新聞稿

Press Release

PR011/19
7 March 2019

MTR CORPORATION LIMITED
香港鐵路有限公司

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

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS

Financials

- Revenue from recurrent businesses	HK$53,870	million	up 11.2%
Revenue from Mainland of China property development	HK$60	million	down 99.1%
Total revenue of the Group	HK$53,930	million	down 2.7%
- Post-tax profit attributable to shareholders of the Company:			
Recurrent business profit	HK$9,020	million	up 5.1%
Underlying business profit	HK$11,263	million	up 7.1%
Profit after investment property revaluation	HK$16,008	million	down 4.9%

- Final ordinary dividend of HK$0.95 per share recommended (with scrip dividend alternative); Total ordinary dividend for the year of HK$1.20 per share, representing an increase of 7.1%

Hong Kong Business Operations

- Operations of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section) ("High Speed Rail" or "HSR") successfully begun on 23 September 2018, unfolding a new chapter for Hong Kong rail transport and its connections to Mainland China
- Train service delivery and passenger journeys on-time in our heavy rail remained at world-class level of 99.9%
- Revenue from Hong Kong station commercial and property rental businesses increased 6.8% and 3.0% respectively
- Property development profit mainly derived from Wings at Sea and Wings at Sea II (LOHAS Park Package 4). Three property packages awarded during the year
- Shatin to Central Link project continues to make progress. The Company continues to cooperate with the Commission of Inquiry whose interim report was submitted to the Chief Executive on 25 February 2019
- Provision of further information to Government on the five new projects under RDS 2014

Mainland of China & International Businesses

- Mixed performance for rail businesses with serious challenges in Europe while other businesses performed in line with or above expectations
- O&M contract for Macau Light Rapid Transit Taipa Line awarded to the Group
- Bid submitted for the West Coast Partnership franchise in the UK

Outlook

- Despite economic uncertainties, sustained trends of increasing urbanisation and environmental awareness will lend solid support and present opportunities to our rail businesses
- Continued economic growth and full year contribution from HSR will support passenger volume increases
- Businesses outside of Hong Kong should continue to perform reasonably overall. However, the Group is still working to overcome the challenges in Europe
- Subject to market conditions, over the next 12 months or so, the Company aims to tender out three property development packages totalling around 4,500 residential units

The Directors of the Company are pleased to announce the audited results of the Company and its subsidiaries ("the Group") for the year ended 31 December 2018 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (HK$ MILLION)

	Year ended 31 December **2018**	2017
Revenue from Hong Kong transport operations	**19,490**	18,201
Revenue from Hong Kong station commercial businesses	**6,458**	5,975
Revenue from Hong Kong property rental and management businesses	**5,055**	4,900
Revenue from Mainland of China and international railway, property rental and management subsidiaries	**20,877**	17,194
Revenue from other businesses	**1,990**	2,174
	53,870	48,444
Revenue from Mainland of China property development	**60**	6,996
	53,930	55,440
Expenses relating to Hong Kong transport operations		
- Staff costs and related expenses	**(5,847)**	(5,748)
- Energy and utilities	**(1,670)**	(1,543)
- Operational rent and rates	**(117)**	(242)
- Stores and spares consumed	**(559)**	(553)
- Maintenance and related works	**(1,638)**	(1,436)
- Railway support services	**(380)**	(284)
- General and administration expenses	**(769)**	(607)
- Other expenses	**(339)**	(313)
	(11,319)	(10,726)
Expenses relating to Hong Kong station commercial businesses	**(567)**	(501)
Expenses relating to Hong Kong property rental and management businesses	**(813)**	(802)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	**(20,001)**	(16,244)
Expenses relating to other businesses	**(2,004)**	(2,162)
Project study and business development expenses	**(323)**	(332)
	(35,027)	(30,767)
Expenses relating to Mainland of China property development	**(35)**	(4,682)
Operating expenses before depreciation, amortisation and variable annual payment	**(35,062)**	(35,449)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment		
- Arising from recurrent businesses	**18,843**	17,677
- Arising from Mainland of China property development	**25**	2,314
	18,868	19,991
Profit on Hong Kong property development	**2,574**	1,097

	Year ended 31 December	
	2018	2017
Operating profit before depreciation, amortisation and variable annual payment	**21,442**	21,088
Depreciation and amortisation	**(4,985)**	(4,855)
Variable annual payment	**(2,305)**	(1,933)
Operating profit before interest and finance charges	**14,152**	14,300
Interest and finance charges	**(1,074)**	(905)
Investment property revaluation	**4,745**	6,314
Share of profit or loss of associates and joint venture	**658**	494
Profit before taxation	**18,481**	20,203
Income tax	**(2,325)**	(3,318)
Profit for the year	**16,156**	16,885
Attributable to:		
- Shareholders of the Company	**16,008**	16,829
- Non-controlling interests	**148**	56
Profit for the year	**16,156**	16,885
Profit for the year attributable to shareholders of the Company:		
- Arising from recurrent businesses	**9,020**	8,580
- Arising from property development	**2,243**	1,935
- Arising from underlying businesses	**11,263**	10,515
- Arising from investment property revaluation	**4,745**	6,314
	16,008	16,829
Earnings per share:		
- Basic	**HK$2.64**	HK$2.83
- Diluted	**HK$2.64**	HK$2.82

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK$ MILLION)

	Year ended 31 December	
	2018	2017
Profit for the year	**16,156**	16,885
Other comprehensive income for the year (after taxation and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
- Surplus on revaluation of self-occupied land and buildings	**519**	253
- Remeasurement of net liability of defined benefit plans	**(348)**	838
	171	1,091

	Year ended 31 December	
	2018	2017
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences on translation of:		
- financial statements of subsidiaries, associates and joint venture outside Hong Kong	**(761)**	981
- non-controlling interests	**(22)**	16
- Cash flow hedges: net movement in hedging reserve	**(27)**	(149)
	(810)	848
	(639)	1,939
Total comprehensive income for the year	**15,517**	18,824
Attributable to:		
- Shareholders of the Company	**15,391**	18,752
- Non-controlling interests	**126**	72
Total comprehensive income for the year	**15,517**	18,824

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$ MILLION)

	As at 31 December 2018	As at 31 December 2017
Assets		
Fixed assets		
- Investment properties	**82,676**	77,086
- Other property, plant and equipment	**102,776**	102,889
- Service concession assets	**30,473**	29,797
	215,925	209,772
Property management rights	**26**	26
Goodwill	**58**	63
Property development in progress	**14,840**	14,810
Deferred expenditure	**1,878**	710
Interests in associates and joint venture	**8,756**	6,838
Deferred tax assets	**121**	69
Investments in securities	**294**	443
Properties held for sale	**1,369**	1,347
Derivative financial assets	**61**	168
Stores and spares	**1,673**	1,540
Debtors and other receivables	**9,576**	7,058
Amounts due from related parties	**2,088**	2,570
Cash, bank balances and deposits	**18,022**	18,354
	274,687	263,768
Liabilities		
Bank overdrafts	**-**	4
Short-term loans	**4,424**	325
Creditors and other payables	**25,947**	28,166
Current taxation	**1,161**	1,080
Amounts due to related parties	**2,676**	2,226

	As at 31 December 2018	As at 31 December 2017
Loans and other obligations	**35,781**	41,714
Obligations under service concession	**10,409**	10,470
Derivative financial liabilities	**545**	451
Loan from holders of non-controlling interests	**146**	146
Deferred tax liabilities	**12,979**	12,760
	94,068	97,342
Net assets	**180,619**	166,426
Capital and reserves		
Share capital	**57,970**	52,307
Shares held for Executive Share Incentive Scheme	**(265)**	(173)
Other reserves	**122,742**	114,170
Total equity attributable to shareholders of the Company	**180,447**	166,304
Non-controlling interests	**172**	122
Total equity	**180,619**	166,426

Notes: -

1. AUDITOR'S REPORT

The results for the year ended 31 December 2018 have been audited in accordance with Hong Kong Standards on Auditing, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by the Group's auditor, KPMG. Unmodified auditor's report of KPMG is included in the annual report to be sent to shareholders. The results have also been reviewed by the Group's Audit Committee.

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss accounts and consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018, as set out in the preliminary announcement, have been compared by KPMG to the amounts set out in the Group's audited consolidated accounts for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the auditor on this announcement.

2. BASIS OF PREPARATION

The preliminary announcement of the Company's annual results has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It was authorised for issue on 7 March 2019.

The financial information relating to the financial years ended 31 December 2018 and 2017 included in this preliminary announcement of the annual results does not constitute the Company's statutory annual consolidated accounts for those years but is derived from those accounts. Further information relating to these statutory accounts required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

- The Company has delivered the accounts for the year ended 31 December 2017 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the accounts for the year ended 31 December 2018 in due course.

- The Company's auditor, KPMG, has reported on those consolidated accounts of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

These consolidated accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and accounting principles generally accepted in Hong Kong. The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's accounts:

- HKFRS 9, *Financial Instruments*
- HKFRS 15, *Revenue from Contracts with Customers*

The adoption of these new HKFRSs and amendments to HKFRSs does not have a significant impact on the financial results and the financial position of the Group.

Details of any changes in accounting policies are set out in notes 2 (a) and (b) below as a result of the adoption of HKFRS 9 and HKFRS 15 respectively.

(a) HKFRS 9, *Financial Instruments*

HKFRS 9 replaces HKAS 39, *Financial Instruments: Recognition and Measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except information relating to comparative periods has not been restated. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

- Classification of Financial Assets and Financial Liabilities

  HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's four classification categories: held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL.

  The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. The adoption of HKFRS 9 does not affect the measurement basis, and hence the carrying amounts, of the Group's financial assets as at 1 January 2018.

HKFRS 9 largely retains the existing requirements in HKAS 39 for the classification and measurement of financial liabilities. Hence, the adoption of HKFRS 9 does not affect the carrying amounts of the Group's financial liabilities as at 1 January 2018.

The Group did not designate or de-designate any financial assets or financial liabilities at FVPL at 1 January 2018.

- Credit Losses

  HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than the "incurred loss" accounting model in HKAS 39. The ECL model applies to the Group's financial assets measured at amortised cost and contract assets as defined in HKFRS 15, but not to the Group's financial assets measured at fair value.

  There is no significant change in the amount of provision for impairment losses recognised as at 1 January 2018 as a result of the adoption of the ECL model.

- Hedge Accounting

  The Group has adopted the new general hedge accounting requirements in HKFRS 9. Depending on the complexity of the hedge, the new accounting requirements allow a more qualitative approach to assessing hedge effectiveness as compared to HKAS 39, and the assessment is forward looking. The adoption of HKFRS 9 does not have a significant impact on the Group's accounts in this regard.

(b) HKFRS 15, *Revenue from Contracts with Customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction Contracts*, which specified the accounting for construction contracts.

- Timing of revenue recognition

  Previously under HKAS 18 and HKAS 11, revenue arising from provision of services and construction contracts was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

  Under HKFRS 15, revenue is recognised when a performance obligation is satisfied. This is when the customer obtains control of the promised goods or services in the contract, which may be at a single point in time or over time.

  HKFRS 15 identifies certain situations in which control of the promised goods or services is regarded as being transferred over time. If the contract terms and the entity's activities do not fall into any of those situations, then the entity recognises revenue for the sale at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

  The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue.

- Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the group has an unconditional right to consideration. If the Group recognises the related revenue before unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group has elected to use the cumulative effect transition method. Therefore, comparative information has not been restated and continues to be reported under HKAS 11, *Construction Contracts*, and HKAS 18, *Revenue*. If HKAS 11 and HKAS 18 had continued to apply to 2018 instead of HKFRS 15, there would have been no changes in the line items in the consolidated profit and loss account and consolidated statement of financial position.

