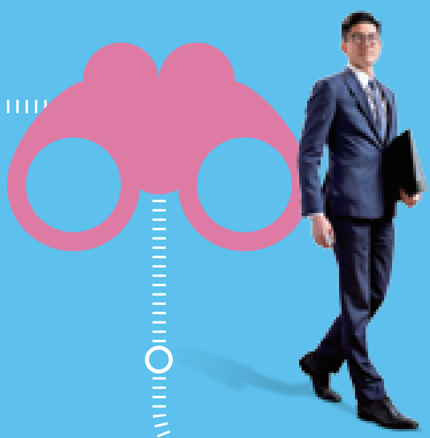
MTR

Connections for Growth

Annual Report 2016



Vision

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

Mission

- We will strengthen our Hong Kong corporate citizen reputation
- We will grow and enhance our Hong Kong core business
- We will accelerate our success in the Mainland and internationally
- We will inspire, engage and develop our staff

Values

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

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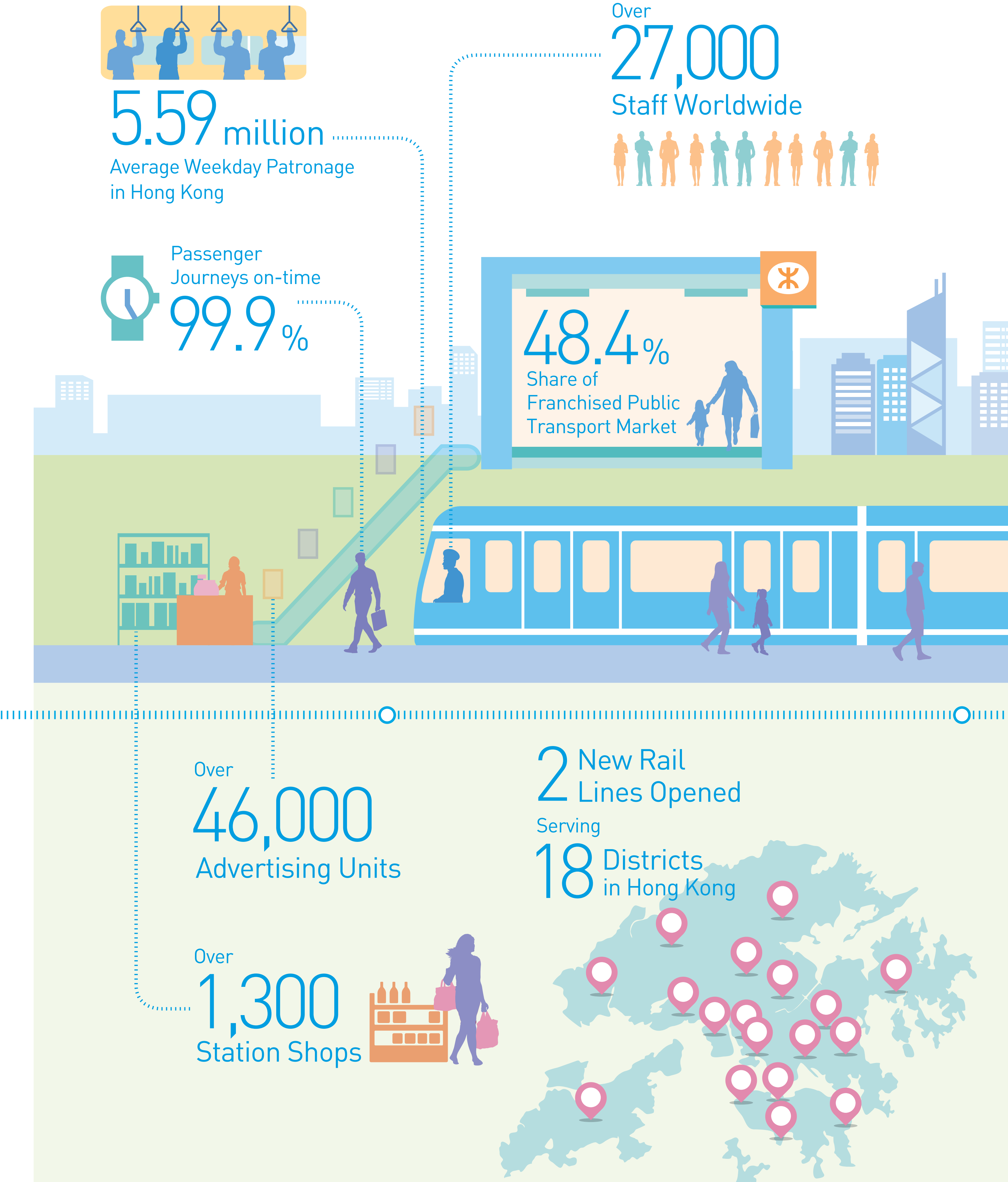
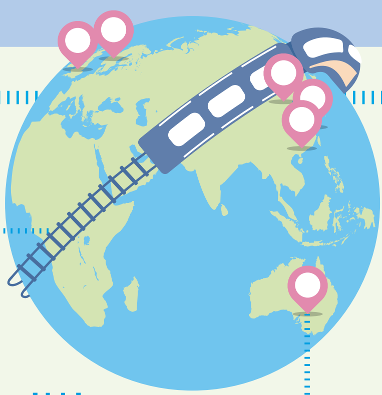
MTR Corporation in Numbers – 2016



2 Property Development Packages Awarded

Over
96,000
Residential Flats Managed

Leasing
Retail Properties
of over
210,000
square metres



About
18,000
Residential Units
to be built

5.64 million
Average Weekday Patronage
Outside of Hong Kong

43 km
will be added to the Hong Kong Network

2
New Railway Projects are in Progress

9 Railway Services
in 6 Cities
Outside of Hong Kong

2016 Performance Highlights

Financial Performance

Total Revenue
HK$45.2 billion

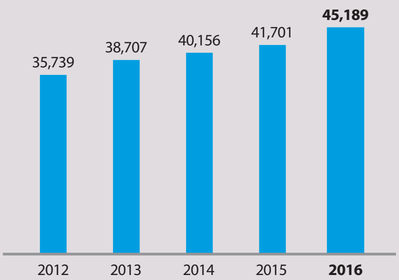
Underlying Business Profit
HK$9.4 billion

