR Government of the Company's revised estimate for the entrustment cost for such works of HK$8,617.1 million. In January 2017, the HKSAR Government submitted to the Legislative Council Public Works Subcommittee the application for additional funding needed in excess of amounts retained by the HKSAR Government from the original funding. The additional funding of HK$848 million was approved by Legislative Council Finance Committee in June 2017.

(c) SCL Entrustment Agreement: On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("SCL Entrustment Agreement"). Pursuant to the SCL Entrustment Agreement, the HKSAR Government is responsible to bear all the work costs specified in the SCL Entrustment Agreement including costs to contractors and costs to the Company ("Interface Works Costs") except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The Company is responsible to carry out or procure the carrying out of the works specified in the SCL Preliminary Entrustment Agreement, the SCL Advance Works Entrustment Agreement and the SCL Entrustment Agreement (together, the "SCL Agreements") for a total project management fee of HK$7,893 million. As at 31 December 2017 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.

24 Other Railway Construction in Progress under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

The sum entrusted to the Company by the HKSAR Government for the main construction works under the SCL Entrustment Agreement is $70,827 million. The Company has previously announced that, due to the continuing challenges posed by external factors, the SCL Cost to Complete ("CTC") would need to be revised upwards significantly.

The Company completed a detailed review of the estimated CTC for the main construction works under the SCL Entrustment Agreement and the latest estimate was submitted to the HKSAR Government for review on 5 December 2017. Taking into account a number of factors, including issues such as archaeological finds, the HKSAR Government requests for additional scope and late or incomplete handover of construction sites, the Company has increased the latest estimate of the main construction works of the SCL by HK$16,501 million from HK$70,827 million to HK$87,328 million.

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

(d) Given (i) the SCL Agreements provide that the HKSAR Government shall bear and finance the full amount of the relevant costs to the extent described above; and (ii) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company in relation to any SCL Agreement (as of 31 December 2017 and up to the date of this annual report), where applicable, the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any) arising from the matters described above.

(e) During the year ended 31 December 2017, project management fee of HK$992 million (2016: HK$979 million) was recognised in the consolidated profit and loss account.

Additionally, during the year ended 31 December 2017, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK$1,268 million (2016: HK$1,597 million). As at 31 December 2017, the amount of the SCL Advance Works Costs and the Interface Works Costs which remained to be paid to the Company by the HKSAR Government was HK$1,318 million (2016: HK$1,359 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 2017, the outstanding Hong Kong Property Development Projects of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung Kwan O Area 86 (LOHAS Park) and at the ventilation building in Yau Tong, South Island Line Property Project at sites 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 sites 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 Development Project"). Part of the net profits generated from this property development will be shared with the Shenzhen Municipal Government.

25 Property Development in Progress *(continued)*

A Property Development in Progress

The Group

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to properties held for sale	Transfer out to profit or loss	Exchange differences	Balance at 31 December
2017							
Hong Kong Property Development Projects	**14,479**	**483**	**(152)**	**–**	**–**	**–**	**14,810**
Shenzhen Property Development Project	**3,005**	**272**	**–**	**(178)**	**(3,194)**	**95**	**–**
	17,484	**755**	**(152)**	**(178)**	**(3,194)**	**95**	**14,810**
2016							
Hong Kong Property Development Projects	14,046	435	(2)	–	–	–	14,479
Shenzhen Property Development Project	3,937	525	–	(409)	(791)	(257)	3,005
	17,983	960	(2)	(409)	(791)	(257)	17,484

The Company

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Balance at 31 December
2017				
Hong Kong Property Development Projects	**14,479**	**483**	**(152)**	**14,810**
2016				
Hong Kong Property Development Projects	14,046	435	(2)	14,479

Leasehold land in Hong Kong included under property development in progress are held under medium-term leases.

B 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. As at 31 December 2017, the balance of the stakeholding funds was HK$3,950 million (2016: HK$5,414 million).

C 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 2017, HK$535 million (2016: HK$48 million) agency fee and other income in respect of West Rail property development was recognised (note 11). During the year ended 31 December 2017, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$102 million (2016: HK$95 million).

26 Deferred Expenditure

The Group and The Company

in HK$ million	2017	2016
Balance at 1 January	**463**	288
Expenditure during the year	**247**	175
Balance at 31 December	**710**	463

27 Investments in Subsidiaries

The Company

in HK$ million	2017	2016
Unlisted shares, at cost	**1,455**	1,402

The following list contains details of subsidiaries as at 31 December 2017 which have been consolidated into the Group's accounts.

		Proportion of ownership interest				
Name of company	Issued and paid up ordinary share capital/ registered capital	Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Subsidiaries held throughout 2017						
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 Academy Investment Holdings (HK) Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Academy (HK) Company Limited	HK$10,000	100%	–	100%	Hong Kong	Administering the operation of MTR Academy
MTR Australia Investment Holdings (Hong Kong) Limited	HK$1	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	Consultancy services in connection with property management
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 Hangzhou Line 5 Investment Holdings (Hong Kong) Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding

27 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
MTR Information Solutions Company Limited	HK$1,000	100%	100%	–	Hong Kong	License MTR software to MTR's subsidiaries and associates
MTR Macau Investment Holdings (Hong Kong) Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
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 Qatar Transit (Hong Kong) Company 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
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 Australia Pty Ltd*	AUD23,750,005	60% on ordinary shares; 30% on Class A shares	–	60% on ordinary shares; 30% on Class A shares	Australia	Investment holding

27 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Metro Trains Melbourne Pty. Ltd.*	AUD39,999,900	60% on ordinary shares; 30% on Class A shares	–	100% on ordinary shares; 100% on Class A shares	Australia	Railway operations and maintenance
Metro Trains Sydney Pty Ltd*	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 business
MTR Corporation (Sydney) NRT Pty Limited	AUD2	100%	–	100%	Australia	Design and delivery of railway related systems
MTR Corporation (Sydney) SMCSW Pty Limited	AUD1	100%	–	100%	Australia	Consultancy services for the Sydney Metro City & South West Project
Fasttrack Insurance Ltd.	HK$77,500,000	100%	100%	–	Bermuda	Insurance business
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 Consultadoria (Macau) Sociedade Unipessoal Lda.*	MOP25,000	100%	–	100%	Macau	Railway consultancy services
MTR Express (Sweden) AB	SEK10,050,000	100%	–	100%	Sweden	Railway operation and maintenance, property investment and management
MTR Nordic AB	SEK40,050,000	100%	–	100%	Sweden	Railway operations and maintenance through one or more subsidiaries, property investment and management
MTR Pendeltågen AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations, maintenance and station management
MTR Tech AB	SEK30,000,000	100%	–	100%	Sweden	Railway maintenance
MTR Tunnelbanan AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR Zeta AB	SEK50,000	100%	–	100%	Sweden	Project bidding
MTR (Beijing) Commercial Facilities Management Co., Ltd.	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management

27 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
MTR (Beijing) Property Services Company Limited*	RMB3,000,000	100%	100%	–	The People's Republic of China	Property management
MTR Commercial Management (Beijing) Co. Ltd.	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	RMB32,000,000	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*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Silverlink) Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
MTR Corporation (Cymru) 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
Subsidiaries established during 2017						
MTR MPD Company Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR MPD Management Company Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Property Consultancy (Hong Kong) Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Operações Ferroviárias (Macau) Sociedade Unipessoal Lda.*	MOP25,000	100%	–	100%	Macau	Railway operations, management and technical support services
MTR Commercial Consultancy (Beijing) Company Limited*	RMB8,000,000	100%	–	100%	The People's Republic of China	Commercial consultancy

^ Deregistration in progress

* Subsidiaries not audited by KPMG

A.C.N. 164 058 002 Pty Ltd, MTR (Shanghai Project Management) Limited and MTR Corporation (Scotrail) Limited were deregistered in March 2017 and MTR Property (Tianjin) No. 2 Company Limited was deregistered in April 2017.

28 Interests in Associates and Joint Venture

	The Group		The Company	
in HK$ million	**2017**	2016	**2017**	2016
Unlisted shares, at cost	**–**	–	**24**	24
Share of net assets	**6,838**	7,015	**–**	–
	6,838	7,015	**24**	24

The Group and the Company had interests in the following major associates and joint venture as at 31 December 2017:

		Proportion of ownership interest				
Name of company	Issued and paid up ordinary share capital/ registered capital	Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Associates held throughout 2017						
Octopus Holdings Limited	HK$42,000,000	57.4%	57.4%	–	Hong Kong	Investment holding
NRT Holdings 2 Pty Ltd*	AUD10	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
NRT Holdings Pty Ltd*	AUD10	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
NRT Pty Ltd*	AUD10	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
Emtrain AB	SEK1,000,000	50%	–	50%	Sweden	Railway maintenance
Beijing MTR Corporation Limited	RMB6,380,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Beijing MTR L16 Corporation Limited	RMB5,000,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction and operations
Hangzhou MTR Corporation Limited*	RMB4,540,000,000	49%	–	49%	The People's Republic of China	Railway operations and management
First MTR South Western Trains Limited	GBP100	30%	–	30%	United Kingdom	Railway operations and management
London Overground Rail Operations Ltd*	GBP2	50%	–	50%	United Kingdom	Railway operations and management
Joint venture established during 2017						
Hangzhou MTR Line 5 Corporation Limited	RMB4,360,000,000	60%	–	60%	The People's Republic of China	Railway operations and management

* Companies not audited by KPMG

All the associates and joint venture are accounted for using the equity method in the consolidated accounts and considered to be not individually material.