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

3. RETAINED PROFITS

The movements of the retained profits during the years ended 31 December 2018 and 2017 are as follows:

HK$ Million	
Balance as at 1 January 2018	**110,697**
Profit for the year attributable to shareholders of the Company	**16,008**
Other comprehensive income for the year	**(348)**
Vesting and forfeiture of award shares of Executive Share Incentive Scheme	**(9)**
Dividends declared and approved	**(6,749)**
Balance as at 31 December 2018	**119,599**

HK$ Million	
Balance as at 1 January 2017	99,392
Profit for the year attributable to shareholders of the Company	16,829
Other comprehensive income for the year	838
Vesting and forfeiture of award shares of Executive Share Incentive Scheme	2
Dividends declared and approved	(6,364)
Balance as at 31 December 2017	110,697

4. PRE-TAX PROFIT ON HONG KONG PROPERTY DEVELOPMENT

Pre-tax profit on Hong Kong property development comprises:

	Year ended 31 December	
HK$ Million	**2018**	2017
Share of surplus from property development	**2,480**	609
Agency fee and other income from West Rail property development	**139**	535

HK$ Million	Year ended 31 December 2018	2017
Overhead and miscellaneous studies	**(45)**	(47)
	2,574	1,097

5. INCOME TAX

HK$ Million	Year ended 31 December 2018	2017
Current tax		
- Hong Kong	**1,933**	1,305
- Outside Hong Kong	**325**	1,650
	2,258	2,955
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(69)**	(47)
	2,189	2,908
Deferred tax		
- Origination and reversal of temporary differences on:		
- tax losses	**(102)**	4
- depreciation allowances in excess of related depreciation	**228**	361
- provisions and others	**10**	45
	136	410
Income tax in the consolidated profit and loss account	**2,325**	3,318
Share of income tax expense of associates and joint venture	**270**	214

Current tax provision for Hong Kong Profits Tax for the year ended 31 December 2018 is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current taxes for subsidiaries outside Hong Kong are charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

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 2018, Land Appreciation Tax of HK$30 million (2017: HK$735 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% (2017: 16.5%), while those arising outside Hong Kong are calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

Details of the tax reserve certificates purchased by the Company are set out in note 11A to this announcement.

6. DIVIDEND

The Board has recommended to pay a final dividend of HK$0.95 per share and proposes that a scrip dividend option will be offered to all shareholders (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions). Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the proposed 2018 final dividend, with a scrip dividend option, is expected to be distributed on 16 July 2019 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 31 May 2019.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the year ended 31 December 2018 of HK$16,008 million (2017: HK$16,829 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the year amounting to 6,056,590,679 (2017: 5,949,116,555).

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the year ended 31 December 2018 of HK$16,008 million (2017: HK$16,829 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the year after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme amounting to 6,065,901,819 (2017: 5,961,311,602).

Basic and diluted earnings per share would have been HK$1.86 (2017: HK$1.77) and HK$1.86 (2017: HK$1.76) respectively, if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$11,263 million (2017: HK$10,515 million).

8. SEGMENTAL INFORMATION

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

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

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

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

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

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

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

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

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

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

	Revenue Year ended 31 December		**Contribution to profit Year ended 31 December**	
HK$ Million	**2018**	2017	**2018**	2017
Hong Kong transport operations	**19,490**	18,201	**1,985**	1,656
Hong Kong station commercial businesses	**6,458**	5,975	**5,025**	4,722
Hong Kong property rental and management businesses	**5,055**	4,900	**4,225**	4,082
Mainland of China and international railway, property rental and management businesses	**20,877**	17,194	**722**	814
Mainland of China property development	**60**	6,996	**25**	2,314
Other businesses	**1,990**	2,174	**(81)**	(53)
	53,930	55,440	**11,901**	13,535
Hong Kong property development			**2,574**	1,097
Project study and business development expenses			**(323)**	(332)
			14,152	14,300
Interest and finance charges			**(1,074)**	(905)
Investment property revaluation			**4,745**	6,314
Share of profit or loss of associates and joint venture			**658**	494
Income tax			**(2,325)**	(3,318)
Profit for the year			**16,156**	16,885

HK$ Million	Assets As at 31 December 2018	2017	Liabilities As at 31 December 2018	2017
Hong Kong transport operations	**125,834**	124,218	**21,368**	19,711
Hong Kong station commercial businesses	**2,634**	2,412	**2,270**	3,242
Hong Kong property rental and management businesses	**82,844**	77,536	**2,278**	2,091
Mainland of China and international railway, property rental and management businesses	**22,064**	19,330	**7,818**	7,853
Mainland of China property development	**4,821**	5,921	**920**	1,217
Other businesses	**5,314**	4,607	**2,117**	2,201
Hong Kong property development	**17,982**	16,403	**5,498**	8,433
	261,493	250,427	**42,269**	44,748
Unallocated assets/liabilities	**13,194**	13,341	**51,799**	52,594
Total	**274,687**	263,768	**94,068**	97,342

Unallocated assets/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 2018, revenue from one (2017: one) customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue. Approximately 13.76% (2017: 12.22%) 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, 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 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.

HK$ Million	Revenue from external customers Year ended 31 December 2018	2017	Specified non-current assets As at 31 December 2018	2017
Hong Kong (place of domicile)	**32,935**	31,194	**226,282**	218,401
Australia	**12,746**	10,024	**446**	376
Mainland of China	**1,033**	7,846	**13,965**	12,525
Sweden	**4,891**	4,982	**699**	807
United Kingdom	**1,790**	1,184	**91**	110
Other jurisdictions	**535**	210	**-**	-
	20,995	24,246	**15,201**	13,818
	53,930	55,440	**241,483**	232,219

9. RAILWAY CONSTRUCTION PROJECTS

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$0.4 billion available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism. Under a supplemental agreement signed in June 2018, the Company and the HKSAR Government agreed to extend the timeframe for the repayment mechanism to not later than 31 March 2019. During the year ended 31 December 2018, no payment has been made by the Company to the HKSAR Government under the repayment mechanism (2017: HK$nil).

10. RAILWAY CONSTRUCTION PROJECTS UNDER ENTRUSTMENT BY THE HKSAR GOVERNMENT

A. HONG KONG SECTION OF THE GUANGZHOU-SHENZHEN-HONG KONG EXPRESS RAIL LINK ("High Speed Rail" or "HSR") PROJECT

(a) HSR 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 HSR (the "HSR Preliminary Entrustment Agreement"). Pursuant to the HSR 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) HSR Entrustment Agreement: In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the HSR on the understanding that the Company would subsequently be invited to undertake the operation of the HSR 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 HSR (the "HSR Entrustment Agreement"). Pursuant to the HSR 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 HSR and the HKSAR Government, as owner of HSR, 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 2018 and up to the date of the 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 HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR 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 HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the HSR Preliminary Entrustment Agreement and the HSR 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 HSR Entrustment Agreement and certain fees received by the Company under the HSR

Preliminary Entrustment Agreement (the "Liability Cap"). In accordance with general principles of law, such Liability Cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has reserved the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement (as more particularly described in note 10A(c)(iv) below), up to the date of the annual report, no claim has been received from the HKSAR Government.

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

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

- the HSR being completed in the third quarter of 2018 (including programme contingency of six months) (the "HSR Revised Programme"); and
- the total project cost of HK$85.3 billion (including contingency), based on the HSR 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"). Further particulars relating to the Revised Cost Estimate are set out in notes 10A(c) and (e) below.

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

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

(ii) The Company will, if the project exceeds HK$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "Further Cost Overrun") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the HSR 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 HSR Preliminary Entrustment Agreement and HSR 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 HSR Entrustment Agreement, the Liability Cap is equal to the Project Management Cost and any other fees that the Company receives under HSR

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 HSR Agreement (as it will be equal to the increased Project Management Cost under the HSR 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 HSR Entrustment Agreement to reflect the arrangements contained in the HSR Agreement, including an increase in Project Management Fee payable to the Company under HSR 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 HSR Entrustment Agreement in relation to HSR project) and to reflect the HSR Revised Programme;

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

(d) Operations of HSR: On 23 August 2018, the Company and KCRC entered into the Supplemental Service Concession Agreement ("SSCA") to supplement the Service Concession Agreement ("SCA") dated 9 August 2007 in order for KCRC to grant a concession to the Company in respect of the HSR and to prescribe the operational and financial requirements that will apply to the HSR. The commercial operation of HSR began on 23 September 2018.

(e) Based on the Company's latest review of the Revised Cost Estimate of HK$84.42 billion for the agreed scope of the project and having taken account of the opinion of an independent expert who has reviewed the Revised Cost Estimate, the Company does not currently believe there is any need to revise further the Revised Cost Estimate of HK$84.42 billion for the agreed scope of the project. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach agreement and settlement based on past experience.

Having considered the number of contracts yet to be finalised and the contingency allowance currently available, there can be no absolute assurance that the final project cost will not exceed HK$84.42 billion, particularly if unforeseen difficulties arise in the resolution of commercial issues during the process of negotiating the final accounts. In such case, under the terms of the HSR Agreement, the Company will be required to bear and finance the portion of the project cost that exceeds HK$84.42 billion (if any) except for certain agreed excluded costs (as more particularly described in note 10A(c)(ii) above).

(f) 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 based on information available to date there is any need to revise further the Revised Cost Estimate of HK$84.42 billion. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach agreement and settlement;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in note 10A(c)(iv) above), given that a) the Company has not received any notification from 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 HSR Agreement, cannot take place until after commencement of commercial operations on the HSR) (as of 31 December 2018 and up to the date of the annual report); b) the Company has the benefit of the Liability Cap; and c) as a result of the HSR 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, where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).

(g) During the year ended 31 December 2018, Project Management Fee of HK$402 million (2017: HK$733 million) was recognised in the consolidated profit and loss account. As at 31 December 2018, the total Project Management Fee and the additional fees referred to above recognised to date in the consolidated profit and loss account amounted to HK$6,470 million (as at 31 December 2017: HK$6,068 million). In relation to the sufficiency of the Project Management Fee, the Company estimated that the total costs to complete performance of its obligations in relation to the HSR project are likely to exceed the Project Management Fee. Accordingly, an appropriate amount of provision was charged in the consolidated profit and loss account in 2018.

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. Such additional funding was approved by Legislative Council Finance Committee in June 2017.

(c) SCL Entrustment Agreement: On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("SCL Entrustment Agreement"). Pursuant to the SCL Entrustment Agreement, the HKSAR Government is responsible to bear all the work costs specified in the SCL Entrustment Agreement including costs to contractors and costs to the Company ("Interface Works Costs") except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The Company is responsible to carry out or procure the carrying out of the works specified in the SCL Preliminary Entrustment Agreement, the SCL Advance Works Entrustment Agreement and the SCL Entrustment Agreement (together, the "SCL Agreements") for a total project management fee of HK$7,893 million. As at 31 December 2018 and up to the date of the annual report, the Company has received payments of the project management fee from the HKSAR Government in accordance with the original agreed payment schedule.

The sum entrusted to the Company by the HKSAR Government for the main construction works under the SCL Entrustment Agreement is HK$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's requests for additional scope and late or incomplete handover of construction sites, the Company has increased the latest estimate by HK$16,501 million from HK$70,827 million to HK$87,328 million including an increase in the project management cost payable to the Company, which is subject to agreement and approval processes. Since submission of this latest estimate to the HKSAR Government, the Company has been liaising with the HKSAR Government to facilitate their review and verification process. The Company intends to carry out a further review and revalidation of the CTC (including, without limitation, to take account of the outcome of the verification and assurance works and the associated delays referred to below) within 2019.