Net Assets
HK$149.6 billion

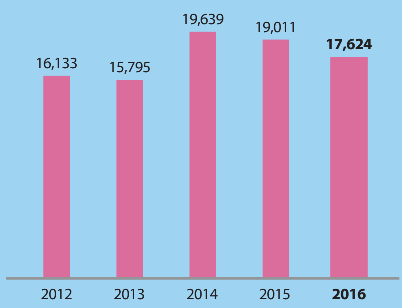
Net Debt-to-Equity Ratio
20.2%

Summary of Past Performance

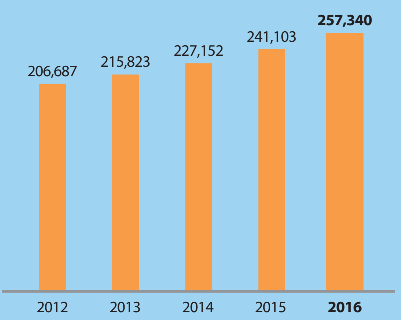
Total Revenue
(HK$ million)



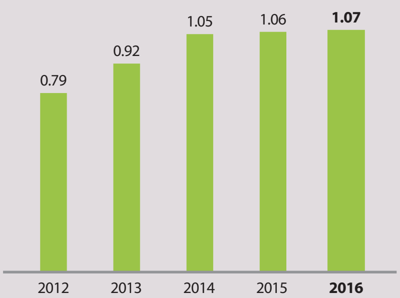
Operating Profit Before Depreciation, Amortisation and Variable Annual Payment
(HK$ million)



Total Assets
(HK$ million)



Ordinary Dividend per Share
(HK$)



Key Figures

	2016	2015	% Increase/ (Decrease)
Financial highlights *(in HK$ million)*			
Revenue			
– Hong Kong transport operations	**17,655**	16,916	4.4
– Hong Kong station commercial businesses	**5,544**	5,380	3.0
– Hong Kong property rental and management businesses	**4,741**	4,533	4.6
– Mainland of China and international railway, property rental and management subsidiaries	**13,478**	12,572	7.2
– Mainland of China property development subsidiary	**1,348**	–	N/A
– Other businesses	**2,423**	2,300	5.3
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	**17,313**	16,120	7.4
Profit on Hong Kong property development	**311**	2,891	(89.2)
Operating profit before depreciation, amortisation and variable annual payment	**17,624**	19,011	(7.3)
Profit attributable to shareholders of the Company arising from underlying businesses	**9,446**	10,894	(13.3)
Total assets	**257,340**	241,103	6.7
Loans, other obligations and bank overdrafts	**39,939**	20,811	91.9
Obligations under service concession	**10,507**	10,564	(0.5)
Total equity attributable to shareholders of the Company	**149,461**	170,055	(12.1)
Financial ratios			
Operating margin *(in %)*	**38.3**	38.7	(0.4%) pt.
Operating margin (excluding Mainland of China and international subsidiaries) *(in %)*	**53.9**	53.3	0.6% pt.
Net debt-to-equity ratio* *(in %)*	**20.2#**	11.3	8.9% pts.
Return on average equity attributable to shareholders of the Company arising from underlying businesses *(in %)*	**5.9**	6.5	(0.6%) pt.
Interest cover *(times)*	**12.7**	14.4	(1.7) times
Share information			
Basic earnings per share *(in HK$)*	**1.74**	2.22	(21.6)
Basic earnings per share arising from underlying businesses *(in HK$)*	**1.61**	1.87	(13.9)
Ordinary dividend per share *(in HK$)*	**1.07**	1.06	0.9
Share price at 31 December *(in HK$)*	**37.70**	38.40	(1.8)
Market capitalisation at 31 December *(HK$ million)*	**222,629**	224,956	(1.0)
Operations highlights			
Total passenger boardings in Hong Kong *(million)*			
– Domestic Service	**1,586.5**	1,577.5	0.6
– Cross-boundary Service	**113.3**	114.2	(0.8)
– Airport Express	**16.1**	15.7	2.6
– Light Rail and Bus	**229.1**	226.7	1.1
Average number of passengers *(thousand)*			
– Domestic Service *(weekday)*	**4,608**	4,577	0.7
– Cross-boundary Service *(daily)*	**309.5**	313.0	(1.1)
– Airport Express *(daily)*	**44.1**	43.1	2.3
– Light Rail and Bus *(weekday)*	**644.7**	637.4	1.1
Fare revenue per passenger *(in HK$)*			
– Domestic Service	**7.81**	7.49	4.3
– Cross-boundary Service	**28.71**	27.76	3.4
– Airport Express	**61.85**	60.42	2.4
– Light Rail and Bus	**3.09**	2.96	4.4
Proportion of franchised public transport boardings *(in %)*	**48.4**	48.5	(0.1%) pt.

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

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

2016 Operational Highlights

With the first railway line opened in 1979, MTR is one of the world's leading railway operators, bringing an integrated approach to rail transport and property development. With a reputation for safety, reliability, customer service and cost efficiency, we are growing significantly in Hong Kong, the Mainland of China and overseas.

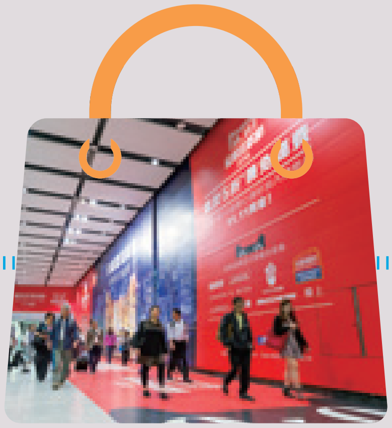
Hong Kong Transport Operations

Business Description

We operate a predominantly rail-based transportation system in Hong Kong that stretches 230.9 km, with 93 stations and 68 Light Rail stops. We also provide intercity services to and from the Mainland of China as well as a small bus operation offering convenient feeder service in Hong Kong.

2016 Highlights

- Kwun Tong Line Extension and South Island Line commenced passenger services in October and December 2016 respectively, bringing our service to all 18 districts in Hong Kong
- Train service delivery and passenger journeys on-time in our heavy rail network maintained at 99.9%
- Achieved our best performance in terms of train service reliability since the merger with Kowloon-Canton Railway Corporation in 2007
- Discussions are on-going with Government relating to the early review of the Fare Adjustment Mechanism
- Major asset replacement and upgrade programmes well underway including new trains and replacement of signalling systems and chiller systems



Hong Kong Station Commercial Businesses

Business Description

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

2016 Highlights

- Station retail business remained resilient with positive rental reversion recorded. Trade mix refinements continued
- Tender of duty free rental contracts at Lo Wu, Hung Hom and Lok Ma Chau stations attracted international and local duty free shop operators. The contracts were awarded to the incumbent operator
- New shops opened at the new stations on the Kwun Tong Line Extension and South Island Line providing convenience for passengers. Various leading lifestyle brands such as Pandora, MUJI to GO landed at MTR Shops offering new shopping experience
- Capturing the online-to-offline trend, the "e-shop network", which enables our customers to experience online ticketing and shopping, was expanded to 20 stations
- Wi-Fi equipment at 84 stations was upgraded to improve Wi-Fi data capacity and connection speed for our customers

Hong Kong Property and Other Businesses

Business Description

In Hong Kong, we develop for sale mainly residential properties in conjunction with property developers and hold for investment shopping malls and offices, managing these and other properties. We also run businesses including cable car operations, Octopus card payments, consultancy and project management.