28 Interests in Associates and Joint Venture *(continued)*

The summary financial information of the Group's effective interests in associates and joint venture is as follows:

in HK$ million	2017	2016
Assets	**22,749**	21,682
Liabilities	**(15,911)**	(14,667)
Net assets	**6,838**	7,015
Income	**6,691**	5,251
Expenses and others	**(5,983)**	(4,575)
Profit before taxation	**708**	676
Income tax	**(214)**	(141)
Net profit	**494**	535
Other comprehensive income	**394**	(508)
Total comprehensive income	**888**	27

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, RMB740 million and RMB240 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. 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 will 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 will undertake the operations and maintenance of Line 16 for a term of 30 years. The first phase of Line 16 opened in December 2016, while full line operation is targeted after 2018.

On 23 March 2017, MTR Property (Tianjin) No.1 Company Limited ("MTR TJ No.1") entered into a Framework Agreement comprising, inter alia, a Share Transfer Agreement, with Tianjin Xingtai Jihong Real Estate Co., Ltd. ("TJXJRE"), a wholly-owned subsidiary of Beijing Capital Land Ltd., for the disposal of MTR TJ No.1's 49% equity interest in Tianjin TJ – Metro MTR Construction Company Limited ("Tianjin TJ – Metro MTR") at a consideration of RMB1.3 billion; and MTR TJ No.1's conditional future acquisition of a shopping centre to be developed on the same site at a consideration of RMB1.3 billion subject to the agreement of Tianjin TJ – Metro MTR. The disposal was completed on 10 July 2017 and consequently a prepayment is recognised on the consolidated statement of financial position. A performance bond in the amount of RMB1.6 billion issued by a Hong Kong licensed bank has been provided by TJXJRE to MTR TJ No.1 to guarantee its obligations under the Framework Agreement.

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. The Group's share of investment in NRT Holdings 2 Pty Ltd is expected to represent equity contribution of approximately AUD27.8 million and loans to NRT Holdings 2 Pty Ltd of approximately AUD34.8 million.

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 for a period of 25 years.

In March 2017, First MTR South Western Trains Limited was awarded a franchise to operate and maintain the South Western rail from 20 August 2017 for a seven-year franchise period by the United Kingdom's Department for Transport. The franchise includes an option for an 11-month extension at discretion of the Department for Transport.

28 Interests in Associates and Joint Venture *(continued)*

In October 2017, Hangzhou MTR Line 5 Corporation Limited ("Hangzhou L5 Ltd.") signed a concession agreement with the Hangzhou Municipal Government and Hangzhou Metro Group for the PPP project for the investment, construction and operations of Hangzhou Metro Line 5 ("HZL5"). The construction portion of 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 Hangzhou Metro Group. Under the PPP arrangement, Hangzhou L5 Ltd. will take part in the investment and construction for Part B which covers electrical and mechanical systems as well as the operations and maintenance of the HZL5 for 25 years after commencement of passenger services. The new line is expected to go into operation by the end of 2019. The Group is responsible to contribute up to RMB2,616 million. The Group contributed equity of RMB262 million to Hangzhou L5 Ltd. in October 2017.

During the year ended 31 December 2017, the Group provided staff secondment and other support services to Beijing MTR at a total amount of HK$20 million (2016: HK$48 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 AUD220 million (HK$1,307 million) (2016: AUD114 million or HK$657 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 AUD7 million (HK$44 million) (2016: AUD7 million or HK$40 million). London Overground Rail Operations Ltd ("LOROL") distributed GBP2.5 million (HK$26 million) (2016: GBP5 million or HK$47 million) of dividends to the Group and the Group provided management services to LOROL at a total amount of HK$8 million (2016: HK$15 million).

During the year ended 31 December 2017, the Group incurred HK$150 million (2016: HK$147 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly owned subsidiary of Octopus Holdings Limited ("OHL"). OCL incurred HK$43.4 million (2016: HK$41 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$132 million (2016: HK$161 million) of dividends to the Group.

29 Investments in Securities

Investments in securities represented trading securities held by the overseas insurance underwriting subsidiary. As at 31 December 2017, all trading securities were expected to mature within one year except for HK$361 million (2016: HK$292 million) which were expected to mature after one year.

30 Properties Held for Sale

The Group

in HK$ million	**2017**	2016
Properties held for sale		
– at cost	**1,099**	1,068
– at net realisable value	**248**	326
	1,347	1,394
Representing:		
Hong Kong property development	**876**	985
Mainland of China property development	**471**	409
	1,347	1,394

The Company

in HK$ million	**2017**	2016
Properties held for sale		
– at cost	**628**	659
– at net realisable value	**248**	326
	876	985

Properties held for sale of the Group at 31 December 2017 comprise properties from property development in Hong Kong and Mainland of China.

For Hong Kong property development, they comprise mainly residential units and/or car parking spaces at The Riverpark at Che Kung Temple Station, Lake Silver at Wu Kai Sha Station, The Palazzo at Ho Tung Lau and Hemera at LOHAS Park Station. They represent either the Group's interest in unsold properties or properties received by the Group as sharing in kind (notes 2L(iii) and (v)). The net realisable values as at 31 December 2017 and 2016 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.

For Mainland of China property development, they relate to properties at the Shenzhen Longhua Line Depot property development.

Properties held for sale at net realisable value of the Group and the Company are stated net of provision of HK$38 million (2016: HK$47 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 and The Company

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in				
			Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2017							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	225	13					
– inflow			119	58	61	–	238
– outflow			(112)	(57)	(56)	–	(225)
– not qualified for hedge accounting:	209	7					
– inflow			178	–	39	–	217
– outflow			(173)	–	(36)	–	(209)
Cross currency swaps							
– fair value hedges:	775	3					
– inflow			469	1	2	307	779
– outflow			(465)	–	–	(310)	(775)
– cash flow hedges:	2,612	98					
– inflow			93	93	276	3,251	3,713
– outflow			(72)	(72)	(217)	(3,215)	(3,576)
Net settled:							
Interest rate swaps							
– fair value hedges	600	10	24	–	–	–	24
– cash flow hedges	1,350	37	3	12	23	1	39
	5,771	168	64	35	92	34	225
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	1,107	4					
– inflow			1,093	3	5	5	1,106
– outflow			(1,096)	(3)	(6)	(5)	(1,110)
– hedges of net investments:	2,140	22					
– inflow			2,082	–	–	–	2,082
– outflow			(2,104)	–	–	–	(2,104)
– not qualified for hedge accounting:	1,520	15					
– inflow			1,520	–	–	–	1,520
– outflow			(1,535)	–	–	–	(1,535)
Cross currency swaps							
– fair value hedges:	388	3					
– inflow			1	1	2	381	385
– outflow			–	–	–	(388)	(388)
– cash flow hedges:	8,601	367					
– inflow			238	240	718	9,487	10,683
– outflow			(247)	(247)	(740)	(9,725)	(10,959)
– hedges of net investments:	64	9					
– inflow			3	3	67	–	73
– outflow			(2)	(2)	(79)	–	(83)
Net settled:							
Interest rate swaps							
– fair value hedges	1,550	28	5	(5)	(24)	(3)	(27)
– cash flow hedges	600	3	(8)	–	–	–	(8)
	15,970	451	(50)	(10)	(57)	(248)	(365)
Total	21,741						

31 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group and The Company

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in				
			Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2016							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	1,317	1					
– inflow			1,318	–	–	–	1,318
– outflow			(1,317)	–	–	–	(1,317)
Cross currency swaps							
– fair value hedges:	2,326	17					
– inflow			16	471	4	705	1,196
– outflow			(6)	(465)	–	(698)	(1,169)
– cash flow hedges:	4,699	81					
– inflow			128	130	391	5,402	6,051
– outflow			(118)	(119)	(356)	(5,344)	(5,937)
Net settled:							
Interest rate swaps							
– fair value hedges	600	27	20	22	–	–	42
– cash flow hedges	1,350	57	–	9	47	5	61
	10,292	183	41	48	86	70	245
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	2,174	3					
– inflow			2,171	–	–	–	2,171
– outflow			(2,174)	–	–	–	(2,174)
– cash flow hedges:	324	15					
– inflow			158	53	76	22	309
– outflow			(167)	(55)	(79)	(23)	(324)
– not qualified for hedge accounting :	197	11					
– inflow			152	–	35	–	187
– outflow			(161)	–	(36)	–	(197)
Cross currency swaps							
– fair value hedges:	1,194	137					
– inflow			1,069	–	–	–	1,069
– outflow			(1,200)	–	–	–	(1,200)
– cash flow hedges:	2,670	366					
– inflow			75	75	227	3,017	3,394
– outflow			(100)	(100)	(300)	(3,282)	(3,782)
Net settled:							
Interest rate swaps							
– fair value hedges	2,701	32	5	(4)	(23)	(7)	(29)
– cash flow hedges	600	5	(5)	(6)	–	–	(11)
	9,860	569	(177)	(37)	(100)	(273)	(587)
Total	20,152						

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps entered into exclusively by the Company, and the relevant interest rate swap curves as of 31 December 2017 and 2016 were used to discount the cash flows of financial instruments. Interest rates used ranged from 1.191% to 2.470% (2016: 0.619% to 2.790%) for Hong Kong dollars, 1.480% to 2.490% (2016: 0.723% to 2.496%) for US dollars, 1.710% to 3.003% (2016: 1.640% to 3.215%) for Australian dollars and -0.034% to 0.475% (2016: -0.085% to 0.444%) for Japanese yen.

The table above details the remaining contractual maturities at the end of reporting period of 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 Company can be required to pay. The details of the fair value measurement are disclosed in note 44.