Towards the end of the first half of 2018, there were allegations concerning workmanship and timely reporting of certain construction matters relating to three stations of the SCL, in particular regarding works at the Hung Hom Station extension. The Company has taken immediate steps to investigate the issues, report the Company's findings to the HKSAR Government and reserve the Company's position against relevant contractors. To address the allegations relating to the platform at the Hung Hom Station extension, the Company has submitted to the HKSAR Government a holistic proposal for the verification and assurance of the as-constructed conditions and workmanship quality of the Hung Hom Station extension. The verification and assurance works are ongoing and the overall structural integrity and safety of the Hung Hom Station extension will be assessed based on the detailed data collected in the verification process. The Company has also co-operated fully with the Commission of Inquiry ("COI") that has been set up by the HKSAR Chief Executive in Council to investigate matters relating to the diaphragm wall and the platform slab at the Hung Hom Station extension as well as, amongst others, the adequacy of the Company's project management and supervision systems. The COI process included hearing of evidence from factual witnesses and reviewing evidence from experts on project management and structural engineering issues. The HKSAR Government, on 29 January 2019, made its closing submission to the COI in which it stated its view that the Company ought to have provided the required skills and care reasonably expected of a professional and competent project manager but that the Company had failed to do so.

On 19 February 2019, the HKSAR Government announced that the terms of reference of the COI had been expanded to cover issues relating to the North Approach Tunnels ("NAT"), the South Approach Tunnels ("SAT") and the Hung Hom Stabling Sidings ("HHS") under Contract No. 1112. The HKSAR Government stated that it has recently come to light that, in respect of the NAT, SAT and HHS, some works-related documentation has been found missing and some of the construction works involving deviations from the designs, plans or drawings accepted by the Highways Department or the Building Authority might have been carried out. In view of the expanded scope of the COI, the Chief Executive in Council has approved a further extension of time for the COI to submit its report to the Chief Executive by 30 August 2019, or such time as the Chief Executive in Council may allow. The COI may submit interim reports on any aspects of the inquiry as it may see fit under the terms of its appointment. On 25 February 2019, the COI submitted an interim report to the Chief Executive on its findings and recommendations on matters covered by the original terms of reference. The HKSAR Government has yet to publish the interim report, in whole or in part, up to the date of the annual report. The HKSAR Government is now conducting a review on construction documentation / records for the construction works in SCL Project.

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) 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 or any breach thereof by the Company. 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. In accordance with general principles of law, such cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the COI as stated above, up to the date of the annual report, no claim has been received from the HKSAR Government.

The target completion for Tai Wai to Hung Hom Section of the SCL is dependent on the verification and assurance processes in relation to the Hung Hom Station extension and any other parts of SCL deemed necessary by the HKSAR Government/statutory approving authorities referred to above. In light of the uncertainty of the results of the verification and assurance processes, the Company, at the request of the HKSAR Government, is now carrying out a feasibility study on opening the Tuen Ma Line in phases.

These matters are ongoing and the timing of their ultimate resolution and eventual outcome are highly uncertain at the current stage.

(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;

(ii) although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the COI as stated above, the Company has not received any claim by the HKSAR Government against the Company in relation to any SCL Agreement (as of 31 December 2018 and up to the date of the annual report);

(iii) the increase in the project management cost payable to the Company is still pending the agreement and approval processes set out in the SCL Entrustment Agreement; and

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 in light of the significant uncertainties involved, no provision has been made in the Company's accounts in respect of SCL.

(e) During the year ended 31 December 2018, project management fee of HK$891 million (2017: HK$992 million) was recognised in the consolidated profit and loss account. As at 31 December 2018, the total project management fee recognised to date in the consolidated profit and loss account amounted to HK$6,471 million (as at 31 December 2017: HK$5,580 million).

Additionally, during the year ended 31 December 2018, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK$401 million (2017: HK$1,268 million). As at 31 December 2018, 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$1,107 million (as at 31 December 2017: HK$1,318 million).

11. DEBTORS AND CREDITORS

A As at 31 December 2018, the Group's debtors and other receivables amounted to HK$9,576 million (2017: HK$7,058 million), of which debtors accounted for HK$3,217 million (2017: HK$2,806 million). Receivables in respect of rentals, advertising and telecommunication activities are due from immediately to 50 days. Receivables in respect of income from railway subsidiaries outside of Hong Kong are due within 30 days or in the following month. Receivables relating to consultancy services and entrustment works are due within 30 days. Receivables under interest rate and currency swap agreements are due in accordance with the terms of the agreements. Receivables relating to property development are due in accordance with the terms of the relevant development agreements or sale and purchase agreements. As at 31 December 2018, HK$410 million (2017: HK$484 million) were overdue, out of which HK$135 million (2017: HK$125 million) were overdue by more than 30 days.

During the years ended 31 December 2017 and 2018, the Inland Revenue Department of Hong Kong ("IRD") issued notices of assessment/additional assessment for the years of assessment 2010/2011 to 2017/2018 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 and HK$462 million in 2017 and 2018 respectively. The purchases of TRCs do 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 years ended 31 December 2017 and 2018 in respect of the above notices of assessment/additional assessment.

B As at 31 December 2018, creditors and other payables amounted to HK$25,947 million (2017: HK$28,166 million), of which creditors and accrued charges amounted to HK$18,525 million (2017: HK$24,687 million). As at 31 December 2018, HK$6,152 million (2017: HK$11,274 million) of creditors and accrued charges were due within 30 days or on demand whilst the remainder was not yet due.

12. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, sell or redeem any of the Group's listed securities during the year ended 31 December 2018. However, 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, purchased on the Hong Kong Stock Exchange a total of 5,351,600 Ordinary Shares of the Company for a total consideration of approximately HK$239 million during the year ended 31 December 2018.

13. CHARGE ON GROUP ASSETS

As at 31 December 2018, 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 RMB2,041 million bank loan facility granted to it.

As at 31 December 2018, MTR Corporation (Sydney) NRT Pty Limited, an indirect wholly owned subsidiary of the Company in Australia, has pledged a bank deposit of AUD7.2 million as collateral for a bank guarantee of AUD7.2 million.

Saved as disclosed above, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2018.

14. ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 22 May 2019. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 11 April 2019.

15. CORPORATE GOVERNANCE

During the year ended 31 December 2018, the Company has complied with the Code Provisions set out in the Corporate Governance Code, contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

16. PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website at www.mtr.com.hk and the website of the Stock Exchange. The Annual Report will also be available at the Company's and the Stock Exchange's websites and will be despatched to shareholders of the Company in mid-April 2019.

KEY STATISTICS

	Year ended 31 December	
	2018	2017
Total passenger boardings for Hong Kong transport operations (in millions)		
- Domestic Service	**1,670.0**	1,637.9
- Cross-boundary Service	**117.4**	112.5
- High Speed Rail (Hong Kong Section)	**5.3**	-
- Airport Express	**17.7**	16.6
- Light Rail and Bus	**230.4**	229.2
Average number of passengers (in thousands)		
- Domestic Service (weekday)	**4,862**	4,772
- Cross-boundary Service (daily)	**321.8**	308.4
- High Speed Rail (Hong Kong Section) (daily)#	**53.0**	-
- Airport Express (daily)	**48.5**	45.5
- Light Rail and Bus (weekday)	**652.9**	649.2

Average of 23 September 2018 to 31 December 2018

Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment as a percentage of total revenue ("EBITDA margin")		
- Excluding Mainland of China and international subsidiaries	**54.5%**	53.5%
- Including Mainland of China and international subsidiaries	**35.0%**	36.1%

MANAGEMENT REVIEW AND OUTLOOK

As MTR prepares to celebrate its 40th anniversary, I am pleased to report that, despite a number of challenges, the Company's financial and operational results for the year 2018 were satisfactory, as we adhered to our three-pronged strategy to strengthen and grow our Hong Kong business, accelerate growth in our Mainland of China and international businesses, and enhance our corporate reputation.

On 23 September 2018, we began operations of the Guangzhou-Shenzhen-Hong Kong High Speed Rail (Hong Kong Section) ("HSR"), opening a major new chapter for Hong Kong rail transport and its connections to the Mainland of China. This, together with the expansion of the Hong Kong economy in 2018, supported a 2.2 % rise in total patronage for our Hong Kong transport operations, with 5.88 million passenger trips per weekday. Train service delivery and passenger journeys on-time in our heavy rail network[1] were maintained at a world-class 99.9% whilst train frequency was increased further. This excellent overall performance came despite a major disruption affecting four lines caused by a signal system incident in October 2018. Overall, our train service, as measured by passenger journeys on-time for the period January to September 2018, was our best performance since the Rail Merger in 2007. Our safety record also remained world-class, with a further reduction in reportable incidents.

Hong Kong's retail sector continued to recover during the year, benefitting our station commercial and property rental businesses. The 35 new shops opened in the Hong Kong West Kowloon Station, one of the largest underground high-speed rail stations in the world, and the full year impact of the new retail space on the seventh and eighth floors of Telford Plaza II and in Maritime Square 2 further strengthened these businesses.

Hong Kong property development profit for 2018 was derived from booking of profits from Wings at Sea and Wings at Sea II (LOHAS Park Package 4), sales of inventory car parking spaces, as well as further surplus proceeds released from completed property development projects. Pre-sales for MALIBU (LOHAS Park Package 5) were launched in March 2018 and were very well received, followed by LP6 (LOHAS Park Package 6) in September 2018. In our property tendering activities, we awarded three tenders during the year, being the Yau Tong Ventilation Building site, Wong Chuk Hang Station Package 3 Property Development and Ho Man Tin Station Package 2 Property Development.

Outside of Hong Kong, the performance of our rail businesses was mixed, as we faced serious challenges in both our Stockholm commuter rail service and the South Western Railway franchise, which will be elaborated further in the section headed "Mainland of China and International Businesses". However, the other businesses performed either in line with or above our expectations. In the UK, MTR Crossrail began operating rail services between London's Paddington Station and Heathrow Airport. In April 2018, we were awarded the operations and maintenance ("O&M") contract for the Macau Light Rapid Transit ("LRT") Taipa Line.

"Rail Gen 2.0" is our vision for the next generation of rail travel. Having delivered four new rail projects over the last four and a half years, including HSR, it is now focused on the fifth and final rail project under construction, namely the Shatin to Central Link. This project continues to make progress, with all immersed tube tunnel units successfully installed in Victoria Harbour and work on stations well advanced overall. However, we have faced a number of allegations concerning workmanship, documentation and timely reporting on certain construction matters relating to three stations of this link, in particular regarding works at the Hung Hom Station extension. This has raised a considerable amount of public concern. We have engaged an external consultant as well as undertaken internal reviews to strengthen our project reporting and processes, and continue to cooperate with the Commission of Inquiry ("COI") whose interim report was submitted to the Chief Executive on 25 February 2019.

Rail Gen 2.0 in addition covers the major asset replacement programmes on our existing network, notably for trains, air conditioning systems and signalling systems, and these programmes made further progress during 2018. When implemented, these improvements are expected to increase train service capacity on a number of lines by about 10% and enhance station environment. We also continue to make use of appropriate new technologies to promote digitisation so as to improve operational efficiency and enhance convenience for our customers.

Government has reinforced its vision for railways to remain the backbone of public transportation in Hong Kong, a strategy that was reaffirmed in the HKSAR Chief Executive's

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[1] Heavy rail network represents Domestic Service, Cross-boundary Service and Airport Express only. Light Rail, High Speed Rail and Intercity services are not included.