2016 Highlights

- LOHAS Park Package 10 and Ho Man Tin Station Package 1 property developments successfully awarded
- Programme to add 120,620 square metres gross floor area to the investment property portfolio made good progress
- The extension of Maritime Square and the conversion of two floors at Telford Plaza for retail use are targeted to open in the second half of 2017

Hong Kong Network Expansion

Business Description

MTR is expanding its railway network in Hong Kong to meet future transport demand. This forms part of Rail Gen 2.0, a next generation rail which will support Hong Kong's development as an economy and as a society.

2016 Highlights

- MTR overcame a number of challenges to open two new rail lines, the Kwun Tong Line Extension and South Island Line, in the same year
- The Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link project was 87.4% complete and the Shatin to Central Link was 68.1% complete
- Our first proposal under the Railway Development Strategy 2014, the extension of the West Rail Line to Tuen Mun South, was submitted to Government in December 2016

Mainland of China and International Businesses

Business Description

We invest in and operate rail networks and related property developments in the Mainland of China, and operate concessions in the UK, Sweden and Australia. We will continue to pursue opportunities that will benefit our shareholders.

2016 Highlights

In our Mainland of China railway and property businesses:

- First batch of units at Tiara in Shenzhen were handed over to buyers in December 2016
- First phase of Beijing Metro Line 16 started operation in December 2016
- Tender submitted for Hangzhou Metro Line 5 in May 2016. Discussions with Hangzhou Metro Group Company Limited on the way forward are currently ongoing

In our International railway businesses:

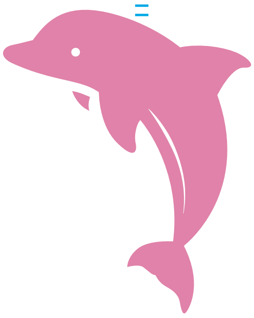
- Took over the concession of Stockholm commuter rail ("Stockholms pendeltåg") in Sweden in December 2016
- Bid submitted for South Western Rail franchise in the UK and Skåne county commuter rail ("Pågatåg") in Sweden
- Franchise extension proposal submitted by Metro Trains Melbourne Pty. Ltd.

We are striving to evolve our existing railway network to Rail Gen 2.0, a next generation rail that brings superior connectivity, better facilities and enhanced services to the general public.

Kwun Tong Line Extension

- 3-km line running from Yau Ma Tei to Whampoa with an intermediate station at Ho Man Tin
- Opened on 23 October 2016
- Reduced journey time between Whampoa and Yau Ma Tei to 5 minutes
- Serving over 100,000 passengers daily

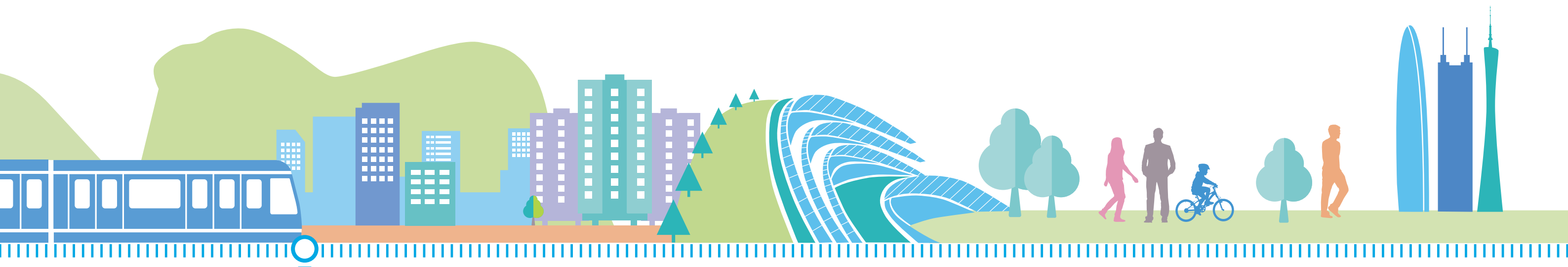
South Island Line

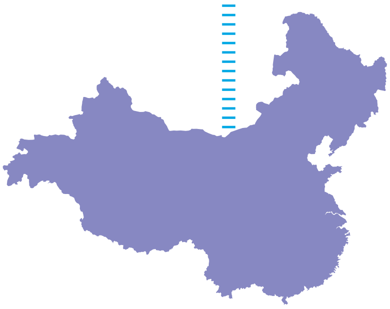


- 7-km line running from Admiralty to the Southern District of Hong Kong Island, with new stations at Ocean Park, Wong Chuk Hang, Lei Tung and South Horizons
- Opened on 28 December 2016
- Bringing MTR's service to all 18 districts in Hong Kong
- Serving over 110,000 passengers daily

Shatin to Central Link

- 17 km with 10 stations
- Tai Wai to Hung Hom section: extending the Ma On Shan Line from Tai Wai via East Kowloon to Hung Hom, where it will connect with the West Rail Line to form the East West Corridor
- Hung Hom to Admiralty section: extending the East Rail Line from Hung Hom across Victoria Harbour to Admiralty to form the North South Corridor