31 Derivative Financial Assets and Liabilities *(continued)*

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") for the Company 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 Company'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 Company 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 at the parent company level as specified in the Model. The Company 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

	2017				2016			
in HK$ million	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	**26,902**	**1,495**	**1,053**	**29,450**	18,617	1,551	1,088	21,256
Amounts repayable within a period of between 2 and 5 years	**5,136**	**4,440**	**162**	**9,738**	2,848	14,361	142	17,351
Amounts repayable within a period of between 1 and 2 years	**971**	**11,475**	**49**	**12,495**	1,725	1,043	45	2,813
Amounts repayable within 1 year	**1,946**	**950**	**49**	**2,945**	5,619	1,803	40	7,462
	34,955	**18,360**	**1,313**	**54,628**	28,809	18,758	1,315	48,882

31 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Company

in HK$ million	2017 Capital market instruments	2017 Bank loans and overdrafts	2017 Others	2017 Total	2016 Capital market instruments	2016 Bank loans and overdrafts	2016 Others	2016 Total
Loans and other obligations								
Amounts repayable beyond 5 years	**5,985**	**–**	**610**	**6,595**	2,743	–	625	3,368
Amounts repayable within a period of between 2 and 5 years	**323**	**3,710**	**–**	**4,033**	144	13,705	–	13,849
Amounts repayable within a period of between 1 and 2 years	**108**	**11,223**	**–**	**11,331**	553	816	3	1,372
Amounts repayable within 1 year	**613**	**600**	**3**	**1,216**	86	1,568	–	1,654
	7,029	**15,533**	**613**	**23,175**	3,526	16,089	628	20,243

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 40% and 70% (2016: 40% and 70%) 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 2017, 61% (2016: 48%) 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, associate and joint venture companies are managed separately based on their own borrowing requirement, circumstances and market practice.

As at 31 December 2017, 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$113 million/HK$98 million. Other components of consolidated equity would increase/decrease by approximately HK$43 million/HK$42 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 2016, 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$89 million/HK$82 million. Other components of consolidated equity would increase/decrease by approximately HK$56 million/HK$57 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 at the parent company level 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 Company 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 Company'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

	The Group		The Company	
in HK$ million	**2017**	2016	**2017**	2016
Stores and spares expected to be consumed:				
– within 1 year	**1,039**	1,012	**708**	742
– after 1 year	**511**	478	**421**	398
	1,550	1,490	**1,129**	1,140
Less: Provision for obsolete stock	**(10)**	(6)	**(10)**	(6)
	1,540	1,484	**1,119**	1,134

Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

33 Debtors and Other Receivables

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 from operations in Stockholm is collected in the transaction month with the remainder being collected in the following month. Concession 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.

33 Debtors and Other Receivables *(continued)*

(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:

	The Group		The Company	
in HK$ million	**2017**	2016	**2017**	2016
Amounts not yet due	**2,703**	2,362	**1,165**	1,291
Overdue by 30 days	**359**	430	**237**	322
Overdue by 60 days	**47**	52	**11**	11
Overdue by 90 days	**62**	16	**45**	6
Overdue by more than 90 days	**16**	42	**3**	19
Total debtors	**3,187**	2,902	**1,461**	1,649
Other receivables	**3,871**	1,171	**1,999**	123
	7,058	4,073	**3,460**	1,772

Included in amounts not yet due as at 31 December 2017 was HK$387 million (2016: HK$588 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 25B) awaiting finalisation of the respective development accounts as well as other receivables on miscellaneous recoverable expenses.

During the year, the Inland Revenue Department of Hong Kong ("IRD") issued notices of assessment/additional assessment for the years of assessment 2010/2011 to 2016/2017 following queries in connection with the tax deductibility of certain payments relating to the Rail Merger.

Based on the strength of advice from external senior counsel and tax advisor, the directors of the Company have determined to strongly contest the assessments raised by the IRD. The Company has lodged objections against these tax assessments and has applied to hold over the additional tax demanded. The IRD has agreed to the holdover of the additional tax demanded subject to the purchase of tax reserve certificates ("TRCs") amounting to HK$1,816 million during the year. The purchase of TRCs does not prejudice the Company's tax position and the purchased TRCs were included in debtors and other receivables in the Group's consolidated statement of financial position. No additional tax provision has been made during the year in respect of the above notices of assessment/additional assessment.

As at 31 December 2017, all debtors and other receivables were expected to be recovered within one year except for amounts relating to deposits and other receivables of HK$1,978 million (2016: HK$247 million) and of HK$1,888 million (2016: HK$93 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 and other receivables in advance are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
in million	**2017**	2016	**2017**	2016
Macau Pataca	**208**	87	**208**	87
United States dollars	**8**	10	**8**	10

34 Amounts Due from Related Parties

in HK$ million	The Group		The Company	
	2017	2016	**2017**	2016
Amounts due from:				
– HKSAR Government	**2,378**	2,092	**2,378**	2,092
– KCRC	**6**	15	**6**	15
– associates	**186**	64	**149**	43
– subsidiaries (net of impairment losses)	**–**	–	**12,612**	11,878
	2,570	2,171	**15,145**	14,028

As at 31 December 2017, 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 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 25C), as well as receivables and retention for other entrustment and maintenance works.

The amount due from KCRC mainly related to the recoverable cost for certain capital works in accordance with the agreements in relation to the Rail Merger.

The amounts due from associates as at 31 December 2017 included the outstanding balance of loan to First MTR South Western Trains Limited amounting to GBP9 million (HK$95 million) (2016: nil) which bears an interest rate of 5.5% per annum with repayment due by 31 March 2023.

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	
	2017	2016	**2017**	2016
Deposits with banks and other financial institutions	**12,095**	14,265	**10,897**	12,475
Cash at banks and on hand	**6,259**	6,025	**402**	360
Cash, bank balances and deposits	**18,354**	20,290	**11,299**	12,835
Less: Bank deposits with more than three months to maturity when placed or pledged (note 36E)	**(4,411)**	(13,253)	**(3,625)**	(11,896)
Less: Bank overdrafts (note 36A)	**(4)**	–	**(4)**	–
Cash and cash equivalents in the cash flow statement	**13,939**	7,037	**7,670**	939

35 Cash, Bank Balances and Deposits *(continued)*

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:

	The Group		The Company	
in million	**2017**	2016	**2017**	2016
Australian dollars	**68**	65	**68**	62
Canadian dollars	**–**	1	**–**	1
Euros	**100**	12	**99**	8
Japanese yen	**68**	58	**68**	58
New Taiwan dollars	**17**	17	**17**	17
Pound sterling	**56**	6	**56**	6
Renminbi	**1**	–	**–**	–
Swedish krona	**3**	–	**3**	–
Swiss franc	**23**	1	**23**	1
United States dollars	**145**	1,205	**139**	1,199

36 Loans and Other Obligations

A By Type

The Group

	2017			2016		
in HK$ million	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 2026 to 2047 (2016: due during 2017 to 2046)	**8,769**	**9,649**	**8,891**	10,988	11,519	11,125
Unlisted:						
Debt issuance programme notes due during 2018 to 2055 (2016: due during 2017 to 2055)	**14,682**	**16,232**	**14,979**	9,689	10,675	10,274
Total capital market instruments	**23,451**	**25,881**	**23,870**	20,677	22,194	21,399
Bank loans	**17,313**	**17,313**	**17,376**	17,018	17,018	17,051
Finance leases	**492**	**635**	**492**	460	603	460
Others	**458**	**537**	**458**	434	524	434
Loans and others	**41,714**	**44,366**	**42,196**	38,589	40,339	39,344
Bank overdrafts	**4**	**4**	**4**	–	–	–
Short-term loans	**325**	**325**	**325**	1,350	1,350	1,350
Total	**42,043**	**44,695**	**42,525**	39,939	41,689	40,694

36 Loans and Other Obligations *(continued)*

A By Type *(continued)*

The Company

in HK$ million	2017 Carrying amount	2017 Fair value	2017 Repayable amount	2016 Carrying amount	2016 Fair value	2016 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2043 to 2047 (2016: due during 2043 to 2046)	**2,996**	**3,593**	**3,073**	1,195	1,446	1,241
Unlisted:						
Debt issuance programme notes due during 2018 to 2028 (2016: due during 2018 to 2028)	**812**	**906**	**816**	796	897	857
Total capital market instruments	**3,808**	**4,499**	**3,889**	1,991	2,343	2,098
Bank loans	**14,537**	**14,537**	**14,600**	13,967	13,967	14,000
Others	**458**	**537**	**458**	434	524	434
Loans and others	**18,803**	**19,573**	**18,947**	16,392	16,834	16,532
Bank overdrafts	**4**	**4**	**4**	–	–	–
Short-term loans	**325**	**325**	**325**	1,350	1,350	1,350
Total	**19,132**	**19,902**	**19,276**	17,742	18,184	17,882

Others include non-defeased obligations under lease out/lease back transaction (note 20F).

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 44.