Policy Address on 10 October 2018. Seven new railway projects have been proposed under the Railway Development Strategy 2014 ("RDS 2014"). We are providing Government with further information to enable it to move ahead with our submitted proposals for five of these projects, namely the Tuen Mun South Extension ("TMS"), the Northern Link (and Kwu Tung Station) ("NOL"), the East Kowloon Line ("EKL"), the Tung Chung West Extension (and Tung Chung East Station) ("TCW") and the North Island Line ("NIL"). We also look forward to receiving the invitation from Government for proposals for the remaining two projects under RDS 2014, namely Hung Shui Kiu Station and the South Island Line (West).

The expansion of our investment property portfolio continues, as construction proceeds on two new shopping centres, one at LOHAS Park and the other at Tai Wai, and plans are drawn up for a third, at Wong Chuk Hang; together these three new centres will increase our attributable gross floor area ("GFA") by approximately 49%, amounting to 152,120 square metres. In our property development business, we continue to make progress, together with our development partners, with about 20,000 residential units currently under construction or planning, the majority of which will be delivered to the market over the next six years or so. We are also exploring with Government how best to advance the plan for the Siu Ho Wan Depot Site, which may be developed into a community comprising 14,000 public and private housing units as well as community facilities. We are seeking further opportunities to leverage our other railway assets to provide more housing for Hong Kong.

Outside of Hong Kong, we continue to pursue rail franchise and rail-related property development opportunities in the Mainland of China and internationally. In the Mainland of China, we signed agreements during the year with parties at city or district level in Beijing, Hangzhou, Chengdu, Shunde and at provincial level in Zhejiang, covering the joint pursuit of railway and rail-related property development projects. In the UK, we have submitted our bid for the West Coast Partnership franchise, in Canada a pre-qualification bid for a railway network upgrade project in the Greater Toronto and Hamilton area, while in Australia, the Contract Finalisation Deed has been signed for Sydney Metro City and Southwest ("SMCSW") systems delivery and operations.

Total revenue for 2018 decreased by 2.7% to HK$53,930 million when compared with 2017, the decrease being mainly the result of the contribution from residential units sold at our Tiara development in Shenzhen in 2017, which was not repeated in 2018. Operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment increased by 6.6% to HK$18,843 million. Excluding contributions from the Company's Mainland of China and international railway, property development, rental and management businesses, revenue in Hong Kong grew by 5.6% and operating profit by 7.4%, with operating margin increasing by 1.0 percentage point to 54.5%. 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, was HK$9,020 million, an increase of 5.1% compared to 2017. Post-tax profit from property developments was HK$2,243 million. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders increased by 7.1% to HK$11,263 million, due to the increase in recurrent profit and strong property development profits in Hong Kong. Gain in revaluation of investment properties was HK$4,745 million, as compared to HK$6,314 million in 2017. As a result, net profit attributable to equity shareholders was HK$16,008 million, equivalent to earnings per share of HK$2.64 after revaluation. Your Board has proposed a final dividend HK$0.95 per share, which when added to the interim dividend of HK$0.25 per share, would result in a full year dividend of HK$1.20 per share, 7.1% higher than the HK$1.12 per share for 2017.

HONG KONG BUSINESSES

Leveraging our proven "Rail plus Property" business model, MTR's businesses in Hong Kong are centred on our rail network and also include station commercial activities, property rental and property developments over and adjacent to stations and depots.

Transport Operations

HK$ million	Year ended 31 December **2018**	2017	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**19,490**	18,201	7.1
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**8,171**	7,475	9.3
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**1,985**	1,656	19.9
EBITDA Margin (in %)	**41.9%**	41.1%	0.8% pt.
EBIT Margin (in %)	**10.2%**	9.1%	1.1% pts.

Total revenue of our Hong Kong transport operations increased by 7.1% to HK$19,490 million in 2018, mainly due to an increase in patronage on the back of economic growth and the opening of HSR in September 2018. As a result, EBITDA increased by 9.3% to HK$8,171 million. Despite the increase in depreciation, amortisation and variable annual payment mainly due to the opening of HSR, EBIT increased by 19.9% to HK$1,985 million for the year.

Safety

Our resolute focus on making safety a priority contributed to the number of reportable events on the Hong Kong heavy rail and light rail networks falling by 8% and 16% respectively in 2018.

Among our initiatives to raise awareness of safe behaviour were several targeting children. These include the launch of an "MTR Safety Experience Zone" at Tsing Yi Station in March 2018 together with an interactive pop-up zone at the Hong Kong Book Fair in July 2018. Other safety initiatives during the year focused on escalator safety, light rail safety and the elderly.

Patronage and Revenue

Revenue from our Hong Kong transport operations is summarised below:

HK$ million	Year ended 31 December **2018**	2017	Inc./(Dec.) %
Hong Kong Transport Operations			
Domestic Service	**13,232**	12,840	3.1
Cross-boundary Service	**3,472**	3,277	6.0
HSR	**600**	-	N/A
Airport Express	**1,156**	1,076	7.4
Light Rail and Bus	**723**	707	2.3
Intercity	**214**	218	(1.8)
Others	**93**	83	12.0
Total Revenue	**19,490**	18,201	7.1

In 2018, total patronage of all our rail and bus passenger services increased by 2.2%, to 2,044.5 million passenger trips whilst average weekday patronage increased by 2.0% to 5.88 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 for the 12 months was 1,670.0 million, 2.0% higher than in 2017. For the Cross-boundary Service to Lo Wu and Lok Ma Chau, patronage increased by 4.4% to 117.4 million, as the number of Mainland visitors continued to increase. Patronage on the Airport Express increased by 6.5% to 17.7 million, supported by a rise in air passenger traffic. Between its opening on 23 September 2018 and the end of the year, total patronage for HSR was 5.3 million.

Market Share
The Company's overall share of the franchised public transport market in Hong Kong in 2018 was 49.3%, compared to 49.1% in 2017. Within this total, the share of cross-harbour traffic was 69.1%, compared to 69.6%. For MTR's Cross-boundary Service and HSR, our share of the cross-boundary business for 2018 increased from 50.8% to 52.1%. Our market share to and from the airport rose from 21.5% to 22.0%.

Fare Adjustments, Promotions and Concessions
In accordance with the Fare Adjustment Mechanism, fares were adjusted for 2018/2019 by +3.14%, effective 30 June 2018. Fares were not adjusted in 2017/2018 as the adjustment rate fell below the threshold level of 1.5%, hence the adjustment was rolled over to 2018 and included within the 2018/2019 adjustment of 3.14%.

On 28 May 2018, we announced our 2018/2019 fare promotions package, bringing additional fare savings of over HK$500 million to customers, including:

- 3% Rebate for every Octopus trip for six months to 1 January 2019
- no price adjustment for "MTR City Saver", "Monthly Pass Extra" and "Tuen Mun-Nam Cheong Day Pass" in 2018
- a HK$0.3 discount for Octopus passengers interchanging between MTR and Green Minibus routes, effective 3 June 2018
- extension of the "Early Bird Discount Promotion" programme to 31 May 2019

Together with over HK$2.7 billion of on-going fare concessions that MTR offers annually to different sectors of the community, including the elderly, children, eligible students and persons with disabilities, as well as other interchange discounts, we are providing more than HK$3 billion worth of fare concessions to our customers over the 12-month period to June 2019.

The Public Transport Fare Subsidy Scheme, as mentioned in the HKSAR Chief Executive's Policy Address, was implemented with effect from 1 January 2019. We welcome the scheme and fully support its implementation. Commuters with monthly public transport expenses exceeding HK$400 are eligible for the public transport fare subsidy. The Government will provide a subsidy for 25% of the actual public transport expenses in excess of HK$400, subject to a maximum of HK$300 per month. Over 2 million commuters are expected to benefit from the scheme.

Service Performance
In 2018, train service delivery and passenger journeys on-time in our heavy rail network remained world-class at 99.9%, exceeding both the targets in our Operating Agreement and our own, more demanding, Customer Service Pledges. In 2018, more than 2.12 million train trips were made on our heavy rail network and around 1.09 million trips on our light rail network. During the year, there were 11 delays on the heavy rail network and one delay on the light rail network lasting 31 minutes or more which were caused by factors within our control. The period from January to September 2018 was our best performance since the Rail Merger in terms of passenger journeys on-time, despite passenger volumes having increased by 37.9% over the last 10 years.

The good service performance was unfortunately impacted by a signalling incident on 16 October 2018 which severely affected service on four of our lines. This caused inconvenience to our passengers, for which we apologised. The incident caused severe delays on the Island, Tsuen Wan, Kwun Tong and Tseung Kwan O lines, with knock-on effects on other transport services. As outlined in the report we submitted to Government on 19 December 2018 on the results of our investigation into this service disruption, we have since implemented improvement measures. These include the installation of manual switches and regular checking of software programme counter operations. Other key recommendations made by the Executive Review Panel include conducting reviews and instituting maintenance programmes to re-initialise all of the software counters in the railway systems manually, as well as establishing a dedicated team with relevant experts to enhance software integration for critical railway systems in the future.

Station Commercial Businesses

The financial performance of our Hong Kong station commercial businesses is summarised as follows:

HK$ million	Year ended 31 December **2018**	2017	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station retail rental revenue	**4,424**	4,143	6.8
Advertising revenue	**1,212**	1,071	13.2
Telecommunication income	**696**	635	9.6
Other station commercial income	**126**	126	-
Total Revenue	**6,458**	5,975	8.1
EBITDA	**5,891**	5,474	7.6
EBIT	**5,025**	4,722	6.4
EBITDA Margin (in %)	**91.2%**	91.6%	(0.4)% pt.
EBIT Margin (in %)	**77.8%**	79.0%	(1.2)% pts.

Total revenue of the Hong Kong station commercial businesses in 2018 was 8.1% higher than in 2017 at HK$6,458 million, with all of our major station commercial businesses exhibiting robust growth.

Station retail rental revenue rose by 6.8% to HK$4,424 million, mainly due to higher rental at Duty Free Shops and an increase in the number of station shops. As at 31 December 2018, there were 1,470 station shops, occupying 66,292 square metres of retail space, representing an increase of 54 shops and 7,576 square metres of lettable space when compared with 31 December 2017. The increases were mainly due to the opening of 35 shops in the new Hong Kong West Kowloon Station which serves HSR. A total of 39 new retail merchants were introduced in the portfolio.

Advertising revenue increased by 13.2% to HK$1,212 million in 2018 as further growth in retail spending and tourism improved market sentiment, overall advertising spend continued to recover and HSR also made a contribution. The number of advertising units in stations and trains increased to 47,105 by 31 December 2018, with a further 672 units added on HSR.

Revenue from telecommunications in 2018 rose by 9.6% to HK$696 million as a result of incremental revenue from new service contracts and capacity enhancement projects. A new Commercial Telecom System allowing more capacity for operators is being installed at 31 stations, and by 31 December 2018 the works had been completed at 12 stations.

Property Businesses

In the commercial sector, demand for Grade-A offices in Central remained strong in 2018, driven primarily by financial service companies from the Mainland of China and elsewhere. However, in the face of rising rents, decentralisation to non-core districts such as Island East and Kowloon East continued. As a result, rents increased more rapidly outside of Central. The recovery of the retail sector slowed during the second half of 2018, with the rebound in visitor numbers failing to translate into higher sales. Uncertainties caused by the US-China trade tensions and volatility in the equity market also affected sentiment.

Although the residential property market remained buoyant in the first half of the year, the market started to slow in the second half of 2018 in the face of rising interest rates, a decline in the stock market and economic uncertainty arising from the trade tensions between China and the US. Despite incentives and discounts offered by property developers, sales at new developments generally remained muted. In the secondary market, price rises stalled in the third quarter. The Mass Centa-City Leading Index, which monitors the secondary market, stood at 173.08 on 31 December 2018, still above the level of 166.73 on 31 December 2017 but below peak of 191.67 reached in late July 2018.