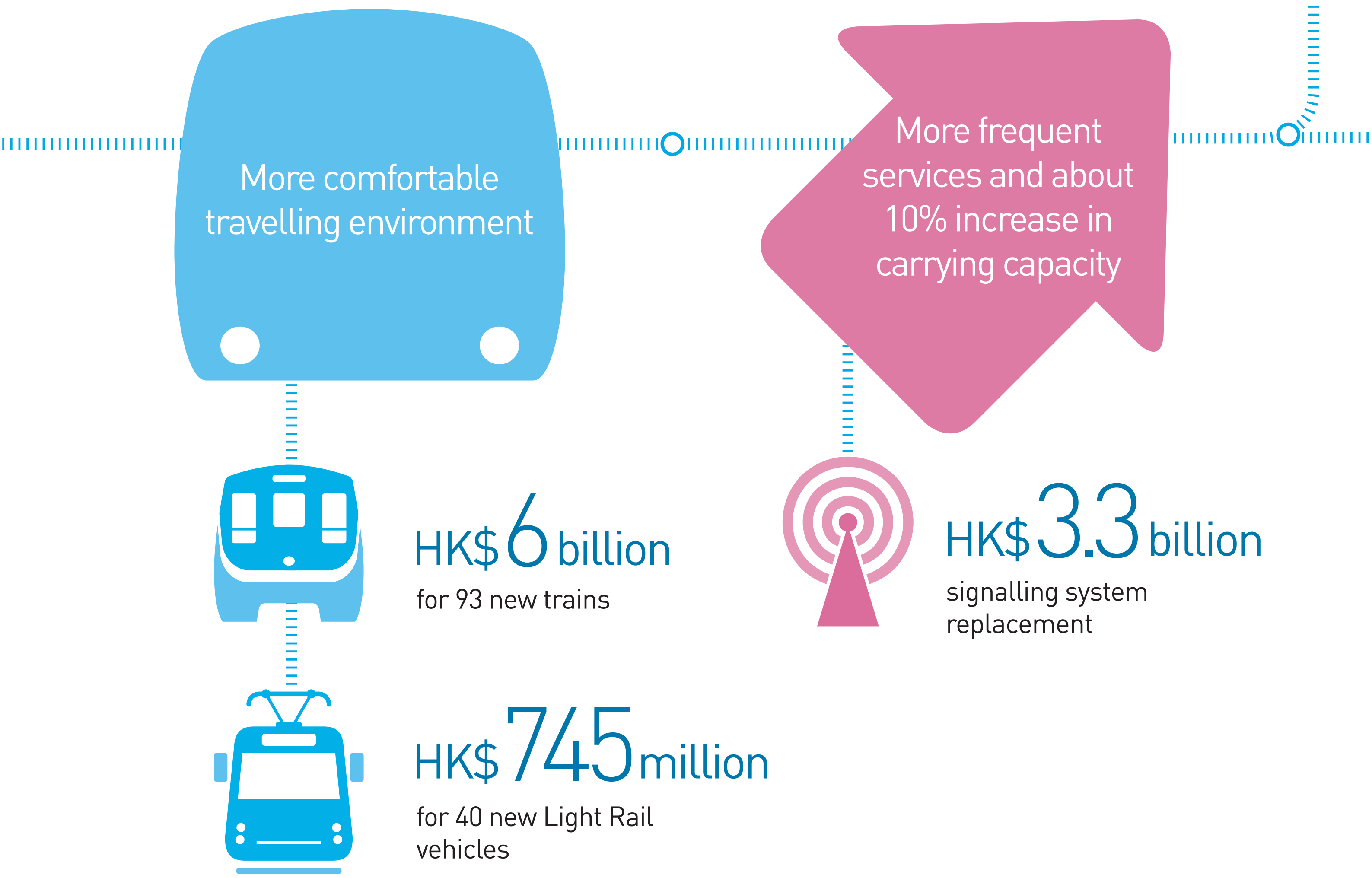


Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link

- 26 km for Hong Kong section
- New West Kowloon Terminus will connect directly to the National High-speed Rail Network with frequent services to targeted major Mainland cities

With the opening of the extension of the Island Line and Kwun Tong Line, the new South Island Line, and the upcoming Shatin to Central Link and Express Rail Link, our existing and new rail lines will be knitted together to form a superior railway network, providing enhanced connectivity and accessibility to more areas.

Major infrastructure works and facilities upgrades are underway alongside the construction of new lines to build towards a better railway network for our future. Overall customer experience will be improved through the provision of new trains, increased train frequency, upgraded station facilities and better customer service.



Enhanced station environment

Replacement of

Chillers

Future new lines to provide better travelling experience

下一班列車
Next train
8卡車
Cars

Mixed fleet Operation

West Rail Line from 7-car to 8-car trains;
Ma On Shan Line from 4-car to 8-car trains

Station Enhancement Works

for future interchange stations at
Hung Hom, Diamond Hill and Admiralty

Automatic Platform Gates

installation along East Rail Line and
Ma On Shan Line

US$600 million Green Bond

- Provide cost effective financing to invest in environmentally friendly services and network enhancements envisaged in the Rail Gen 2.0 vision
- A milestone for both our financial and environmental strategies
- Tap into a new investor base with growing interest in investing in responsible and sustainable companies

Hong Kong Operating Network with Future Extensions

Legend

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

Existing Network

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

Projects in Progress

- Guangzhou-Shenzhen-Hong Kong Express Rail Link
- Shatin to Central Link (Phase I)
- Shatin to Central Link (Phase II)

Potential Future Extensions under Railway Development Strategy 2014

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

Properties Owned / Developed / Managed by the Corporation

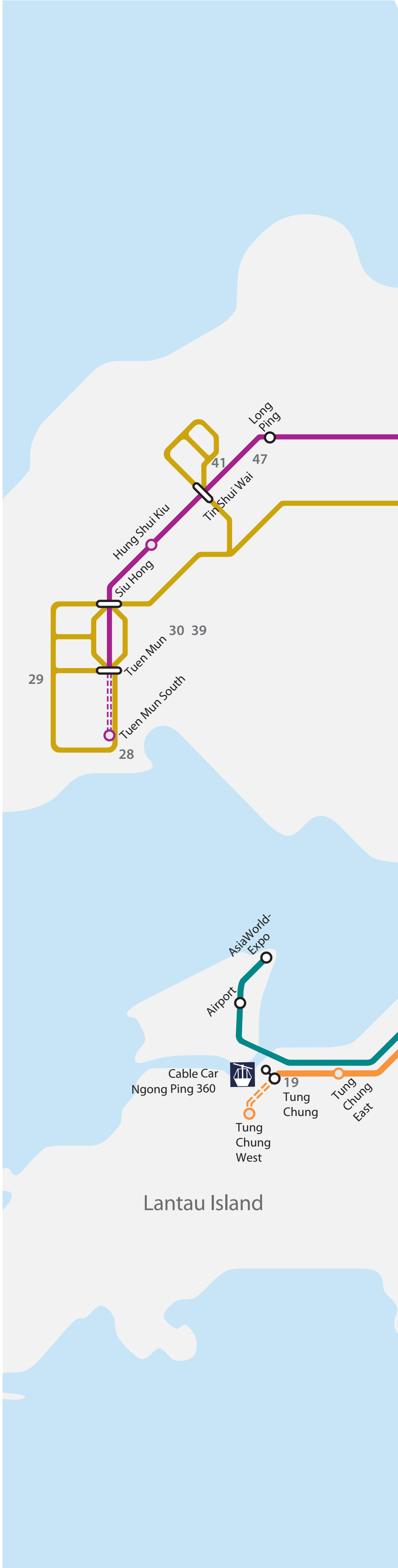
01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Tower
11 Hongway Garden / Infinitus Plaza
12 Perfect Mount Gardens
13 New Jade Garden
14 Southorn Garden
15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall
16 Park Towers
17 Felicity Garden
18 Tierra Verde / Maritime Square
19 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Coastal Skyline / Caribbean Coast
20 Central Park / Island Harbourview / Park Avenue / Harbour Green / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two
21 The Waterfront / Sorrento / The Harbourside / The Arch / Elements / The Cullinan / The Harbourview Place / W Hong Kong / International Commerce Centre / The Ritz-Carlton, Hong Kong
22 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place
23 Central Heights / The Grandiose / The Wings / PopCorn 1 / PopCorn 2 / Crowne Plaza Hong Kong Kowloon East / Holiday Inn Express Hong Kong Kowloon East / Vega Suites
24 Residence Oasis / The Lane
25 No.8 Clear Water Bay Road / Choi Hung Park & Ride
26 Metro Town
27 Royal Ascot / Plaza Ascot
28 Ocean Walk
29 Sun Tuen Mun Centre / Sun Tuen Mun Shopping Centre
30 Hanford Garden / Hanford Plaza
31 Citylink Plaza
32 MTR Hung Hom Building / Hung Hom Station Carpark
33 Trackside Villas
34 The Capitol / Le Prestige / Hemera
35 The Palazzo
36 Lake Silver
37 Festival City
38 The Riverpark
39 Century Gateway
42 The Austin / Grand Austin
45 City Point