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 2017	Before hedging activities 2016	After hedging activities 2017	After hedging activities 2016
Australian dollars	**431**	280	**–**	–
Japanese yen	**15,000**	15,000	**–**	–
United States dollars	**1,090**	1,450	**–**	–

The Company

in million	Before hedging activities 2017	Before hedging activities 2016	After hedging activities 2017	After hedging activities 2016
Japanese yen	**5,000**	5,000	**–**	–
United States dollars	**410**	220	**–**	–

36 Loans and Other Obligations *(continued)*

B By Repayment Terms

The Group

in HK$ million	2017 Capital market instruments	2017 Bank loans and overdrafts	2017 Finance leases	2017 Others	2017 Total	2016 Capital market instruments	2016 Bank loans and overdrafts	2016 Finance leases	2016 Others	2016 Total
Long-term loans and others										
Amounts repayable beyond 5 years	**19,055**	**1,517**	**344**	**455**	**21,371**	13,400	1,831	335	431	15,997
Amounts repayable within a period of between 2 and 5 years	**3,300**	**4,300**	**81**	**–**	**7,681**	1,600	14,232	68	–	15,900
Amounts repayable within a period of between 1 and 2 years	**300**	**11,234**	**46**	**–**	**11,580**	1,215	744	39	3	2,001
Amounts repayable within 1 year	**1,215**	**325**	**21**	**3**	**1,564**	5,184	244	18	–	5,446
	23,870	**17,376**	**492**	**458**	**42,196**	21,399	17,051	460	434	39,344
Bank overdrafts	**–**	**4**	**–**	**–**	**4**	–	–	–	–	–
Short-term loans	**–**	**325**	**–**	**–**	**325**	–	1,350	–	–	1,350
	23,870	**17,705**	**492**	**458**	**42,525**	21,399	18,401	460	434	40,694
Less: Unamortised discount/premium/finance charges outstanding	**(160)**	**(63)**	**–**	**–**	**(223)**	(125)	(33)	–	–	(158)
Adjustment due to fair value change of financial instruments	**(259)**	**–**	**–**	**–**	**(259)**	(597)	–	–	–	(597)
Total carrying amount of debt	**23,451**	**17,642**	**492**	**458**	**42,043**	20,677	18,368	460	434	39,939

The Company

in HK$ million	2017 Capital market instruments	2017 Bank loans and overdrafts	2017 Others	2017 Total	2016 Capital market instruments	2016 Bank loans and overdrafts	2016 Others	2016 Total
Long-term loans and others								
Amounts repayable beyond 5 years	**3,454**	**–**	**455**	**3,909**	1,633	–	431	2,064
Amounts repayable within a period of between 2 and 5 years	**–**	**3,600**	**–**	**3,600**	–	13,500	–	13,500
Amounts repayable within a period of between 1 and 2 years	**–**	**11,000**	**–**	**11,000**	465	500	3	968
Amounts repayable within 1 year	**465**	**–**	**3**	**468**	–	–	–	–
	3,919	**14,600**	**458**	**18,977**	2,098	14,000	434	16,532
Bank overdrafts	**–**	**4**	**–**	**4**	–	–	–	–
Short-term loans	**–**	**325**	**–**	**325**	–	1,350	–	1,350
	3,919	**14,929**	**458**	**19,306**	2,098	15,350	434	17,882
Less: Unamortised discount/premium/finance charges outstanding	**(54)**	**(63)**	**–**	**(117)**	(40)	(33)	–	(73)
Adjustment due to fair value change of financial instruments	**(57)**	**–**	**–**	**(57)**	(67)	–	–	(67)
Total carrying amount of debt	**3,808**	**14,866**	**458**	**19,132**	1,991	15,317	434	17,742

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.

36 Loans and Other Obligations *(continued)*

C Bonds and Notes Issued and Redeemed

Notes issued during the years ended 31 December 2017 and 2016 comprise:

The Group

in HK$ million	2017 Principal amount	2017 Net consideration received	2016 Principal amount	2016 Net consideration received
Debt issuance programme notes	**7,655**	**7,600**	7,868	7,809

During the year ended 31 December 2017, notes of HK$4,637 million and AUD201 million (or HK$1,198 million) (2016: HK$2,050 million and USD680 million (or HK$5,275 million)) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited, while notes of HK$338 million and USD190 million (or HK$1,482 million) were issued by the Company (2016: USD70 million (or HK$543 million)). 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 2017, the Group redeemed HK$500 million and AUD50 million (or HK$417 million) of its unlisted debt securities (2016: HK$1,200 million) and redeemed USD550 million (or HK$4,268 million) of its listed debt securities (2016: nil).

D Obligations Under Finance Leases

At 31 December 2017 and 2016, the Group had obligations under finance leases repayable as follows:

in HK$ million	2017 Present value of the minimum lease payments	2017 Total minimum lease payments	2016 Present value of the minimum lease payments	2016 Total minimum lease payments
Within 1 year	**21**	**48**	18	40
After 1 year but within 2 years	**46**	**96**	39	84
After 2 years but within 5 years	**81**	**155**	68	135
After 5 years	**344**	**350**	335	362
	471	**601**	442	581
	492	**649**	460	621
Less: Total future interest expenses		**(157)**		(161)
Present value of lease obligations		**492**		460

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 2017 and 2016.

(ii) As at 31 December 2017, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB2,236 million (2016: RMB2,734 million) bank loan facility granted to it.

(iii) As at 31 December 2017, MTR Corporation (Sydney) NRT Pty Limited, an indirect wholly owned subsidiary of the Company in Australia, has pledged a bank deposit of AUD1.2 million as a collateral for a bank guarantee of AUD1.2 million.

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 2017.

37 Creditors and Other Payables

	The Group		The Company	
in HK$ million	**2017**	2016	**2017**	2016
Creditors and accrued charges	**24,687**	30,896	**19,726**	20,503
Other payables	**3,479**	1,733	**2,625**	753
	28,166	32,629	**22,351**	21,256

A Creditors and accrued charges

The analysis of creditors by due dates is as follows:

	The Group		The Company	
in HK$ million	**2017**	2016	**2017**	2016
Due within 30 days or on demand	**11,274**	5,000	**8,747**	2,491
Due after 30 days but within 60 days	**1,290**	4,147	**1,216**	4,101
Due after 60 days but within 90 days	**1,332**	1,272	**546**	811
Due after 90 days	**4,766**	10,494	**3,539**	3,376
	18,662	20,913	**14,048**	10,779
Rental and other refundable deposits	**3,946**	3,779	**3,866**	3,712
Accrued employee benefits	**2,079**	2,982	**1,812**	2,790
Dividends payable to other shareholders (note 15)	**–**	3,222	**–**	3,222
	24,687	30,896	**19,726**	20,503

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:

	The Group		The Company	
in million	**2017**	2016	**2017**	2016
Australian dollars	**10**	7	**3**	2
Euros	**10**	11	**10**	11
Japanese yen	**102**	101	**78**	78
Pound sterling	**5**	2	**5**	2
Renminbi	**2**	1	**2**	1
Swedish krona	**1**	–	**1**	–
Swiss franc	**3**	1	**3**	1
United States dollars	**18**	12	**5**	3

B Other payables

Other payables comprised contract retentions and deferred income. Deferred income related to the surplus amounts of payments received from property developers in excess of the balance in property development in progress, the residual balance of deferred income on transfer of assets from customers, as well as the unutilised government subsidy for Shenzhen Metro Longhua Line operation.

As at 31 December 2017, all of the creditors and other payables were expected to be settled or recognised as income within one year except for HK$8,327 million (2016: HK$6,601 million) in the Group and HK$7,713 million (2016: HK$6,031 million) in the Company which were expected to be settled after one year. The amounts due after one year for the Group as at 31 December 2017 mainly relate to rental deposits received from investment property and station kiosk tenants and advance income received, majority of which are due to be repaid within three years. The Group considers the effect of discounting would be immaterial.

38 Amounts Due to Related Parties

in HK$ million	The Group 2017	The Group 2016	The Company 2017	The Company 2016
Amounts due to:				
– HKSAR Government	**78**	9,798	**78**	9,798
– KCRC	**1,997**	1,852	**1,997**	1,852
– associates	**151**	133	**–**	–
– subsidiaries	**–**	–	**20,252**	19,234
	2,226	11,783	**22,327**	30,884

The amount due to the HKSAR Government as at 31 December 2017 relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2017 mainly 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 Holdings 2 Pty Ltd..

The amount due to the Company's subsidiaries included HK$19,778 million (2016: HK$18,802 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 2017, HK$19,041 million (2016: HK$13,744 million) is expected to be settled after one year.

39 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 2017	The Group 2016	The Company 2017	The Company 2016
Balance as at 1 January	**10,507**	10,564	**10,343**	10,392
Add: Net increase in interest payable	**3**	3	**–**	–
Less: Amount repaid during the year	**(51)**	(49)	**(51)**	(49)
Exchange difference	**11**	(11)	**–**	–
Balance as at 31 December	**10,470**	10,507	**10,292**	10,343

The outstanding balances as at 31 December 2017 and 2016 are repayable as follows:

The Group

in HK$ million	2017 Present value of payment obligations	2017 Interest expense relating to future periods	2017 Total payment obligations	2016 Present value of payment obligations	2016 Interest expense relating to future periods	2016 Total payment obligations
Amounts repayable beyond 5 years	**10,154**	**16,323**	**26,477**	10,210	17,019	27,229
Amounts repayable within a period of between 2 and 5 years	**202**	**2,084**	**2,286**	190	2,077	2,267
Amounts repayable within a period of between 1 and 2 years	**59**	**697**	**756**	55	700	755
Amounts repayable within 1 year	**55**	**701**	**756**	52	704	756
	10,470	**19,805**	**30,275**	10,507	20,500	31,007

39 Obligations under Service Concession *(continued)*

The Company

in HK$ million	2017 Present value of payment obligations	2017 Interest expense relating to future periods	2017 Total payment obligations	2016 Present value of payment obligations	2016 Interest expense relating to future periods	2016 Total payment obligations
Amounts repayable beyond 5 years	**9,976**	**16,212**	**26,188**	10,047	16,890	26,937
Amounts repayable within a period of between 2 and 5 years	**202**	**2,048**	**2,250**	189	2,061	2,250
Amounts repayable within a period of between 1 and 2 years	**59**	**691**	**750**	55	695	750
Amounts repayable within 1 year	**55**	**695**	**750**	52	698	750
	10,292	**19,646**	**29,938**	10,343	20,344	30,687

40 Loan from Holders of Non-controlling Interests

Loan from holders of non-controlling interests as at 31 December 2017 represents the portion of total shareholder loan of AUD60 million (HK$366 million) granted to Metro Trains Australia Pty. Ltd. ("MTA") by the holders of its non-controlling interests. The loan carries an interest rate of 6.2% per annum and is repayable at the discretion of MTA or on 1 December 2024, whichever is earlier.