Property Rental and Management Businesses

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

	Year ended 31 December		
HK$ million	**2018**	2017	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**4,748**	4,608	3.0
Revenue from Property Management	**307**	292	5.1
Total Revenue	**5,055**	4,900	3.2
EBITDA	**4,242**	4,098	3.5
EBIT	**4,225**	4,082	3.5
EBITDA Margin (in %)	**83.9%**	83.6%	0.3% pt.
EBIT Margin (in %)	**83.6%**	83.3%	0.3% pt.

Property rental revenue increased by 3.0% to HK$4,748 million in 2018, mainly due to rental increases in accordance with existing lease agreements and the full year impact of new retail space opened in 2017. Our shopping malls in Hong Kong achieved positive rental reversion of 1.5% during 2018. For the year 2018, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre were close to 100% let.

As at 31 December 2018, the Company's attributable share of investment properties in Hong Kong was 217,486 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.

The grand opening of Maritime Square 2 was held on 7 February 2018 and all shops were fully opened within the first quarter of 2018. The ground floor of Maritime Square 1 was renovated during the year and progressively opened from October 2018 onwards. Paradise Mall has been successfully repositioned following the introduction of the "sports and well-being" zone and the addition of other entertainment anchors to the trade mix. Improvements have been registered in both sales turnover and footfall.

Hong Kong property management revenue in 2018 increased by 5.1% to HK$307 million. As at 31 December 2018, MTR managed more than 99,000 residential units and more than 772,000 square metres of commercial space in Hong Kong.

Property Development
Hong Kong property development profit (before tax) in 2018 totalled HK$2,574 million, and was mainly derived from booking of profits from Wings at Sea and Wings at Sea II (LOHAS Park Package 4), sales of inventory car parking spaces, as well as further surplus proceeds released from completed property development projects.

During 2018, pre-sales were launched for two new developments, namely MALIBU (LOHAS Park Package 5) in March 2018 and LP6 (LOHAS Park Package 6) in September 2018. Both developments attracted strong interest from buyers, and as at 31 December 2018, about 97.4% of the 1,600 units of MALIBU and 64.9% of the 2,392 units of LP6 had been sold. Meanwhile, pre-sales continued for Wings at Sea and Wings at Sea II (LOHAS Park Package 4), which were launched in 2017. As at 31 December 2018, about 97.4% of the 1,040 units of Wings at Sea and about 81.4% of the 1,132 units of Wings at Sea II had been sold. Occupation Permits for Wings at Sea and Wings at Sea II were issued on 12 December 2018.

For West Rail property development projects, where we act as agent for the relevant subsidiaries of Kowloon-Canton Railway Corporation ("KCRC"), pre-sales continued for THE PAVILIA BAY (the Tsuen Wan West Station (TW6) site) and Ocean Supreme (the Tsuen Wan West Station (TW5) Bayside site). Units in these projects have been substantially sold. The relaunch of remaining unsold units at Cullinan West II (Phase 2 of the Nam Cheong Station site) took place in August 2018 with 95% of the 1,188 units sold as at 31 December 2018. Pre-sale of Sol City (the Long Ping Station (South) site) was launched in October 2018 and as at 31 December 2018, about 30% of the 720 units had been sold.

In our property tendering activities, the Yau Tong Ventilation Building site was awarded to Top Oasis Limited, a consortium formed by Sino Land Company Limited and CSI Properties Limited, in May 2018. In August 2018, our third package at Wong Chuk Hang Station was awarded to a subsidiary of CK Asset Holdings Limited. As part of this tender we will retain ownership of the 47,000 square metres GFA shopping centre at Wong Chuk Hang Station when the mall is completed, which is targeted at the end of 2023. On 23 October 2018, the tender for Ho Man Tin Station Package 2 Property Development was awarded to an associated company of Chinachem Group.

HONG KONG BUSINESS GROWTH

Growing our Hong Kong Rail Business

Our near term rail business growth in Hong Kong falls under Rail Gen 2.0. In addition to the Shatin to Central Link, which remains under construction, it covers major upgrades and replacements to the existing rail network, as well as initiatives to enhance customer experience, including through the use of technology. Looking beyond Rail Gen 2.0, the projects announced under RDS 2014 have the potential to increase Hong Kong's rail network by a further 35 km. In the longer term, Government's "Strategic Study on Railways beyond 2030 – Feasibility Study" to be undertaken in 2019 may expand the rail network even further to cover strategic development areas in "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030" ("Hong Kong 2030+") and "Lantau Tomorrow Vision".

Rail Gen 2.0
New Rail Projects Managed by MTR
Following the commencement of HSR operation in September 2018, our Hong Kong rail network now extends to 256.6 km. The Shatin to Central Link, which remains under construction, will add another 17 km route length in the coming few years.

Guangzhou-Shenzhen-Hong Kong High Speed Rail (Hong Kong Section)

We are proud to have been involved as project manager of Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link"). In addition to our project management, we entered into a 10-year service Concession Agreement with KCRC to operate HSR on 23 August 2018 and commenced passenger operation on 23 September 2018. The 26-km HSR connects Hong Kong to Shenzhen, Guangzhou and the 29,000-km high speed rail network in the Mainland of China.

HSR has opened a new chapter for Hong Kong rail transport, providing fast, convenient and comfortable connections to the Mainland of China. Passengers can complete both Hong Kong and Mainland immigration procedures and customs clearance in one place at Hong Kong West Kowloon Station. HSR connects Hong Kong West Kowloon Station with 44 Mainland stations directly without interchanging, providing passengers with an excellent travel choice for leisure or business.

Between 23 September and 31 December 2018, about 5.3 million passengers travelled on HSR, with daily average usage of over 53,000.

The outstanding design of the Express Rail Link was honoured in November 2018 with "Gold Awards" in the Community – Service category at both the "2018 Hong Kong Design Awards" and the international "2018 GOV Design Awards" organised by DRIVENxDESIGN.

Shatin to Central Link

The ten-station 17-km Shatin to Central Link, a project managed by MTR on behalf of Government, is a strategic railway that will extend the existing rail network and improve connectivity. The first phase 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 Tuen Ma Line. When the Hung Hom to Admiralty Section is completed, it will extend the existing East Rail Line across the harbour to Exhibition Centre Station and Admiralty Station through Hung Hom.

Upon completion, the Shatin to Central Link will connect several existing railway lines and enhance connectivity of the entire Hong Kong railway network. It will significantly reduce travel time between the New Territories North, Kowloon and Hong Kong. Customers will also benefit from more route choices, particularly in the busy cross-harbour section of the Tsuen Wan Line and the Tai Wai to Kowloon Tong section of the East Rail Line.

Overall, as at 31 December 2018, this project was 88.7% complete, with the Tai Wai to Hung Hom and Hung Hom to Admiralty sections 99.5% and 75.7% complete respectively.

On the Tai Wai to Hung Hom Section, structural works for all stations have been substantially completed with fitting-out, building services and electrical and mechanical ("E&M") works inside the stations, except for Hung Hom Station where the assessment of structural integrity is still on-going, have been substantially completed.

On the Hung Hom to Admiralty Section, all 11 immersed tube units of the cross-harbour tunnel had been installed in Victoria Harbour in April 2018, and will be ready for track installation to commence by the second quarter of 2019.

At Exhibition Centre Station, construction progress has been affected by late site handover, incomplete entrusted works by other parties and unfavourable ground conditions. As at 31 December 2018, the station was approximately 69% complete. Construction works for Exhibition Centre Station and relevant railway facilities are underway with bulk excavation works expected to complete in the first half of 2019.

To allay public concerns on the possible impacts of building settlements caused by construction activities, excavation works at Exhibition Centre Station were temporarily suspended on 10 August 2018. The works resumed on 29 September 2018 after our project team reaffirmed the continual safety and integrity of the buildings, structures and utilities near the works sites and on the basis of having a set of revised settlement trigger values agreed with the relevant Government departments.

Admiralty Station is being transformed into a major interchange hub for the Shatin to Central Link, Island, Tsuen Wan and South Island lines. Internal structural works, architectural finishes and building services installation for the station extension are underway.

The Shatin to Central Link project includes replacement of the existing signalling system on the East Rail Line. Dynamic testing of the new system using East Rail Line trains and new trains during non-traffic hours on the whole of the East Rail Line has been progressing well towards target completion in the second half of 2019.

Concerns relating to construction works
Towards the end of the first half of 2018, there were allegations concerning workmanship and timely reporting of certain construction matters relating to three stations of the Shatin to Central Link, in particular regarding works at Hung Hom Station extension. The Company has taken immediate steps to investigate the issues, report the Company's findings to Government and reserve the Company's position against relevant contractors. To address the allegations relating to the platform at the Hung Hom Station extension, the Company has submitted to Government a holistic proposal for the verification and assurance of the as-constructed conditions and workmanship quality of the Hung Hom Station extension. The verification and assurance works are ongoing and the overall structural integrity and safety of the Hung Hom Station extension will be assessed based on the detailed data collected in the verification process. The Company has also co-operated fully with the COI that has been set up by the HKSAR Chief Executive in Council to investigate matters relating to the diaphragm wall and the platform slab at the Hung Hom Station extension as well as, amongst others, the adequacy of the Company's project management and supervision systems. The COI process included hearing of evidence from factual witnesses and reviewing evidence from experts on project management and structural engineering issues. Government, on 29 January 2019, made its closing submission to the COI in which it stated its view that the Company ought to have provided the required skills and care reasonably expected of a professional and competent project manager but that the Company had failed to do so.

On 19 February 2019, Government announced that the terms of reference of the COI had been expanded to cover issues relating to the North Approach Tunnels ("NAT"), the South Approach Tunnels ("SAT") and the Hung Hom Stabling Sidings ("HHS") under Contract No. 1112. Government stated that it has recently come to light that, in respect of the NAT, SAT and HHS, some works-related documentation has been found missing and some of the construction works involving deviations from the designs, plans or drawings accepted by the Highways Department or the Building Authority might have been carried out. In view of the expanded scope of the COI, the Chief Executive in Council has approved a further extension of time for the COI to submit its report to the Chief Executive by 30 August 2019, or such time as the Chief Executive in Council may allow. The COI may submit interim reports on any aspects of the inquiry as it may see fit under the terms of its appointment. On 25 February 2019, the COI submitted an interim report to the Chief Executive on its findings and recommendations on matters covered by the original terms of reference. Government has yet to publish the interim report, in whole or in part, up to the date of this annual report. Government is now conducting a review on construction documentation / records for the construction works in the Shatin to Central Link project.

To provide additional confidence to the public, the Capital Works Committee of the Board has also reviewed the Company's project management processes and procedures, assisted by an external consultant and has made recommendations for improvements, many of which have already been implemented. The Board also directed the Company's management to strengthen its monitoring and supervision over all Shatin to Central Link contracts.

Programme for Delivery

The programme for the delivery of the Shatin to Central Link is dependent on a number of factors, including the results of the holistic review of the Hung Hom Station extension mentioned previously.

Funding

Government is responsible for funding the Shatin to Central Link and 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 of HK$87,328 million was submitted to Government for review on 5 December 2017. Since submission of this estimate, which shows an increase of HK$16,501 million (or 23% of the cost of the main works), the Company has been liaising with Government to facilitate its review and verification process. The Company intends to carry out a further review and revalidation of the CTC (including, without limitation, to take account of the outcome of the verification and assurance works and the associated delays referred to above) within 2019. The Company continues to exercise rigorous cost control with the objective of ensuring that construction costs are contained so far as possible.