Property Developments Under Construction / Planning

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

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

39 Century Gateway
45 Tsuen Wan West Station (TW5) Bayside / Tsuen Wan West Station (TW5) Cityside / THE PAVILIA BAY / City Point
46 Cullinan West
47 The Spectra / Long Ping Station (South)
48 Yuen Long Station
49 Kam Sheung Road Station Packages
50 Pat Heung Maintenance Centre




Shenzhen
Lo Wu
Lok Ma Chau
Sheung Shui
Kwu Tung
Fanling
Tai Wo
Tai Po Market
33
University
Racecourse*
Fo Tan
27
35
Sha Tin
31
New Territories
Yuen Long
48
Kam Sheung Road
49
50
Tsuen Wan West
45
Tsuen Wan
05
Tai Wo Hau
Kwai Hing
07
Kwai Fong
06
Lai King
Mei Foo
Tsing Yi
18
Sunny Bay
Disneyland Resort
Nam Cheong
46
Olympic
20
Kowloon
21
West Kowloon Terminus
Austin
42
Tsim Sha Tsui
East Tsim Sha Tsui
Jordan
Yau Ma Tei
Mong Kok
04
Prince Edward
Sham Shui Po
Cheung Sha Wan
Lai Chi Kok
Shek Kip Mei
Kowloon Tong
Tai Wai
40
37
Hin Keng
Che Kung Temple
38
Sha Tin Wai
City One
Shek Mun
Tai Shui Hang
Heng On
Ma On Shan
Wu Kai Sha
36
Lok Fu
Wong Tai Sin
Diamond Hill
Choi Hung
25
Kowloon Bay
01
Choi Wan
Shun Tin
Sau Mau Ping
Po Tat
Po Lam
Hang Hau
24
Kowloon
Mong Kok East
Kai Tak
To Kwa Wan
Ma Tau Wai
Ho Man Tin
44
Whampoa
Hung Hom
32
Ngau Tau Kok
Kwun Tong
Lam Tin
Yau Tong
Tiu Keng Leng
26
Tseung Kwan O
23
LOHAS Park
34
Exhibition
Hong Kong
22
Tamar
Central
02
Sheung Wan
11
Sai Ying Pun
HKU
Kennedy Town
Admiralty
03
08
Wan Chai
14
Causeway Bay
Causeway Bay North
Fortress Hill
10
Tin Hau
16
North Point
Quarry Bay
Tai Koo
09
Sai Wan Ho
17
Shau Kei Wan
12
Heng Fa Chuen
15
Chai Wan
13
Hong Kong Island
Queen Mary Hospital
Cyberport
Wah Fu
Tin Wan
Aberdeen
Wong Chuk Hang
43
Ocean Park
Lei Tung
South Horizons
Intercity Through Train Route Map
Beijing Line
Shanghai Line
Guangdong Line
Beijing
Shanghai
Zhaoqing*
Guangzhou
Foshan
Dongguan
HONG KONG SAR
* Due to the redevelopment of railway control point at Zhaoqing, services to/from Zhaoqing will be suspended from 16 April 2017 until further notice.

Chairman's Letter

As a company providing sustainable rail transportation and new homes, MTR plays a central role in the lives of many communities and supports initiatives that aim to improve quality of life for communities we proudly serve.

Dear Shareholders and other Stakeholders,

It has been an exciting and successful year since I took up my appointment as Chairman at the beginning of 2016. The Company has made remarkable progress of which we are all proud. Not only have we continued to deliver world-class rail services to customers, but we also opened two new railway lines in Hong Kong, the Kwun Tong Line Extension and the South Island Line (East) ("South Island Line"), bringing greater choice and convenience to the travelling public. With over 17,000 dedicated staff based in Hong Kong and an operational model that is widely admired, we will continue to provide excellent service in our home base here. This will allow us to capitalise further on our brand name and expertise to grow our Mainland of China and overseas operations. During the last quarter of 2016, we opened Phase 1 of the Beijing Metro Line 16 in the Mainland of China and took over the Stockholm commuter rail ("Stockholms pendeltåg") concession in Sweden. We have also established the MTR Academy to develop professionals for the railway industry on a global basis.

The Company's financial results for 2016 reflected stable recurrent business performance together with, as expected, a much lower contribution from property development. Profit attributable to equity shareholders for the year from recurrent businesses grew by 4.1% to HK$8,916 million. Post-tax property development profit from Hong Kong and the Mainland of China fell by 77.2% to HK$530 million and as a result, profit attributable to equity shareholders from underlying businesses decreased by 13.3% to HK$9,446 million. Including investment property revaluation, net profit attributable to equity shareholders was HK$10,254 million, representing earnings per share after revaluation of HK$1.74. In addition to the one-off special cash dividend of HK$4.40 per share, of which the first tranche (of HK$2.20 per share) was paid on 13 July 2016, and the second tranche (also of HK$2.20 per share) is to be paid in the second half of 2017, your Board has proposed a final ordinary dividend of HK$0.82 per share. Together with the interim dividend of HK$0.25 per share, this amounts to a full year ordinary dividend per share of HK$1.07.