Loan from holders of non-controlling interests as at 31 December 2016 represents the portion of total shareholder loan of AUD48.75 million (HK$273 million) granted to Metro Trains Melbourne Pty. Ltd. ("MTM") by the holders of its non-controlling interests. The loan carried an interest rate of 7.5% per annum. The balance was settled during the year ended 31 December 2017.

41 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 2017, chargeable at Hong Kong Profits Tax Rate at 16.5% (2016: 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 2017	The Group 2016	The Company 2017	The Company 2016
Provision for Hong Kong Profits Tax for the year (note 14)	**1,305**	989	**1,256**	940
Hong Kong Provisional Profits Tax paid	**(596)**	(1,345)	**(563)**	(1,303)
	709	(356)	**693**	(363)
Balance relating to Mainland of China and overseas tax	**371**	117	**2**	1
	1,080	(239)	**695**	(362)
Representing:				
Tax recoverable	**–**	(362)	**–**	(362)
Current Taxation	**1,080**	123	**695**	-
	1,080	(239)	**695**	(362)

41 Income Tax in the Statements of Financial Position *(continued)*

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

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2017						
Balance as at 1 January 2017	**11,795**	**599**	**(314)**	**32**	**(12)**	**12,100**
Charged to consolidated profit and loss account	**361**	**–**	**45**	**–**	**4**	**410**
Charged/(credited) to reserves	**–**	**49**	**166**	**(32)**	**–**	**183**
Exchange difference	**2**	**–**	**(4)**	**–**	**–**	**(2)**
Balance as at 31 December 2017	**12,158**	**648**	**(107)**	**–**	**(8)**	**12,691**
2016						
Balance as at 1 January 2016	11,024	574	(372)	(43)	(65)	11,118
Charged to consolidated profit and loss account	771	–	33	–	49	853
Charged to reserves	–	25	26	75	–	126
Exchange difference	–	–	(1)	–	4	3
Balance as at 31 December 2016	11,795	599	(314)	32	(12)	12,100

The Company

	Deferred tax arising from				
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Total
2017					
Balance as at 1 January 2017	**11,730**	**599**	**(316)**	**32**	**12,045**
Charged to profit and loss account	**367**	**–**	**57**	**–**	**424**
Charged/(credited) to reserves	**–**	**49**	**163**	**(32)**	**180**
Balance as at 31 December 2017	**12,097**	**648**	**(96)**	**–**	**12,649**
2016					
Balance as at 1 January 2016	10,960	574	(347)	(43)	11,144
Charged to profit and loss account	770	–	7	–	777
Charged to reserves	–	25	24	75	124
Balance as at 31 December 2016	11,730	599	(316)	32	12,045

	The Group		The Company	
in HK$ million	**2017**	2016	**2017**	2016
Net deferred tax assets	**(69)**	(25)	**–**	–
Net deferred tax liabilities	**12,760**	12,125	**12,649**	12,045
	12,691	12,100	**12,649**	12,045

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$113 million (2016: HK$270 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.

42 Share Capital, Shares Held for Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management

A Share Capital

	2017		2016	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**5,905,290,065**	**47,929**	5,858,228,236	46,317
Shares issued in respect of scrip dividend of 2016/2015 final ordinary dividend	**87,794,562**	**3,863**	15,683,803	566
Shares issued in respect of scrip dividend of 2017/2016 interim ordinary dividend	**3,032,675**	**137**	2,382,026	101
Vesting of shares of Share Incentive Scheme	**–**	**2**	–	1
Shares issued under share option schemes	**11,660,000**	**376**	28,996,000	944
At 31 December	**6,007,777,302**	**52,307**	5,905,290,065	47,929

In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the ordinary shares of the Company do not have a par value.

B Shares Held for Share Incentive Scheme

During the year ended 31 December 2017, the Company awarded Performance Shares and Restricted Shares under the Company's Executive Share Incentive Scheme to certain eligible employees of the Company (note 45 (ii)). In this regard, a total of 112,200 Performance Shares (2016: 187,200 Performance Shares) and 2,245,200 Restricted Shares (2016: 2,472,578 Restricted Shares) were awarded and accepted by the grantees on 10 April 2017 (2016: 8 April 2016 and 19 August 2016). The fair values of these Award Shares were HK$44.45 per share in 2017 (2016: HK$38.65 and HK$42.50).

During the year ended 31 December 2017, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, did not purchase any Ordinary Shares of the Company on Hong Kong Stock Exchange (2016: 2,588,350 Ordinary Shares for a total consideration of approximately HK$99 million). During the year ended 31 December 2017, 110,053 Ordinary Shares of the Company (2016: 167,743 Ordinary Shares) were issued to Executive Share Incentive Scheme in relation to scrip dividend issued amounting to HK$5 million (2016: HK$7 million).

During the year ended 31 December 2017, 1,570,047 shares (2016: 795,860 shares) were transferred to the awardees under Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$59 million (2016: HK$30 million). During the year ended 31 December 2017, HK$2 million (2016: HK$1 million) was credited to share capital in respect of vesting of shares whose fair values at the grant date were higher than the costs of the vested shares. During the year ended 31 December 2017, 169,764 award shares (2016: 270,919 award shares) were forfeited.

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	**11,660,000**	**29.27**

An analysis of the Company's outstanding share options as at 31 December 2017 is disclosed in note 45.

42 Share Capital, Shares Held for Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management *(continued)*

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 2F(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 2T(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 2U(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 2CC.

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$54,938 million (2016: HK$48,803 million) included in retained profits are non-distributable as they do not constitute realised profits. As at 31 December 2017, the Company considers that the total amount of reserves available for distribution to shareholders amounted to HK$50,378 million (2016: HK$47,448 million).

Included in the Group's retained profits as at 31 December 2017 is an amount of HK$1,536 million (2016: HK$1,205 million), being the retained profits attributable to the associates and joint venture.

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 4,517,196,134 shares as at 31 December 2017, representing 75.2% 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 20.2% at 31 December 2016 and increased to 20.6% at 31 December 2017.

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 33% of the total investment based on Jianfang [2015] No. 122. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. MTR Express (Sweden) AB, MTR Nordic AB, MTR Pendeltågen AB, MTR Tech AB, MTR Tunnelbanan AB and MTR Zeta 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 2017, 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.

42 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:

				Other reserves				
in HK$ million	Note	Share capital	Shares held for Share Incentive Scheme	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	Total equity
2017								
Balance as at 1 January 2017	51	**47,929**	**(227)**	**3,043**	**150**	**182**	**96,101**	**147,178**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**14,892**	**14,892**
Other comprehensive income for the year		**–**	**–**	**253**	**(293)**	**–**	**827**	**787**
Total comprehensive income for the year		**–**	**–**	**253**	**(293)**	**–**	**15,719**	**15,679**
Special Dividend		**–**	**–**	**–**	**–**	**–**	**(20)**	**(20)**
2016 final ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(4,844)**	**(4,844)**
Shares issued in respect of scrip dividend of 2016 final ordinary dividend		**3,863**	**(4)**	**–**	**–**	**–**	**–**	**3,859**
2017 interim ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(1,500)**	**(1,500)**
Shares issued in respect of scrip dividend of 2017 interim ordinary dividend		**137**	**(1)**	**–**	**–**	**–**	**–**	**136**
Vesting and forfeiture of award shares of Share Incentive Scheme		**2**	**59**	**–**	**–**	**(63)**	**2**	**–**
Employee share-based payments		**–**	**–**	**–**	**–**	**119**	**–**	**119**
Employee share options exercised		**376**	**–**	**–**	**–**	**(35)**	**–**	**341**
Balance as at 31 December 2017	51	**52,307**	**(173)**	**3,296**	**(143)**	**203**	**105,458**	**160,948**
2016								
Balance as at 1 January 2016		46,317	(151)	2,912	(225)	210	118,726	167,789
Profit for the year		–	–	–	–	–	9,379	9,379
Other comprehensive income for the year		–	–	131	375	–	125	631
Total comprehensive income for the year		–	–	131	375	–	9,504	10,010
Special Dividend		–	–	–	–	–	(25,902)	(25,902)
2015 final ordinary dividend		–	–	–	–	–	(4,758)	(4,758)
Shares issued in respect of scrip dividend of 2015 final ordinary dividend		566	(5)	–	–	–	–	561
2016 interim ordinary dividend		–	–	–	–	–	(1,473)	(1,473)
Shares issued in respect of scrip dividend of 2016 interim ordinary dividend		101	(2)	–	–	–	–	99
Shares purchased for Share Incentive Scheme		–	(99)	–	–	–	–	(99)
Vesting and forfeiture of award shares of Share Incentive Scheme		1	30	–	–	(34)	3	–
Employee share-based payments		–	–	–	–	106	–	106
Employee share options exercised		944	–	–	–	(99)	–	845
Employee share options forfeited		–	–	–	–	(1)	1	–
Balance as at 31 December 2016	51	47,929	(227)	3,043	150	182	96,101	147,178