Major Asset Upgrades and Replacements on the Existing Network

Every year we invest significantly in major asset upgrades and replacements in the Hong Kong rail network. Such projects currently underway include the purchase of new trains and light rail vehicles, and the replacement of signalling systems and air conditioning systems. To ensure continued train service during the upgrades, these projects are being implemented in the narrow time window between close of rail service and commencement of service the next day – in effect a "golden two-hour" window at night.

We are spending a total of HK$6 billion to purchase 93 new, more comfortable 8-car trains as replacements for those on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. A total of five 8-car trains had been delivered to Hong Kong by 31 December 2018. All delivered trains will be subject to a series of stringent commissioning tests to assure safe operation and reliable performance before launching them for passenger service in 2019. Active interface tests with the signalling systems conducted on the Tsuen Wan and Island lines are progressing well.

To meet the rising demand for our light rail services, we are replacing 30 light rail vehicles and purchasing ten additional vehicles, at a total cost of HK$745 million. The first two new light rail vehicles have been delivered and testing and commissioning have commenced. The new 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 being replaced at a cost of HK$3.3 billion. Installation on the Tsuen Wan Line has been completed and dynamic tests covering the whole line with multiple trains continue with the new system targeted to commence operations in 2019. On the Island Line, installation is substantially completed and dynamic testing has been progressing steadily. Installation on the Kwun Tong Line has also commenced. Overall completion for all lines is targeted in 2026. The programme is being monitored closely to ensure the safety and reliability of existing railway services.

For the East Rail Line, full line functional and integration testing of the new signalling system and trains commenced in 2018. Reliability tests commenced in the fourth quarter of 2018 and are expected to be completed in 2019.

The programme to replace air conditioning systems continues to progress. The first phase, covering the replacement of 29 chillers in seven stations and two depots, was completed in April 2018. Replacement works for the second phase, covering 32 chillers in four stations and two depots, commenced in November 2018.

Under the Shatin to Central Link project, the original 28 7-car trains on the West Rail Line were all converted to 8-car trains by May 2018. This has enhanced existing train services, while providing trains for the future Tuen Ma Line, creating a more comfortable travelling environment for passengers and increasing overall capacity on West Rail Line by 14%.

Enhancing Customer Experience

Rail Gen 2.0 also aims to enhance our customers' experience by investing in technologies that meet changing customer needs.

Train information of the next four trains for the Tseung Kwan O Line as shown on Passenger Information Display Panels above gates, was gradually rolled out in five stations from December 2018 to January 2019 to help customers plan their journeys better. This forms part of a wider passenger information enhancement programme at terminus stations with long headways and serving multiple destinations.

We are also continuously using new technologies to deliver more personalised services and smoother journeys for all our customers.

The MTR Mobile app now has over 1.2 million active users per month. In January 2018 a "Chatbot" function was launched, providing customers with route and exit information for their destination. This was followed in October 2018 by a Waiting Time Indicator for Admiralty Station platforms, providing real-time waiting time estimates for the two most heavily used platforms.

With electronic payments increasingly popular, we have been introducing mobile payment at designated ticket machines. As of 31 December 2018, there were 20 ticket machines accepting QR codes for payment in Lo Wu, Lok Ma Chau, Tsim Sha Tsui, East Tsim Sha Tsui, Causeway Bay, Mong Kok East, Sha Tin and Austin stations. Customers can purchase Single Journey Tickets at these machines using Alipay, AlipayHK, WeChat Pay and WeChat Pay HK.

In a further service enhancement, our customers will be able to travel on MTR by simply tapping their mobile phones at ticket gates starting from mid-2020. In November 2018, a contract was awarded to AlipayHK to design and build a new electronic payment system for the heavy rail network (excluding Airport Express stations). The new system will be compatible with the QR code payment systems of three other service providers, namely TNG (Asia) Limited, UnionPay International Company Limited and WeChat Pay Hong Kong Limited, which will be available as additional options to passengers from mid-2021.

New Rail Projects beyond Rail Gen 2.0

Beyond the final rail project under construction, Government has identified seven additional rail projects to be implemented under RDS 2014 and we have submitted proposals for five of these, namely TMS, NOL, EKL, TCW and NIL.

At the request of Government we have provided supplementary information on project proposals we submitted for TMS, NOL and EKL. Project proposals for TCW and NIL were also submitted in January and July 2018 respectively. We are working closely with Government departments to resolve the technical, operational and financial issues to take these projects to the next stage.

Major transport corridors to meet the longer term transport demand arising from "Hong Kong 2030+" and "Lantau Tomorrow Vision", covering strategic growth areas in the New Territories and major reclamation in the central waters, are envisaged in Government's "Strategic Study on Railways beyond 2030 – Feasibility Study", which is planned to commence in 2019.

Expanding the Property Portfolio

The growth of our Hong Kong rail network presents significant opportunities to develop more residential and commercial properties, thereby expanding our investment property portfolio.

During the coming few years, we will add three projects totalling 152,120 square metres GFA to our shopping centre portfolio, increasing attributable GFA by approximately 49%. These three projects, namely the LOHAS Park shopping centre, Tai Wai shopping centre and the shopping centre at Wong Chuk Hang, are all underway.

Construction works for the 44,500 square metres GFA shopping centre at LOHAS Park were 50% complete as at 31 December 2018 and the project remains on target for completion by the second half of 2020.

Construction works for the 60,620 square metres GFA shopping centre at Tai Wai were 20% complete as at 31 December 2018. The foundation works of the Tai Wai shopping centre are progressing more slowly than planned. This is due to the measures required to address ground settlement at a localised area of the southbound platform at Tai Wai Station on the East Rail Line. The targeted project completion is now 2023.

The 47,000 square metres GFA shopping centre at Wong Chuk Hang is targeted for completion at the end of 2023.

In residential property, during the past five years, 14 MTR property development packages which have been tendered out are now in various stages of planning and construction. About 20,000 residential units, with a total GFA of about 1.22 million square metres, will be delivered to the market in the next six years or so.

To provide more private housing in Hong Kong, we are also seeking to develop property above some of our existing rail facilities. The first of these is the development over our Yau Tong Ventilation Building, for which the tender was awarded in May 2018.

In her 2018 Policy Address, the HKSAR Chief Executive announced Government's plan to develop the Siu Ho Wan Depot Site into a Siu Ho Wan community with public and private housing as well as community facilities. We fully understand the public's demand for increasing housing supply in Hong Kong, including the provision for public housing, and we are exploring the details with Government to find the most suitable way forward. A draft Siu Ho Wan Outline Zoning Plan was gazetted on 29 March 2018 and the first Town Planning Board hearing was held on 26 October 2018. The Chief Executive in Council has approved the draft Siu Ho Wan Outline Zoning Plan on 12 February 2019. At this preliminary stage there is no assurance that this project will be commercially viable.

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

Outside of Hong Kong, our expertise and experience have been leveraged into a growing portfolio of railway-related businesses in the Mainland of China, Macau, Europe and Australia. Our railway businesses outside of Hong Kong carried an average of 6.83 million passengers per weekday during 2018.

Year ended 31 December HK$' million	Mainland of China and International - Recurrent Businesses								
	Mainland of China Railway, Property Rental and Property Management Businesses			International Railway Businesses			Total		
	2018	2017	*Inc./ (Dec.)%*	**2018**	2017	*Inc./ (Dec.)%*	**2018**	2017	*Inc./ (Dec.)%*
Subsidiaries									
Revenue	**929**	811	*14.5*	**19,948**	16,383	*21.8*	**20,877**	17,194	*21.4*
EBITDA	**208**	144	*44.4*	**668**	806	*(17.1)*	**876**	950	*(7.8)*
EBIT	**196**	137	*43.1*	**526**	677	*(22.3)*	**722**	814	*(11.3)*
EBIT (Net of Non-controlling Interests)	**196**	137	*43.1*	**378**	621	*(39.1)*	**574**	758	*(24.3)*
EBITDA Margin (in %)	**22.4%**	17.8%	*4.6 % pts.*	**3.3%**	4.9%	*(1.6)% pts.*	**4.2%**	5.5%	*(1.3)% pts.*
EBIT Margin (in %)	**21.1%**	16.9%	*4.2 % pts.*	**2.6%**	4.1%	*(1.5)% pts.*	**3.5%**	4.7%	*(1.2)% pts.*
Associates and Joint Venture									
Share of EBIT	**989**	715	*38.3*	**(26)**	42	*N/A*	**963**	757	*27.2*
Share of Profit/(Loss)	**470**	290	*62.1*	**(33)**	31	*N/A*	**437**	321	*36.1*
EBIT of Subsidiaries (Net of Non-controlling Interests) and Share of EBIT of Associates and Joint Venture	**1,185**	852	*39.1*	**352**	663	*(46.9)*	**1,537**	1,515	*1.5*

Mainland of China - Property Development HK$' million	Year ended 31 December		
	2018	2017	*Inc./ (Dec.)%*
Subsidiaries			
Revenue	**60**	6,996	*(99.1)*
EBITDA	**25**	2,314	*(98.9)*
EBIT	**25**	2,314	*(98.9)*
EBITDA Margin (in %)	**41.7%**	33.1%	*8.6 % pts.*
EBIT Margin (in %)	**41.7%**	33.1%	*8.6 % pts.*
Associate			
Share of EBIT	**-**	(1)	*100.0*
Share of Profit/(Loss)	**-**	-	*N/A*

Mainland of China and International - Recurrent Businesses and Property Development			
	Year ended 31 December		
HK$' million	**2018**	2017	*Inc./ (Dec.)%*
Profit for the Year attributable to Shareholders of the Company *			
- Arising from Recurrent Businesses	**823**	917	*(10.3)*
- Arising from Mainland of China Property Development	**90**	1,019	*(91.2)*
Total	**913**	1,936	*(52.8)*
Number of passengers carried by our railway subsidiaries and associates outside of Hong Kong (in million)	**2,186**	1,940	*12.7*

* excluding business development expenses

In the Mainland of China, EBITDA for 2018 from our railway, property rental and property management subsidiaries increased by 44.4% to HK$208 million, mainly attributable to patronage growth of Shenzhen Metro Line 4 ("SZL4"). In our International businesses, EBITDA from our railway subsidiaries decreased by 17.1% to HK$668 million, mainly due to material losses incurred by our Stockholm commuter rail concession. This was partly offset by higher income from operations and project works in our Melbourne metropolitan rail service as well as consultancy services for Macau LRT. Our share of profit from associates and joint venture increased by 36.1% to HK$437 million, mainly due to revenue improvement at Hangzhou MTR Corporation Limited ("HZMTR") and Beijing MTR Corporation Limited ("BJMTR"). Excluding Mainland of China property development and before business development expenses, our railway, property rental and management subsidiaries together with our associates and joint venture outside of Hong Kong contributed net after-tax profits of HK$823 million during 2018 on an attributable basis, a decrease of 10.3% compared with 2017, and represented 9.1% of total 2018 recurrent profits.

Railway Businesses in the Mainland of China

Beijing

In Beijing, our 49%-owned associate BJMTR operates four lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14") and Beijing Metro Line 16 ("BJL16"). On-time performance in 2018 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, while average weekday patronage was more than 1.34 million, similar to year 2017.

The first three phases of BJL14 recorded a combined 236 million passenger trips and average weekday patronage of about 741,000 in 2018, an increase of 8% over 2017.

BJL16 is a Public Private Partnership ("PPP") project whose first phase, the 19.6-km Northern Section, commenced operation in December 2016. In 2018, the line recorded 34 million passenger trips, with average weekday patronage at about 105,000. Full line operation, which will mark the start of the operating concession, is tentatively targeted in 2021.