When I took up my appointment, I outlined a vision of making MTR a company admired in Hong Kong and around the world as a world-class operator of sustainable rail transport service. To achieve this, we focus on three areas: our rail network, our customers and our people. I would like to outline how we have been delivering on each area, as well as contributing to the community, during the year.

Our Network

We make extensive investments to maintain the high levels of service in our network, and to build the new railway lines that are needed for the future. These form "Rail Gen 2.0", a new era for rail transportation that will support Hong Kong's development as an economy and as a society. Our Hong Kong colleagues went to extraordinary lengths, overcoming many challenges, to open both the Kwun Tong Line Extension and the South Island Line during the year. With these lines now in service, we continue with the work to complete our two remaining projects under construction, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link. The Express Rail Link remains on target for completion in the third quarter of 2018, barring resolution of the colocation of customs, immigration and quarantine facilities by Government, while the two corridors of the Shatin to Central Link are also progressing towards their completions in 2019 and 2021 respectively. My sincere thanks go out to our employees, contractors and Government departments, as well as to the communities who have given us tremendous support.

Seven more rail projects have been identified by Government under its Railway Development Strategy 2014 to be built in phases. Government has invited MTR to submit project proposals for four of these projects first, the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station), the East Kowloon Line and the Tung Chung West Extension (and Tung Chung East Station). The Tuen Mun South Extension project proposal was submitted to Government in December 2016 and the project proposals on the Northern Link (and Kwu Tung Station), the East Kowloon Line and the Tung Chung West Extension (and Tung Chung East Station) will be submitted later.

Outside Hong Kong, we are also actively pursuing new opportunities. In the Mainland of China, we are in discussion with the Hangzhou Municipal Government on an investment in Hangzhou Metro Line 5. We have signed an agreement to conduct joint preliminary studies on the integrated development of some existing station and depot sites along Beijing Metro Line 4 and the Daxing Line. We have also signed a Letter of Intent with China Railway Corporation to explore strategic cooperation on high speed rail construction, operations, integrated development and training. This strategic partnership positions us to tap into opportunities arising from the Mainland's "Belt and Road" Initiative.

Internationally, in the UK we await the result of our bid for the South Western Rail franchise which is due in April 2017, and we are now preparing to bid for the Wales and Borders rail franchise. In Sweden, we have submitted our bid for the Skåne county commuter rail ("Pågatåg"). In Australia, we continue our negotiations for the concession extension of Metro Trains Melbourne and potential participation in the Sydney Metro City and Southwest project.

Our Customers

I fully appreciate our customers have high expectations of our service, and am pleased to report that in 2016 we recorded our best ever performance in terms of train service reliability since the rail merger in 2007. During the year, there were six delays in our heavy rail network and two delays in our light rail network, which lasted for 31 minutes or more, that were attributable to factors within MTR's control. Our safety record likewise remained world class.

To ensure we continue to operate a highly reliable service, and as an integral part of Rail Gen 2.0, there is an extensive asset replacement programme. This will see HK$9.3 billion spent on new, more comfortable trains and enhanced signalling systems. These two projects are making good progress and testing on the lines is scheduled at night to avoid disrupting normal train service. Over the coming seven years we will also be replacing chillers, using more energy efficient models, in stations and depots. In addition, new Light Rail vehicles are being ordered to meet the increased demand for these services. In connection with our new lines, major modifications have been made to Hung Hom, Diamond Hill and Admiralty stations to enhance the interchange experience between different lines in the MTR network for improved connectivity across Hong Kong. These investments under Rail Gen 2.0 are in addition to our investments in other improvements, such as better station environments, more external lifts, refurbished escalators and toilets, as well as better passenger information displays.

The Fare Adjustment Mechanism ("FAM") is what allows us to make these vital investments in the Hong Kong network on an ongoing basis. Fair, transparent and objective, it has carefully balanced the interests of the travelling public against the need for a sustainable financial base. By international standards, our Hong Kong services are very affordable, reflecting average fare increases over the past eight years that have been below both the level of inflation and wage increases. The FAM is subject to regular review with Government and the next review was scheduled to begin in 2017 for completion in 2018. However Government requested an earlier start to the process and in April 2016 we agreed to conduct the joint review one year earlier than scheduled. Discussions are on-going with Government regarding this review.

Every year, travelling on the MTR is made even more affordable by the concessions and promotions we offer, many of them targeting the young, those living further away from the city centre, the elderly and persons with disabilities. In 2016, these amounted to about HK$2,536 million, while for 2016/2017 we announced additional packages worth more than HK$500 million in total. We also look for other ways to enhance our customer experience, the "Happy Birthday • Happy Journey" lucky draw that will come to an end in March 2017, has brought joy to our customers.

Fares aside, and more importantly, we serve our customers well by understanding their needs. During the year, we launched a number of initiatives to improve our communication with customers. Planning ahead, we have carried out an extensive study to help us define the desirable customer experience of the future. The result of this study is our 2030 Customer Experience Vision Blueprint, which defines the framework for our initiatives to improve the travel experience of our customers over the coming years.

We continuously look for innovative ways to enhance our services; in November 2016, MTR sponsored HackTrain HK, the first ever railway hackathon in Asia. Over a 48-hour journey, 40 participants with diverse backgrounds from Hong Kong and around the world stepped up to the challenge of coming up with technology-enabled solutions to make our services even more efficient and enjoyable.

Turning to the arson incident which occurred on a train running from Admiralty Station to Tsim Sha Tsui Station on the Tsuen Wan Line on 10 February 2017, I was deeply saddened by the incident and wish all the injured a speedy

recovery. Joining hands with Tung Wah Group of Hospitals ("TWGHs"), we launched a donation campaign for the benefit of those injured and hospitalised in the incident. MTR together with our staff donated HK$2 million and through TWGHs, donations were also received from the public. As with all major incidents, we immediately established a review panel to probe the incident and to propose improvement measures. Given the severity of this incident, the review panel is co-chaired by the Operations Director and the Engineering Director, and the work of the panel is also supported by external professionals. I would like to again express my thanks to our colleagues for their professionalism, as well as their robust, calm and speedy responses, which minimised the impact of this incident to our customers. Their ability demonstrated in handling the incident reflected the sound training they have received, as well as our colleagues' dedication to serve. I am extremely proud of them.

Our People

Consistently delivering a world-class level of service to our customers would not be possible without a team of professional and dedicated staff. We value the views and aspirations of our colleagues, and in November 2016 we conducted our first global Staff Engagement Survey. The response rate was very high at over 94%. Based on employees feedback collected in the survey, we will follow up with initiatives for continuous improvement.