43 Other Cash Flow Information

A Reconciliation of the Group's operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment to cash generated from operations is as follows:

in HK$ million	2017	2016
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses	**17,677**	16,947
Adjustments for:		
– Loss on disposal of fixed assets	**44**	65
– Amortisation of deferred income from transfers of assets from customers	**(21)**	(24)
– Decrease/(increase) in fair value of derivative instruments	**46**	(38)
– Unrealised gain on revaluation of investment in securities	**2**	–
– Employee share-based payment expenses	**119**	106
– Exchange loss	**25**	53
Operating profit before working capital changes	**17,892**	17,109
Increase in debtors and other receivables	**(767)**	(625)
Increase in stores and spares	**(31)**	(115)
Increase in creditors and other payables	**5,145**	2,787
Cash generated from operations	**22,239**	19,156

B Reconciliation of the Group's liabilities arising from financing activities is as follows:

in HK$ million	Capital market instruments	Bank loans	Finance leases	Others	Short-term loans	Interest and finance charges payables	Total
2017							
At 1 January 2017	**20,677**	**17,018**	**460**	**434**	**1,350**	**101**	**40,040**
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	**7,601**	**17,823**	**–**	**–**	**–**	**–**	**25,424**
– Repayment of loans and capital market instruments	**(5,185)**	**(17,705)**	**(19)**	**–**	**(1,025)**	**–**	**(23,934)**
– Interest and finance charges	**–**	**–**	**–**	**–**	**–**	**(923)**	**(923)**
	2,416	**118**	**(19)**	**–**	**(1,025)**	**(923)**	**567**
Exchange difference	**1**	**207**	**51**	**3**	**–**	**(48)**	**214**
Other changes:							
– Unamortised discount/premium/ finance charges outstanding	**(35)**	**(30)**	**–**	**–**	**–**	**–**	**(65)**
– Adjustment due to fair value change of financial instruments	**338**	**–**	**–**	**–**	**–**	**–**	**338**
– Interest and finance charges	**–**	**–**	**–**	**21**	**–**	**1,047**	**1,068**
– Discount on issurance of capital market instruments	**54**	**–**	**–**	**–**	**–**	**(54)**	**–**
	357	**(30)**	**–**	**21**	**–**	**993**	**1,341**
At 31 December 2017	**23,451**	**17,313**	**492**	**458**	**325**	**123**	**42,162**

44 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 and self-occupied land and buildings measured at fair value on a recurring basis are categorised as Level 3 of the fair value hierarchy.

During the year ended 31 December 2017, 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 2017 and 2016 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 2017 was 3.50% – 6.00% (2016: 3.90% – 7.00%) with a weighted average of 4.9% (2016: 5.3%). The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2017 are shown in note 19. All the fair value adjustment related to investment properties held as at 31 December 2017 and was recognised under investment property revaluation in the consolidated profit and loss account.

44 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 2017**	**Fair value measurements as at 31 December 2017**	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**20**	**–**	**20**
– Cross currency swaps	**101**	**–**	**101**
– Interest rate swaps	**47**	**–**	**47**
	168	**–**	**168**
Investments in securities	**443**	**443**	**–**
	611	**443**	**168**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**41**	**–**	**41**
– Cross currency swaps	**379**	**–**	**379**
– Interest rate swaps	**31**	**–**	**31**
	451	**–**	**451**

in HK$ million	Fair value at 31 December 2016	Fair value measurements as at 31 December 2016	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	1	–	1
– Cross currency swaps	98	–	98
– Interest rate swaps	84	–	84
	183	–	183
Investments in securities	370	370	–
	553	370	183
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	29	–	29
– Cross currency swaps	503	–	503
– Interest rate swaps	37	–	37
	569	–	569

44 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

The Company

in HK$ million	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**20**	**–**	**20**
– Cross currency swaps	**101**	**–**	**101**
– Interest rate swaps	**47**	**–**	**47**
	168	**–**	**168**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**41**	**–**	**41**
– Cross currency swaps	**379**	**–**	**379**
– Interest rate swaps	**31**	**–**	**31**
	451	**–**	**451**

in HK$ million	Fair value at 31 December 2016	Fair value measurements as at 31 December 2016	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	1	–	1
– Cross currency swaps	98	–	98
– Interest rate swaps	84	–	84
	183	–	183
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	29	–	29
– Cross currency swaps	503	–	503
– Interest rate swaps	37	–	37
	569	–	569

There are no Level 3 measurements of financial instruments. During the years ended 31 December 2017 and 2016, 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 and the cross currency basis curves of the respective currency pairs 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.

44 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 2017 and 2016 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

The Group

	At 31 December 2017		At 31 December 2016	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**23,451**	**25,881**	20,677	22,194
Other obligations	**950**	**1,172**	894	1,127

The Company

	At 31 December 2017		At 31 December 2016	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**3,808**	**4,499**	1,991	2,343
Other obligations	**458**	**537**	434	524

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.

45 Share-based Payments

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 2017, the Company maintained the 2007 Share Option Scheme and the Executive Share Incentive Scheme (formerly the "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.

45 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

As at 31 December 2017, 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 2017 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2012 Award 30 March 2012	1,793,500	27.48	on or prior to 23 March 2019
2013 Award 6 May 2013	4,014,500	31.40	on or prior to 26 April 2020
2014 Award 30 May 2014	7,986,000	28.65	on or prior to 23 May 2021

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2017		2016	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**25,605,000**	**29.284**	55,034,500	29.200
Exercised during the year	**(11,660,000)**	**29.267**	(28,996,000)	29.131
Forfeited during the year	**(151,000)**	**29.219**	(388,500)	29.110
Lapsed during the year	**–**	**–**	(45,000)	26.850
Outstanding at 31 December	**13,794,000**	**29.298**	25,605,000	29.284
Exercisable at 31 December	**13,794,000**	**29.298**	19,755,500	29.471

The weighted average closing price in respect of the share options exercised during the year was HK$45.264 (2016: HK$38.883).

45 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

Share options outstanding at 31 December 2017 had the following exercise prices and remaining contractual lives:

Exercise price	2017		2016	
	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$27.73	–	–	45,000	1
HK$28.84	–	–	2,198,000	1
HK$27.48	**1,793,500**	**1**	3,362,000	2
HK$31.40	**4,014,500**	**2**	7,182,000	3
HK$29.87	–	–	24,500	4
HK$28.65	**7,986,000**	**3**	12,793,500	4
	13,794,000		25,605,000	

During the year ended 31 December 2017, the equity-settled share-based payments relating to the 2007 Share Option Scheme recognised as an expense amounted to HK$2 million (2016: HK$9 million).

(ii) Executive Share Incentive Scheme

On 15 August 2014, the Board of the Company approved the adoption of the Executive Share Incentive Scheme, following the expiry of the 2007 Option Scheme on 6 June 2014. The purposes of the Executive 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 Executive Share Incentive 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 Executive Share Incentive 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.

On 15 November 2017, the Remuneration Committee approved to rename the 2014 Share Incentive Scheme as Executive Share Incentive Scheme with effect from 1 January 2018.

As at 31 December 2017, the following awards of shares were offered to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme:

Restricted Shares

Date of award	Number of Award Shares granted	Average fair value per share HK$	Vesting period
27 April 2015	2,348,150	38.60	20 April 2015 to 20 April 2018
8 April 2016	2,401,150	38.65	1 April 2016 to 1 April 2019
19 August 2016	71,428	42.50	15 August 2016 to 15 August 2019
10 April 2017	**2,245,200**	**44.45**	**3 April 2017 to 3 April 2020**

45 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

Performance Shares

Date of award	Number of Award Shares granted	Average fair value per share HK$	Vesting period
27 April 2015	1,681,050	38.60	20 April 2015 to 20 April 2018
8 April 2016	187,200	38.65	1 April 2016 to 20 April 2018
10 April 2017	**112,200**	**44.45**	**3 April 2017 to 20 April 2018**

Movement in the number of Award Shares outstanding was as follows:

	2017	2016
	Number of Award Shares	Number of Award Shares
Outstanding at 1 January	**5,524,599**	3,931,600
Awarded during the year	**2,357,400**	2,659,778
Vested during the year	**(1,570,047)**	(795,860)
Forfeited during the year	**(169,764)**	(270,919)
Outstanding at 31 December	**6,142,188**	5,524,599

Award Shares outstanding at 31 December 2017 had the following remaining vesting periods:

Award Shares	Remaining vesting period years	Number of Award Shares
Restricted Shares		
27 April 2015	0.30	640,598
8 April 2016	1.25	1,447,271
19 August 2016	1.62	47,619
10 April 2017	**2.25**	**2,183,550**
Performance Shares		
27 April 2015	0.30	1,523,750
8 April 2016	0.30	187,200
10 April 2017	**0.30**	**112,200**

The details of the Executive Share Incentive Scheme are also disclosed in the Remuneration Report.

During the year ended 31 December 2017, the equity-settled share-based payments relating to the Executive Share Incentive Scheme recognised as an expense amounted to HK$117 million (2016: HK$97 million).

46 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 2017, 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.

46 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted with an MPF Exemption Certificate 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 is administrated 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 by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2017, the total membership was 3,858 (2016: 4,094). In 2017, members contributed HK$74 million (2016: HK$75 million) and the Company contributed HK$662 million (2016: HK$480 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contributions as at 31 December 2017 was HK$9,903 million (2016: HK$8,413 million).