Shenzhen

SZL4, which is operated by MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), saw patronage grow by 11% to 232 million in 2018, while average weekday patronage rose to 643,000. On-time performance remained at 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 the Shenzhen Municipal Government is planning for a fare adjustment in the Shenzhen Metro Network and is undergoing the statutory approval process. If appropriate fare adjustments and adjustment mechanism 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 construction of the Northern Extension of SZL4, a project that will be financed by the Shenzhen Municipal Government. The civil and E&M works continue to progress according to programme towards 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%-owned associate in Hangzhou, HZMTR, operates Hangzhou Metro Line 1. Patronage on this line increased by 20% in 2018 to 271 million, with average weekday patronage at 749,000. On-time train performance remained at 99.9%. Supported by the growth in patronage, our share of profit from HZMTR in 2018 amounted to HK$35 million, as compared to a loss of HK$68 million in 2017.

The 51.5-km Hangzhou Metro Line 5 ("HZL5"), another PPP project, was awarded to our joint venture in 2017. This is an underground metro line running from Xiangzhanglu Station in Xiaoshan District to Lutinglu Station in Yuhang District, with a total of 38 stations. Construction works are in progress with the line targeted to open by the end of 2019. Our 60% joint venture company's responsibilities under the PPP contract relate to trains and E&M systems (including signalling and other systems), architectural finishes, as well as subsequent operations, maintenance and renewals. The civil works, such as construction of stations and tunnels, are the responsibility of Hangzhou Metro Group.

Property Businesses in the Mainland of China

Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1 has a total developable GFA of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA). Over 98% of the residential units have been sold and handed over to buyers. Fitting out of the retail centre is underway, with opening targeted in the first half of 2019.

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 an approximately 91,000 square metres GFA shopping centre to be developed on the Beiyunhe Station site. Relevant government approval was obtained in July 2017 for the disposal of our 49% interest and the Sale and Purchase Agreement for the shopping centre was signed on 26 January 2018. Construction permit has been obtained and excavation of the basement has been progressing. Targeted project completion is the end of 2022.

In the Guangdong-Hong Kong-Macau Greater Bay Area, we are providing Transit Oriented Development technical assistance to an associated company of Country Garden Group and Foshan Shunde District Metro Company Limited. The assistance relates to a mixed use property development adjacent to Chencun Station in the Shunde district of Foshan, Guangdong province, which has a total GFA of approximately 391,500 square metres.

The Company also manages self-developed and other third party properties in the Mainland of China. As at 31 December 2018, these had a total managed area of 390,000 square metres. Our shopping mall in Beijing, Ginza Mall, completed a partial revamp during 2018 and was 99% occupied for the year 2018.

European Railway Businesses

United Kingdom

In London, MTR Corporation (Crossrail) Limited ("MTR Crossrail"), a wholly owned subsidiary of the Company, currently operates two phases of the Crossrail operating concession under the "TfL Rail" brand. The first phase, a 32.5-km, 14-station route between Liverpool Street Station and Shenfield, commenced service under MTR Crossrail in May 2015. The second phase, providing services between Paddington Station and Heathrow Airport, commenced in May 2018. The TfL Rail service will be renamed the Elizabeth Line when the tunnel section through central London is completed and becomes operational. It will eventually extend to 118 km from Reading in the west and crossing to the east of London, serving 41 stations. TfL Rail's performance in 2018 was good and it remains one of the most reliable rail services in the UK.

To allow Transport for London ("TfL") to complete the final infrastructure works and extensive testing required to ensure the Elizabeth line opens as a safe and reliable railway, the previously announced Autumn 2019 opening date could no longer be committed to. As the operator, MTR Crossrail has adjusted its operational plan accordingly and continues to support TfL on the phased opening. The delay will not have any significant financial impact on MTR Crossrail.

Through our associate First MTR South Western Trains Ltd, as a 30% shareholder, we have partnered with FirstGroup plc on the South Western Railway franchise. 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. Financial performance in 2018 was impacted by factors including an industry-wide slowdown in growth in passenger numbers, industrial action, the delayed introduction of timetable changes and incidents involving infrastructure under the control of a third party. If the abovementioned factors continue to adversely impact South Western Railway, and are not appropriately ameliorated under the Franchise Agreement or by the relevant third party, the long-term financial viability of South Western Railway is expected to be impacted.

An independent review was commissioned in April 2018 by the UK government, covering both South Western Railway and the related rail infrastructure, to see if all possible steps were being taken to improve performance and passenger experience. The report confirmed that improvements to the performance management system, changes to the control centre, and more and better monitoring and maintenance of infrastructure were required, as well as the removal of speed restrictions. Together with our partner we are now working with the infrastructure owner, Network Rail, to implement these recommendations.

Sweden

MTR is the largest rail operator in Sweden by passenger volume. We operate three key rail businesses in the country, namely Stockholm Metro, MTR Express and the Stockholm commuter rail service.

In 2018, Stockholm Metro continued to maintain satisfactory operational performance and delivered a record high level of customer satisfaction. MTR Tunnelbanan, our operating entity for Stockholm Metro, was for the second time awarded the prestigious Swedish Quality Award in 2018. Total journeys in 2018 were 355 million.

MTR Express (Sweden) AB is a wholly-owned subsidiary which operates the MTR Express intercity service between Stockholm and Gothenburg. MTR Express is the most punctual operator between the two cities and service frequency was increased from 104 to 110 trains per week in March 2018. Despite growth in passenger numbers, fare revenue remains below expectations and the line remained loss-making in 2018. New marketing initiatives have been implemented to increase ridership.

Our wholly-owned subsidiary MTR Pendeltågen AB operates the Stockholm commuter rail 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. Stockholm commuter rail serves the greater Stockholm area, with 53 stations and a total route length of 247 km.

Despite some improvement during the second half of the year, 2018 was very challenging operationally and financially for MTR Pendeltågen AB. Issues relating to a nationwide lack of drivers and train availability and maintenance, as well as a new, more complex timetable introduced in combination with poorly performing infrastructure that is under the control of a third party, led to higher operating costs and significant penalties relating to punctuality and customer satisfaction. As a result, a material loss was incurred in 2018. The actions we have taken to rectify the situation, which are bearing initial fruit, include strengthening the internal management system, closer collaboration with the infrastructure owner and new customer service initiatives designed to provide better service information. However, it will likely remain in a loss making position for a number of years.

Australian Railway Businesses

In Melbourne, our 60%-owned subsidiary Metro Trains Melbourne Pty. Ltd. ("MTM") operates the 409-km Melbourne metropolitan rail network. Operational performance for the year was good. Our concession was renewed for another seven years from November 2017, with options to extend for a maximum of a further three years. The renewed concession commits MTM to delivering even higher service levels and supporting the State Government in its infrastructure projects.

In Sydney, MTR is a member of a consortium which is responsible for the design, construction and financing, as well as the future operations and maintenance of the Sydney Metro Northwest ("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. All track laying work was completed during the year. Construction works for the depot and stations, as well as pre-operational planning, are making steady progress towards the targeted opening in the second quarter of 2019. The testing of the new trains and systems is well underway. The train completed its first journey along the entire 36-km line from Tallawong to Chatswood stations in January 2019.

Macau Railway Business

In Macau, apart from MTR's provision of technical consultancy support, our wholly-owned subsidiary was awarded an MOP 5.88 billion (HK$5.71 billion) contract for O&M of Macau LRT Taipa Line in April 2018. The contract covers an 80-month service period and includes the line's testing and trial run before opening, operation of train services, as well as maintenance of trains, the signalling system and other infrastructure. The 9.3-km line will have 11 stations.

Growth Outside of Hong Kong

Mainland of China

We continue to work with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and BJMTR in accordance with our Cooperation Framework Agreement 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). We have also signed a Letter of Intent ("LoI") with BIIC to extend our 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 an 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.

Building on these earlier agreements, in October 2018, we signed a Memorandum of Understanding ("MOU") with the Beijing Municipal Commission of Transport, BIIC and BJMTR to deepen cooperation in upgrading metro rail services. Several potential PPP and O&M projects for urban rail lines in Beijing are being explored.

In July 2018, MTR acquired a 9% stake in Zhejiang Provincial Transportation Investment Group, enabling us to explore Intercity and Commuter Railway business in Zhejiang Province.

In August 2017, we signed an LoI with Chengdu Rail Transit Group covering strategic cooperation on metro, metro-related property development and metro operations management training. This was followed by discussions about PPP opportunities in Chengdu and the signing of an MOU to conduct joint studies on the potential integrated development of stations along Chengdu's metro lines in May 2018.

In Hangzhou, we are pursuing our third metro opportunity, as well as potential metro-related property developments. In September 2018, we signed an MOU with Hangzhou Communications Investment Group Co Ltd to explore cooperation opportunity on the Transit Oriented Development of Hangzhou West Station, a high-speed rail station.

We continue to explore further opportunities in other cities in the Mainland of China.

International
In the UK, together with Guangshen Railway Company Limited (an associated company of China Railway Corporation), we submitted a bid in July 2018 for the West Coast Partnership franchise, followed by a second round submission in November 2018. The franchisee will operate railway services on the West Coast Main Line from 2019 until 2031. It will also act as the "shadow operator" to advise High Speed Two ("HS2") Limited and the Department for Transport on the preparation and operation of the initial HS2 services between London and Birmingham, which are scheduled to commence in 2026. The operator would then run both operations as an integrated service under a management contract to 2031. We are also exploring other rail franchise and PPP opportunities and potential property developments over and around rail stations in the UK.

In the Nordic region, we continue to seek rail franchise opportunities and potential property developments, to build on our existing footprint in Sweden.

In Australia, the SMCSW Consortium, formed by MTR and other participants in SMNW, signed the Contract Finalisation Deed with Sydney Metro on 7 December 2018. SMCSW is a 30-km extension of SMNW running through the central business district that is targeted to open in 2024. The deed formally agrees the next steps in the Sydney Metro augmentation process, including the commencement of an early works contract for design and technical work and a further procurement process for the Rail Systems of Operations, Trains and Systems for the Sydenham to Bankstown component of the project. The SMCSW Consortium will provide Sydney Metro with an updated Augmentation Proposal in mid-2019.

In Canada, MTR was pre-qualified as a bidder for the operation of the Toronto Regional Express Rail ("RER") project in December 2017. Subsequently, the project was revised to a design-build-finance-operate-maintain project, and we, together with a partner, have submitted a pre-qualification bid for the project. The project, if awarded to us, would be MTR's first in North America. The Toronto RER project would transform the existing GO Transit diesel-rail commuter system into an electrified railway network covering the Greater Toronto and Hamilton areas.

FINANCIAL REVIEW

Profit and Loss

In 2018, the Group's revenue from recurrent businesses (which excludes property development revenue) increased by 11.2% to HK$53,870 million, mainly reflecting the increase in franchise payments and project revenue under the renewed concession of MTM in Australia, contribution from the HSR following the commencement of passenger service on 23 September 2018, as well as growth in passenger volume and adjustment of fares under the FAM in our transport operations in Hong Kong. Significant revenue was derived from the Tiara property development in Shenzhen in 2017 which was not repeated in 2018. Hence, total revenue of the Group decreased by 2.7% to HK$53,930 million.

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 6.6% to HK$18,843 million. The increase was mainly due to higher operating profits from Hong Kong transport operations (resulting from a one-off accounting provision made in 2017 for annual lump-sum awards which was not repeated in 2018, improved operational efficiency and refund of Government rent and rates in 2018), as well as higher contributions from Hong Kong station commercial and property rental and management businesses (resulting from the rental income growth of our Duty Free Shops, station shops and shopping malls). The above increases were partly offset by lower operating profits from Mainland of China and International businesses, mainly due to the material operating loss in MTR Pendeltågen AB. Operating margin from recurrent businesses decreased by 1.5 percentage points to 35.0%, mainly due to increased contributions from our Mainland of China and international O&M businesses which carry lower margins, as well as the material operating losses in MTR Pendeltågen AB. Excluding the Mainland of China and international subsidiaries, operating margin from recurrent businesses increased by 1.0 percentage point to 54.5% mainly due to the one-off accounting provision made in 2017 for annual lump-sum awards, improved operational efficiency and refund of Government rent and rates in 2018 under Hong Kong transport operations.