Every year we receive recognition at home and abroad for our commitment to and success in inspiring, engaging and developing our people. During 2016, MTR was named as one of the best companies to work for by a number of local and international organisations, while for training, we received a number of awards, including three honours in the "Award for Excellence in Training and Development" organised by the Hong Kong Management Association and an "Excellence in Practice Award" from the Association for Talent Development in the US.

The skills of our people and our training programmes are valuable resources that we look to deploy beyond Hong Kong, and to contribute to the Mainland of China's far-reaching "Belt and Road" Initiative. It was to this end that we established the MTR Academy in November 2016. Offering programmes for people in Hong Kong, as well as the railway industry in the Mainland of China and overseas, MTR Academy aims to become globally recognised as a centre of excellence for railway management and engineering.

Contributions to the Community

As a company providing sustainable rail transportation and new homes, MTR plays a central role in the lives of many communities and supports initiatives that aim to improve quality of life for communities we proudly serve.

Under our Community Connect platform, we have made available a number of retail shops in stations along the West Rail Line for lease by the social enterprises of non-governmental organisations ("NGOs") at concessionary rates. We also support many NGOs and non-profit making organisations via provision of free advertising spaces in our network. Another new initiative is the MTR Gallery which we

opened in February 2017. It is an interactive exhibition corner at Kowloon Station featuring multimedia displays on the development of Hong Kong's railways. This supplements our long-running "Art in MTR" programme that brings art into stations and MTR premises.

Under the Youth Connect banner, we have continued to invite young people to exchange ideas with us via our think tank – the Youth Forum, which has been generating new ideas, some of which are now being put into practice. In September 2016 we also announced the launch of five new initiatives, following an open selection process with public input, to bridge the gap between education and work for young people. Meanwhile, Youth Connect's ongoing programmes continue to provide support and opportunities to secondary school students who come from less privileged backgrounds.

The environmental benefits of rail transport, being a low carbon business, are well established, and in 2016, we issued our first Green Bond, bringing together our financial and environmental strategies. Green bond financing allows us to tap into a new investor base while providing cost effective financing to invest in environmentally friendly services and network enhancements as part of the Rail Gen 2.0 vision. It will also contribute to establishing Hong Kong as a regional green finance hub.

Board Transition

MTR has an impressive Board, which plays a key role in maintaining the high standards of corporate governance that underpins our success as a sustainable business. I take this opportunity once again to welcome Mr Anthony Chow Wing-kin, who was appointed as Independent Non-executive Director of the Company on 18 May 2016, and to thank Mr Edward Ho Sing-tin, who retired from the Board as Independent Non-executive Director after more than 24 years of service during 2016. Mr Ng Leung-sing, after having served on the Board for more than nine years, will retire as Independent Non-executive Director of the Company at our Annual General Meeting on 17 May 2017. I would like to thank Mr Ng for his valuable contributions and service to both the Board and the Company all these years.

The counsel my fellow directors have given me during the year has been invaluable and I wish to thank them for their unfailing support. I also thank each and every one of our staff members for their hard work and dedication throughout the year, making MTR a company we are all proud of.

Professor Frederick Ma Si-hang
Chairman
Hong Kong, 7 March 2017

CEO's Review of Operations and Outlook

2016 has been a rewarding year full of important achievements for MTR. From funding approval for the Express Rail Link... to opening two new rail lines in Hong Kong, one in Beijing and taking over the Stockholm commuter rail concession in Sweden... many key milestones were achieved.

Dear Shareholders and other Stakeholders,

2016 has been a rewarding year full of important achievements for MTR. From funding approval for the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") in the first quarter of the year to opening two new rail lines in Hong Kong, one in Beijing and taking over the Stockholm commuter rail ("Stockholms pendeltåg") concession in Sweden, all in the final quarter of the year, many key milestones were achieved. Amongst these milestones was the establishment of the MTR Academy in November, an important step towards fulfilling our vision of setting up a global training hub for railway-related professionals.

These major accomplishments were achieved whilst continuing to provide world-class services in Hong Kong, with train service delivery and passenger journeys on-time in our heavy rail network being maintained at 99.9% in 2016. Indeed 2016 saw our best ever performance in terms of train service reliability despite passenger numbers increasing by 31.0% since the merger with Kowloon-Canton Railway Corporation ("KCRC") back in 2007.

Our businesses in Hong Kong performed reasonably, albeit impacted by the general slowdown in economic growth. In our Hong Kong transport business, passenger volume growth of 0.5% was muted when compared with average annual growth rates of 2.4% over the last five years while fares were adjusted in accordance with the Fare Adjustment Mechanism ("FAM"). Under our Operating Agreement, the FAM is normally reviewed once every five years and the next scheduled review was originally due to take effect in June 2018. However, MTR and Government agreed in April 2016 to an early joint review, bringing it forward by one year. Discussions are on-going with Government regarding this review. Our station commercial and property rental businesses were also impacted by slowing economic growth and continued declines in Hong Kong retail sales, although the resilient nature of these businesses resulted in continued positive revenue growth.

In our property tendering activities in Hong Kong we awarded two MTR property development packages in 2016, which were our tenth package at LOHAS Park and the first package at Ho Man Tin Station. We also awarded the first of the Wong Chuk Hang Station development packages in February 2017.

Our growth strategy targets opportunities both at home and abroad. In Hong Kong, during 2016 we overcame a number of challenges to open the Kwun Tong Line Extension on 23 October and the South Island Line (East) ("South Island Line") on 28 December. This is the first time that we have opened two new lines in the same year in Hong Kong since the rail merger in 2007 and is an achievement of which everyone at MTR is proud. These two lines have brought MTR travel to tens of thousands more Hong Kong people, reducing their journey times and increasing convenience. With the opening of the South Island Line, MTR now serves all 18 districts in Hong Kong.

Outside Hong Kong, MTR carried on average 5.6 million passengers every weekday in 2016, with our rail businesses in all locations being recognised, and in many cases receiving awards, for superior service performance. In the year, important milestones were achieved including the opening of Phase 1 of Beijing Metro Line 16 ("BJL16") and another station on Beijing Metro Line 14 ("BJL14") in the Mainland of China, the taking over of the Stockholms pendeltåg concession in Sweden and the commencement of handover of completed units at our first property development outside Hong Kong, Tiara in Shenzhen.