The actuarial valuations as at 31 December 2016 and 2017 to determine the accounting obligations in accordance with 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 47.

The actuarial valuations as at 31 December 2016 and 2017 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 2017 included a long-term rate of investment return net of salary increases of 1.0% (2016: 0.6%) 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 2017:

(a) the MTR Retirement Scheme was solvent, with assets more than adequate to cover the aggregate value of members' vested benefits had all members left the MTR Retirement Scheme; and

(b) on the assumption that the MTR Retirement Scheme continued in force, the value of assets was more than sufficient to cover the aggregate past service liability, with a funding level of 107.5% (2016: 92.6%).

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted an MPF Exemption Certificate 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.

As at 31 December 2017, the total number of employees participating in the MTR Provident Fund Scheme was 9,662 (2016: 9,309). In 2017, total members' contributions were HK$125 million (2016: HK$114 million) and total contributions from the Company were HK$312 million (2016: HK$292 million). The net asset value as at 31 December 2017 was HK$6,247 million (2016: HK$5,252 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 Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). 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 2017, the total number of employees participating in the MTR MPF Scheme was 6,109 (2016: 6,400). In 2017, total members' contributions were HK$53 million (2016: HK$53 million) and total contribution from the Company were HK$58 million (2016: HK$58 million).

(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 MPFSO.

As at 31 December 2017, the total number of employees participating in the KCRC MPF Scheme was 515 (2016: 582). In 2017, total members' contributions were HK$6 million (2016: HK$6 million) and total contribution from the Company were HK$6 million (2016: HK$7 million).

46 Retirement Schemes *(continued)*

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.

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 2017, total number of the Group's employees participating in this scheme was 611 (2016: 662). In 2017, total members' contributions were HK$25 million (2016: HK$27 million) and total contribution from the Group was HK$46 million (2016: HK$36 million).

Certain employees of the Group's Swedish subsidiary are entitled to receive retirement benefits from the ITP 2 Retirement Scheme operated in Sweden. The benefit amounts are calculated based on the member's years of service and annual 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 2017, total number of the Group's employees participating in this scheme was 670 (2016: 631). In 2017, total contribution from the Group was HK$20 million (2016: HK$3 million).

Certain employees of the Group's MTR Crossrail subsidiary are entitled to join the MTR Corporation (Crossrail) section of the Railway Pension Scheme in the United Kingdom. The scheme is a shared cost arrangement whereby the Group is only responsible for a share of the cost. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any net defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation for any deficit in the value of the scheme. Its only obligation is to pay contributions as they fall due. As at 31 December 2017, total number of the Group's employees participating in this scheme was 394 (2016: 261). In 2017, total members' contributions were HK$10 million (2016: HK$8 million) and total contribution from the Group was HK$15 million (2016: HK$12 million). Pension expense of HK$29 million (2016: HK$10 million) was recognised in profit and loss and actuarial gain of HK$11 million (2016: actuarial loss of HK$2 million) was recognised in the statement of other comprehensive income.

Except for the retirement schemes described above, 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 MPFSO 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 2017, the total number of employees of the Group participating in these schemes was 11,655 (2016: 10,965). In 2017, total members' contributions were HK$99 million (2016: HK$96 million) and total contribution from the Group was HK$394 million (2016: HK$336 million).

47 Defined Benefit Retirement Scheme

During the year ended 31 December 2017, 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 46). This defined benefit scheme exposes 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	**2017**	2016
Present value of defined benefit obligations	**(10,672)**	(10,455)
Fair value of scheme assets	**9,903**	8,413
Net liabilities	**(769)**	(2,042)

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$184 million in contribution to the MTR Retirement Scheme in 2018.

47 Defined Benefit Retirement Scheme *(continued)*

B Scheme assets consist of the following:

The Group and The Company

in HK$ million	2017	2016
Equity securities		
– Financial institutions	**901**	832
– Non-financial institutions	**4,778**	3,598
	5,679	4,430
Bonds		
– Government	**1,821**	1,536
– Non-government	**2,212**	2,129
	4,033	3,665
Cash	**366**	462
	10,078	8,557
Voluntary units	**(175)**	(144)
	9,903	8,413

The scheme assets include no amount invested in the ordinary shares of the Company as at 31 December 2017 (2016: HK$6 million). Other than this, there were no investment in other shares and debt securities of the Company as at 31 December 2017 and 2016. 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 2017 (2016: 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	2017	2016
At 1 January	**10,455**	10,408
Remeasurements:		
– Actuarial losses/(gains) arising from changes in liability experience	**232**	(53)
– Actuarial losses arising from changes in demographic assumptions	**1**	1
– Actuarial losses/(gains) arising from changes in financial assumptions	**168**	(79)
	401	(131)
Members' contributions paid to the scheme	**74**	75
Benefits paid by the scheme	**(853)**	(499)
Current service cost	**328**	339
Interest cost	**267**	263
At 31 December	**10,672**	10,455

The weighted average duration of the present value of the defined benefit obligations is 6.6 years (2016: 6.8 years).

47 Defined Benefit Retirement Scheme *(continued)*

D Movements in Scheme Assets

The Group and The Company

in HK$ million	2017	2016
At 1 January	**8,413**	8,131
Company's contributions paid to the scheme	**662**	480
Members' contributions paid to the scheme	**74**	75
Benefits paid by the scheme	**(853)**	(499)
Administrative expenses paid from scheme assets	**(6)**	(5)
Interest income	**222**	211
Return on scheme assets, excluding interest income	**1,391**	20
At 31 December	**9,903**	8,413

E Expenses recognised in the profit and loss and other comprehensive income are as follows:

in HK$ million	2017	2016
Current service cost	**328**	339
Net interest on net defined benefit liability	**45**	52
Administrative expenses paid from scheme assets	**6**	5
	379	396
Less: Amount capitalised	**(47)**	(60)
Net amount recognised in profit or loss	**332**	336
Actuarial losses/(gains)	**401**	(131)
Return on scheme assets, excluding interest income	**(1,391)**	(20)
Amount recognised in other comprehensive income	**(990)**	(151)

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:

	2017	2016
Discount rate	**2.3%**	2.7%
Future salary increases	**4.0%**	4.4%
Unit value increase	**5.0%**	5.0%

The below analysis shows how the present value of the defined benefit obligations as at 31 December 2017 would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2017		2016	
	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	**(171)**	**176**	(174)	180
Future salary increases	**129**	**(121)**	161	(153)
Unit value increase	**48**	**(42)**	19	(15)

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.

48 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 2017:

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 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 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	2019
Package Five	Residential	102,336	2019
Package Six	Residential	136,970	2020
Package Seven	Residential/Retail/Kindergarten	115,920	2022
Package Eight	Residential	97,000	2021
Package Nine	Residential/Kindergarten	104,920	2022
Package Ten	Residential	75,400	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
Ho Man Tin Station			
Package One	Residential	69,000	2022
Wong Chuk Hang Station			
Package One	Residential	53,600	2022
Package Two	Residential	45,800	2023

* Completion based on issuance of occupation permit

48 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 or deferred income included in creditors and other payables as the case may be.

During the year ended 31 December 2017, profits attributable to joint operations of HK$609 million (2016: HK$353 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 *
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.

49 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 75.2% 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. 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 49C 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.

49 Material Related Party Transactions *(continued)*

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 49A 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 may apply for extensions of the franchise and the Secretary for Transport and Housing shall, subject to certain provisions, recommend to the Chief Executive in Council that the franchise should be extended for a further period of 50 years (from a date relating to certain capital expenditure requirements) if the Company has satisfied such capital expenditure requirements, at no additional payment for any such extension. If the franchise is not extended, it will expire on 1 December 2057. Following such expiry, the HKSAR Government has the right to take possession of railway property (and, where the HKSAR Government has taken possession of any such property which is not concession property, the Company may require the HKSAR Government to take possession of any other property which the HKSAR Government was entitled to take possession of, but did not take possession of), but must compensate the Company: (i) in the case of such property which is not concession property, at the higher of fair value and depreciated book value, and (ii) in the case of such property which is concession property, in an amount equal to the reimbursement described in note 3. 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.

D Other than the new OA described in note 49C 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 50E.

The above transactions are considered to be related party transactions and also constitute 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 (as amended by a supplemental agreement dated 23 December 2016) 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, 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

49 Material Related Party Transactions *(continued)*

(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).

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 2017 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 2017 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 2017 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 2017 are provided in notes 34 and 38 respectively.

I On 6 December 2016, the Company accepted an offer dated 7 November 2016 from the HKSAR Government for the purpose of the development of the Wong Chuk Hang Station and the Wong Chuk Hang Depot at Aberdeen Inland Lot No. 464 (which forms part of the South Island Line) subject to payment of a land premium of HK$1,025 million and on the terms and conditions of the land grant by private treaty to be entered into between the Company and the HKSAR Government. The land grant was executed on 22 December 2016.

J 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/ land premium offer acceptance date	Total land premium in HK$ million	Land premium settlement date
Kowloon Inland Lot No. 11264	**4 January 2017**	**6,282**	**22 February 2017**
Site A of Aberdeen Inland Lot No. 467	**9 March 2017**	**4,685**	**8 June 2017**
Site B of Aberdeen Inland Lot No. 467	**14 December 2017**	**5,214**	**17 January 2018**

K 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.

49 Material Related Party Transactions *(continued)*

L 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$70 million was recognised as consultancy income during the year ended 31 December 2017 (2016: HK$78 million). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules.

M Other than those stated in notes 49A to 49L, 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 38.