Hong Kong property development profit (before tax) was HK$2,574 million, mainly derived from the booking of profits of Wings at Sea and Wings at Sea II (LOHAS Park Package 4), sales of inventory car parking spaces, as well as further surplus proceeds released from 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$25 million. It was HK$2,289 million lower than 2017 when profit in respect of the vast majority of the units sold at Tiara was recognised.

Depreciation and amortisation charges increased by 2.7% to HK$4,985 million. As the incremental revenues from fares and businesses relating to HSR are also subject to the variable annual payment to KCRC at the top rate of 35%, variable annual payment increased by 19.2% to HK$2,305 million.

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 decreased by 1.0% to HK$14,152 million.

Interest and finance charges were HK$1,074 million, representing an increase of 18.7% over 2017, due to increase in interest rates, as well as the absence of the exchange gain recorded in the previous year. Investment property revaluation gain amounted to HK$4,745 million. Our share of profit from Octopus Holdings Limited increased by 27.7% to HK$221 million, mainly due to higher transaction volume as well as local projects and investment income. Our share of profit from other associates and joint venture was HK$437 million, an increase of 36.1%. The increase was mainly due to HZMTR recording a profit for the first time and profit improvement in BJMTR.

Net profit attributable to shareholders, after deducting income tax of HK$2,325 million and profits shared by non-controlling interests of HK$148 million, decreased by 4.9% to HK$16,008 million in 2018. Earnings per share therefore decreased 6.7% from HK$2.83 to HK$2.64. Excluding investment property revaluation, which is a non-cash accounting adjustment, the underlying profit attributable to shareholders increased by 7.1% to HK$11,263 million, with underlying earnings per share of HK$1.86. Within this total, our recurrent profit increased by 5.1% to HK$9,020 million, while post-tax property development profit increased by 15.9% to HK$2,243 million. Return on average equity attributable to shareholders arising from underlying businesses was 6.5% in 2018, compared to 6.7% in 2017.

Statement of Financial Position

Our financial position remained strong. The Group's net assets increased by HK$14,193 million, from HK$166,426 million as at 31 December 2017 to HK$180,619 million as at 31 December 2018.

Total assets increased by HK$10,919 million to HK$274,687 million. This was mainly due to the revaluation gains on investment properties, the increase in receivables arising from profit recognition from Wings at Sea and Wings at Sea II, as well as the equity contribution made to the HZL5 joint venture.

Total liabilities decreased by HK$3,274 million to HK$94,068 million. This was mainly due to the settlement of payable relating to the land premium of Wong Chuk Hang Station Package 2 and the net repayment of borrowings, partly offset by the increase in deferred income resulting from the payments received from property developers.

The Group's net debt-to-equity ratio was 18.1% at 31 December 2018, a decrease of 5.6 percentage points from a pro-forma 23.7% as at 31 December 2017 (such pro-forma excluding cash received from the developer relating to the land premium payment for Wong Chuk Hang Station Package 2 which was paid to Government in 2018).

Cash Flow

Net cash generated from operating activities was HK$10,950 million in 2018, being mainly the net cash inflow from operating activities less changes in working capital (relating primarily to the settlement of land premium of Wong Chuk Hang Station Package 2 amounting to HK$5,214 million). Receipts from property developments were HK$4,235 million, mainly from LOHAS Park Package 3, Yau Tong Ventilation Building, Wong Chuk Hang Station Package 3, Ho Man Tin Station Package 2 and West Rail property developments. Including other cash receipts of HK$493 million, net cash receipts amounted to HK$15,678 million in 2018. Net cash receipts were lower than in 2017 by HK$7,786 million, mainly due to the receipt from the developer in 2017 for the land premium of Wong Chuk Hang Station Package 2, which was subsequently paid to Government in 2018.

Total capital expenditure was HK$6,962 million. This comprised of HK$5,441 million for the purchase of assets for our Hong Kong existing railways and related operations, HK$416 million for Hong Kong railway extension projects, HK$861 million for investment in Hong Kong property-related businesses and HK$244 million for investment in Mainland of China and overseas subsidiaries. Total capital expenditure was lower than that in 2017 by HK$1,561 million, due to higher project payments in 2017 for the South Island Line and the Kwun Tong Line Extension.

The Group also paid HK$2,683 million in fixed and variable annual payments to KCRC in accordance with the Service Concession Agreement with KCRC. Taking into account the cash investment into the HZL5 joint venture of HK$1,687 million and other payments, total cash outflow amounted to HK$13,923 million in 2018.

Therefore, net cash inflow before financing amounted to HK$1,755 million. After net repayment of borrowings of HK$1,552 million and the effect of exchange rate changes on foreign currency cash holdings, the Group's cash balance decreased by HK$332 million to HK$18,022 million at 31 December 2018.

HUMAN RESOURCES

The Company, together with our subsidiaries, employed 17,626 people in Hong Kong and 14,270 people outside of Hong Kong as at 31 December 2018. Our associates employed an additional 15,431 people in and outside of Hong Kong.

People are our most valuable asset, and our goal is to develop talented people in line with our business growth. Our commitment to providing a fulfilling and caring environment where our employees are motivated to develop is demonstrated by the stability of our workforce, with a voluntary staff turnover rate of 4.7% in Hong Kong during 2018.

We have a robust performance management system, a performance-based pay review mechanism, various staff motivational schemes and different awards and incentives to recognise and reward staff for their good performance, commitment and other contributions.

With the growth of our Mainland of China and overseas businesses, we continue to develop ways to connect our employees in different parts of the world. We also continue to strengthen the bonding among our colleagues in our business units worldwide and facilitate cross-unit collaboration and talent development.

Our extensive training programmes again won numerous recognition during the year. In 2018, each MTR staff member in Hong Kong benefitted from an average of 8.2 training days. This forms part of a wider initiative to "Strengthen Our Culture" focusing on the four areas of "Participative Communication", "Collaboration", "Effectiveness & Innovation" and "Agility to Change", which has been progressively rolled out across the Company to drive excellence and growth.

Our achievements in employer branding were recognised by MTR being voted the first runner-up in "Hong Kong's Most Attractive Employer 2018", organised by the Randstad Group. The Company has been among the top five in this award for six years in a row, appearing in the top two positions for five years.

MTR ACADEMY

The MTR Academy is dedicated to training railway management and operational talents, as well as providing railway-related service, maintenance and management programmes for local and overseas participants. Through the academy, we are offering programmes that bring our rail expertise to the Mainland of China and "Belt and Road" countries.

OUTLOOK

After solid economic growth for much of 2018 and a rebound in the retail and tourism sectors in Hong Kong, the picture appears less clear going into 2019. In particular, there are uncertainties over US interest rates and slowing global growth as well as geo-political tensions, all of which will affect Hong Kong. For MTR, however, the sustained trends of increasing urbanisation and environmental awareness will lend solid support and present opportunities to our business.

For our Hong Kong transport operations, continued economic growth and the full-year operation of HSR will support passenger volume increases. While the delivery of the Shatin to Central Link is dependent on a number of factors, including the results of the holistic review of the Hung Hom Station extension mentioned previously, we are looking into the feasibility of the phased opening of Tuen Ma Line. This requires careful study of a number of issues including necessary modifications to the signalling system. The outlook of our station commercial and property rental businesses will be subject to market conditions though partly moderated by the stable rent structure in the typical three-year tenancy cycle.

In our property development business, the booking of development profits for LOHAS Park Package 5 (with about 97% units sold) and the shopping centre of LOHAS Park Package 7 in 2019 is now dependent on the construction progress. Subject to market conditions, over the next 12 months or so, we aim to tender out three property development packages. These packages are likely to be our eleventh and twelfth packages at LOHAS Park and our fourth package at Wong Chuk Hang Station. These packages are expected to provide about 4,500 residential units in total. In the first half of 2019 we expect to commence the pre-sale of our seventh property development package at LOHAS Park.

Outside of Hong Kong, our businesses should continue to perform reasonably overall. However, we are still working to overcome the serious operational challenges faced by the Stockholm commuter rail and the South Western Railway franchises, as well as the lower than expected patronage at MTR Express. During 2019, we expect to open three more lines outside of Hong Kong namely SMNW, Macau LRT Taipa Line and HZL5. However, these are not expected to make a material financial contribution in 2019. We will continue to seek new opportunities to grow in both the Mainland of China and internationally.

As we continue our work on the Shatin to Central Link and with three new lines outside of Hong Kong set to open, 2019 will be a busy year for MTR. This seems a fitting way to celebrate 40 years of operations during which MTR has grown into a multinational organisation of which Hong Kong can be justly proud.

I would like to welcome Mr Roger Bayliss as Projects Director with effect from 18 March 2019.

I take this opportunity to bid farewell to all our stakeholders at MTR as I retire from the Company after 31 March 2019. I also give very special thanks to all our 47,000 colleagues worldwide for their hard work, great support, resilience to adversity and customer focus. Through them, MTR continues to deliver on its promise to provide safe, reliable and high quality services in all our businesses globally. In our busy and complicated world, heroes are not often recognised. I salute all of the heroes of MTR, who should take pride in their achievements, while learning from their mistakes and continuing to improve. Finally I welcome Dr Jacob Kam as the new Chief Executive Officer of MTR. Jacob has many years of experience at MTR and has led a number of our key businesses. He is dedicated to the Company and with the support of all our colleagues will lead the Company to greater heights.

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

Hong Kong, 7 March 2019

CLOSURE OF REGISTER OF MEMBERS

Annual General Meeting 2019

The Register of Members of the Company will be closed from 16 May 2019 to 22 May 2019 (both days inclusive), during which time no transfer of shares in the Company will be effected. To be eligible to attend, speak and vote at the Company's Annual General Meeting to be held on 22 May 2019, all completed transfer documents, accompanied by the relevant share certificates have to be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 15 May 2019 (Hong Kong time).

2018 Final Dividend

The Register of Members of the Company will be closed from 28 May 2019 to 31 May 2019 (both days inclusive), during which time no transfer of shares in the Company will be effected. To qualify for the proposed 2018 final dividend, all completed transfer documents, accompanied by the relevant share certificates have to be lodged with the Company's Share Registrar, at the address mentioned in the preceding paragraph, no later than 4:30 p.m. on 27 May 2019 (Hong Kong time). The proposed 2018 final dividend, with a scrip dividend option (except for shareholders with registered addresses in New Zealand or the United States of America or any of its territories or possessions), is expected to be distributed on 16 July 2019 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 31 May 2019.

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

About MTR Corporation

Every day, MTR connects people and communities. As a recognised world-class operator of sustainable rail transport services, we are a leader in safety, reliability, customer service and efficiency.

MTR has extensive end-to-end railway expertise with more than 40 years of railway projects experience from design to planning and construction through to commissioning, maintenance and operations. Going beyond railway delivery and operation, MTR also creates and manages dynamic communities around its network through seamless integration of rail, commercial and property development.

With more than 40,000 dedicated staff*, MTR carries over 12 million passenger journeys worldwide every weekday in Hong Kong, the United Kingdom, Sweden, Australia and the Mainland of China. MTR strives to grow and connect communities for a better future.

For more information about MTR Corporation, please visit www.mtr.com.hk.

*includes our subsidiaries and associates in Hong Kong and worldwide