N 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. Details of the terms of these options are disclosed in note 10B 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	**2017**	2016
Short-term employee benefits	**90.3**	81.3
Post-employment benefits	**11.7**	9.6
Equity compensation benefits	**22.2**	15.5
	124.2	106.4

The above remuneration is included in staff costs and related expenses disclosed in note 9A.

O During the year, the following dividends were paid to the Financial Secretary Incorporated of the HKSAR Government:

in HK$ million	**2017**	2016
Ordinary dividends		
– Cash dividends paid	**1,129**	4,701
– Shares allotted in respect of scrip dividends	**3,636**	–
	4,765	4,701
Special dividend paid in cash	**9,756**	9,756
	14,521	14,457

50 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2017 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
At 31 December 2017					
Authorised but not yet contracted for	**6,246**	**–**	**1,868**	**22**	**8,136**
Authorised and contracted for	**13,758**	**298**	**5,497**	**30**	**19,583**
	20,004	**298**	**7,365**	**52**	**27,719**
At 31 December 2016					
Authorised but not yet contracted for	7,654	–	2,323	10	9,987
Authorised and contracted for	14,339	370	6,198	74	20,981
	21,993	370	8,521	84	30,968

50 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
At 31 December 2017				
Authorised but not yet contracted for	**6,214**	**–**	**1,821**	**8,035**
Authorised and contracted for	**13,758**	**298**	**5,482**	**19,538**
	19,972	**298**	**7,303**	**27,573**
At 31 December 2016				
Authorised but not yet contracted for	7,617	–	2,274	9,891
Authorised and contracted for	14,269	370	6,194	20,833
	21,886	370	8,468	30,724

(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
At 31 December 2017				
Authorised but not yet contracted for	**3,081**	**614**	**2,551**	**6,246**
Authorised and contracted for	**9,767**	**79**	**3,912**	**13,758**
	12,848	**693**	**6,463**	**20,004**
At 31 December 2016				
Authorised but not yet contracted for	3,543	659	3,452	7,654
Authorised and contracted for	9,958	71	4,310	14,339
	13,501	730	7,762	21,993

The Company

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 31 December 2017				
Authorised but not yet contracted for	**3,049**	**614**	**2,551**	**6,214**
Authorised and contracted for	**9,767**	**79**	**3,912**	**13,758**
	12,816	**693**	**6,463**	**19,972**
At 31 December 2016				
Authorised but not yet contracted for	3,506	659	3,452	7,617
Authorised and contracted for	9,888	71	4,310	14,269
	13,394	730	7,762	21,886

50 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 2017. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
in HK$million	**2017**	2016	**2017**	2016
Payable within one year	**148**	139	**24**	25
Payable after one but within five years	**13**	27	**8**	26
	161	166	**32**	51

In addition to the above, the Group has future operating lease commitments of HK$10,557 million (2016: HK$11,359 million) in respect of railway-related subsidiaries outside of Hong Kong over the respective franchise periods, of which HK$1,615 million (2016: HK$1,454 million) is payable within one year, HK$5,949 million (2016: HK$5,465 million) is payable after one but within five years and HK$2,993 million (2016: HK$4,440 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 2017, the Group had total outstanding liabilities and contractual commitments of HK$2,565 million (2016: HK$2,544 million) in respect of these works and services. Cash funds totalling HK$2,232 million (2016: HK$2,060 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$23,870 million (in notional amount) as at 31 December 2017. 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$94 million (HK$737 million) as at 31 December 2017. 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$53 million (HK$417 million) as at 31 December 2017.

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 lease for premises and any storage licence, car parking licence or other rights ancillary to the lease in Sydney, the Group provided a rental guarantee of AUD0.1 million (HK$0.5 million) to the landlord.

In respect of the Melbourne train system 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 AUD87.0 million (HK$530 million) and a performance bond of AUD55.1 million (HK$336 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 AUD4.4 million (HK$27 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.

In respect of the Stockholm metro franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$948 million), which can be called if the franchise is terminated early as a result of default by MTR Tunnelbanan AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the Stockholms pendeltåg franchise, the Group has provided to the Stockholm transport authorities a guarantee of SEK1,000 million (HK$948 million), which can be called if the franchise is terminated early as a result of default by MTR Pendeltågen AB, the wholly owned subsidiary of the Group to undertake the franchise.

50 Commitments *(continued)*

D Material Financial and Performance Guarantees *(continued)*

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$842 million) and a performance bond of GBP15 million (HK$158 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$665 million) for the design and construction contract as well as the operations and maintenance contract and a performance bond of AUD53.5 million (HK$326 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 AUD50.1 million (HK$306 million) as at 31 December 2017 to cover the equity and preferred equity to be invested in the Sydney Metro Northwest project.

In respect of the South Western Trains Franchise, the Group has provided to the Secretary of State for Transport several parent company guarantees of GBP26.2 million (HK$276 million), a performance bond of GBP4.5 million (HK$47 million) and a season ticket bond amounting to GBP23.1 million (HK$243 million) as at 31 December 2017 for the performance and other obligations under the franchise agreement.

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.

51 Company-level Statement of Financial Position

in HK$ million	Note	At 31 December 2017	At 31 December 2016
Assets			
Fixed assets			
– Investment properties	19	**75,352**	68,517
– Other property, plant and equipment	20	**101,405**	102,328
– Service concession assets	21	**22,996**	21,478
		199,753	192,323
Property management rights	22	**26**	27
Property development in progress	25A	**14,810**	14,479
Deferred expenditure	26	**710**	463
Investments in subsidiaries	27	**1,455**	1,402
Interests in associates	28	**24**	24
Properties held for sale	30	**876**	985
Derivative financial assets	31	**168**	183
Stores and spares	32	**1,119**	1,134
Debtors and other receivables	33	**3,460**	1,772
Amounts due from related parties	34	**15,145**	14,028
Tax recoverable	41A	**–**	362
Cash, bank balances and deposits	35	**11,299**	12,835
		248,845	240,017
Liabilities			
Bank overdrafts	36A	**4**	–
Short-term loans	36A	**325**	1,350
Creditors and other payables	37	**22,351**	21,256
Current taxation	41A	**695**	–
Amounts due to related parties	38	**22,327**	30,884
Loans and other obligations	36A	**18,803**	16,392
Obligations under service concession	39	**10,292**	10,343
Derivative financial liabilities	31	**451**	569
Deferred tax liabilities	41B	**12,649**	12,045
		87,897	92,839
Net assets		**160,948**	147,178
Capital and reserves			
Share capital	42A	**52,307**	47,929
Shares held for Share Incentive Scheme	42	**(173)**	(227)
Other reserves	42	**108,814**	99,476
Total equity		**160,948**	147,178

Approved and authorised for issue by the Members of the Board on 8 March 2018

Frederick S H Ma
Chairman

Lincoln K K Leong
Chief Executive Officer

Herbert L W Hui
Finance Director

52 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 2I).

(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 2H(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 scheme is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 46A(i) and 47F.

(iv) Profit 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. As set out in note 49C, pursuant to the terms stipulated in the new Operating Agreement with the HKSAR Government, the Company may apply for extensions of the franchise for further periods of 50 years. If the franchise is not extended, the HKSAR Government has the right to take possession of railway property (and, where the HKSAR Government has taken possession of any such property which is not concession property, the Company may require the HKSAR Government to take possession of any other property which the HKSAR Government was entitled to take possession of, but did not take possession of), but must compensate the Company, in the case of such property which is not concession property, at the higher of fair value and depreciated book value. The Group's depreciation policies (note 2I) for such property which is not concession property with assets' lives which extend beyond 2057 reflect the above.

52 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following: *(continued)*

(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 2017 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.

As detailed in note 33, there are tax queries from the IRD with the Company on tax deductibility of certain expenses and payments for which the ultimate tax determination is uncertain up to the date of this annual report. The Group recognises tax provision for these tax matters based on estimates of whether additional taxes will eventually be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax expenses in the period when such determination is made.

(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 2J(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 agreed based on a feasible financial plan. Such decision involves the Board's judgement on the outcome of the proposed project.

(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:

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 2017, 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.

53 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2017

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 2017 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
Amendments to HKFRS 2, *Classification and Measurement of Shared-based Payment Transactions*	1 January 2018
HKFRS 15, *Revenue from Contracts with Customers*	1 January 2018
HKFRS 9, *Financial Instruments*	1 January 2018
Amendments to HKAS 40, *Investment Property: Transfers of Investment Properties*	1 January 2018
HK(IFRIC) 22, *Foreign Currency Transactions and Advance Consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to HKFRS 10 and HKAS 28, *Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture*	A date to be determined

So far, the Group considers that the adoption of them is unlikely to have a significant impact on the Group's accounts, except for HKFRS 16, *Leases*.

The application of HKFRS 16, *Leases*, is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the profit and loss account over the period of the lease.

The Group's operating lease commitments are disclosed in note 50B, some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16, *Leases* is adopted.

HKFRS 16, *Leases* is not expected to impact significantly on the way that the Group accounts for its rights and obligations under a lease when it is the lessor under the lease.

54 Approval of Consolidated Accounts

The consolidated accounts were approved by the Board on 8 March 2018.

GLOSSARY

Airport Expresss	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 the predecessor Companies Ordinance 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, South 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 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
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 statement of financial position 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 total revenue
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 circular dated 3 September 2007. The Rail Merger was completed on 2 December 2007
Rail Merger Ordinance	The Rail Merger Ordinance (Ordinance No.11 of 2007)
Return on Average Equity Attributable to Shareholders of the Company	Profit attributable to shareholders of the Company as a percentage of the average of the beginning and closing total equity attributable to 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 circular dated 3 September 2007; 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

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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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