With our solid base, we continue to build our longer-term future at home and abroad. In Hong Kong, "Rail Gen 2.0" is our vision for the next generation of rail travel which includes the two remaining rail projects under construction, the Express Rail Link and the Shatin to Central Link; these projects were, respectively, 87.4% and 68.1% complete at 2016 year end. In addition to our new rail projects, Rail Gen 2.0 includes major asset replacements, such as trains and signalling systems, on our existing network, on which good progress was made during the year. When completed, Rail Gen 2.0 will provide even better connections and services for our Hong Kong customers. Our longer-term growth in Hong Kong is supported by Government's proposal to build seven new railway projects under the Railway Development Strategy 2014 ("RDS 2014"). We submitted the first proposal under RDS 2014, for an extension of the West Rail Line to Tuen Mun South, in December 2016.

Outside of Hong Kong, we have submitted tenders or are in discussions regarding a number of new rail contracts in the Mainland of China, Sweden, the UK and Australia whilst also exploring integrated transit-oriented development opportunities in the Mainland of China. We await the results of these tenders and discussions.

Turning to our financial results, total revenue for 2016 increased by 8.4% to HK$45,189 million, with operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment increasing by 4.2% to HK$16,947 million. Excluding the Company's Mainland of China and international subsidiaries, revenue grew by 4.2% and operating profit by 5.3%, with operating margin up by 0.6 percentage point to 53.9%. Recurrent profit attributable to equity shareholders, being net profit before property development profits (from both Hong Kong and Mainland of China) and investment properties revaluation, increased by 4.1% to HK$8,916 million. Post tax profit from property developments (from both Hong Kong and Mainland of China) was HK$530 million, and was mainly derived from profit booking of the first batch of units handed over at Tiara as well as sundry income sources in Hong Kong, such as the sharing in kind of the kindergarten at Hemera. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders fell by 13.3% to HK$9,446 million mainly due to a lower level of property development profits this year, representing earnings per share of HK$1.61. Gain in revaluation of investment properties was HK$808 million, as compared with HK$2,100 million in 2015. As a result, net profit attributable to equity shareholders was HK$10,254 million, equivalent to earnings per share of HK$1.74 after revaluation.

Your Board has proposed a final ordinary dividend of HK$0.82 per share, resulting in a full year ordinary dividend per share of HK$1.07. With the first tranche of the special dividend (of HK$2.20 per share) relating to the agreement with Government regarding the further funding arrangement for the Express Rail Link ("XRL Agreement") having been paid on 13 July 2016, the second tranche (also of HK$2.20 per share) will be paid in the second half of 2017, at the same time as payment of the 2016 final ordinary dividend.

Hong Kong Transport Operations

Safety

Safety, as always, is our top priority, and during 2016 our performance in this area remained world class. There were 9.1% fewer reportable events on the Hong Kong heavy rail network in 2016 when compared to the already world-leading safety standard achieved in 2015.

The results of our "safety first" culture were well demonstrated by our response to an arson attack on one of our trains on 10 February 2017. Investigation revealed that an individual ignited flammable liquid and set fire in the compartment of a Tsuen Wan Line train travelling from Admiralty Station to Tsim Sha Tsui Station during the Friday evening peak hour. The train captain calmly brought the train to Tsim Sha Tsui Station having forewarned colleagues at our Operation Control Centre who had in turn alerted staff in the station. On arrival the train was evacuated and the injured attended to. The station was also quickly and orderly evacuated, all within a few minutes. Our colleagues responded robustly, professionally and speedily, working in partnership with the Police and Fire Services Department, enabling injuries and damages to be minimised. Unfortunately, 19 passengers were injured in the incident, including the suspect. We convey our sympathy to those injured and wish them a speedy recovery. Our staff's response was the result of safety training provided by the Company, including the provision of clear safety guidelines, regular exercises and drills. In addition, the fire-resistant train car interior minimises the potential damage of incidents of this nature. We salute the professionalism of our MTR colleagues and Hong Kong emergency services personnel and thank our passengers for their assistance and calm and orderly response in the incident.

During the year numerous initiatives were implemented to promote safety in our heavy rail network with an emphasis on the safe use of escalators. Safety initiatives were also implemented in our light rail systems, focusing on improving awareness at road junctions.

Patronage

The impact on patronage of the slowdown in economic growth in Hong Kong was partially offset by the opening of two new rail lines in Hong Kong, leading to total patronage of all our rail and bus passenger services increasing by 0.5% to 1,948.8 million in 2016.

For the Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail, Ma On Shan and South Island lines), total patronage reached 1,586.5 million, a 0.6% increase for the year. The Cross-boundary Service to Lo Wu and Lok Ma Chau recorded a 0.8% decrease in patronage to 113.3 million following a fall in Mainland of China visitors. Patronage on the Airport Express increased by 2.6% to 16.1 million, supported by a moderate increase in air passenger traffic.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong for the year increased by 0.6% to 5.59 million. The Domestic Service, which accounts for the majority of this patronage, saw a 0.7% rise to 4.61 million.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong in 2016 was 48.4%, compared to 48.5% in 2015. Within this total, our share of cross-harbour traffic was 68.6%, compared to 68.8% in 2015. Competition from other modes of transport saw our share of the Cross-boundary business for the year decrease marginally from 51.3% to 51.2%, and our market share to and from the airport also reduced marginally from 21.5% to 21.4%.

Fare Revenue, Promotions and Concessions

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

In HK$ million	Year ended 31 December 2016	Year ended 31 December 2015	Inc./(Dec.) %
Fare Revenue			
Domestic Service	**12,395**	11,819	4.9
Cross-boundary Service	**3,252**	3,172	2.5
Airport Express	**998**	950	5.1
Light Rail and Bus	**707**	671	5.4
Intercity	**137**	142	(3.5)
Total Fare Revenue	**17,489**	16,754	4.4

Changes to our fares are in accordance with the FAM and an overall 2.65% adjustment was made to applicable fares on 26 June 2016. At the same time we announced our 2016/2017 fare promotions package, bringing further savings of more than HK$500 million to customers between June 2016 and June 2017. This is in addition to our ongoing fare concessions and promotions such as those offered to the elderly and students, which during 2016 amounted to approximately HK$2,536 million.

Maintaining the quality of our services and expanding the network to meet future demand requires heavy investment in our people, our existing lines and in new rail lines. In 2016 we spent more than HK$8 billion on maintaining, replacing and upgrading our existing network. This annual spending will increase significantly over time.

We can only make these investments if we have a sustainable fare adjustment structure, which in MTR's case is the FAM. The mechanism, which is completely transparent, was agreed by Government and approved by the Legislative Council of the HKSAR ("LegCo") at the time of our merger with KCRC in 2007. By using objective criteria to calculate adjustments to fares, the FAM has provided MTR with capital for upgrades, replacement and investment, which allows us not only to provide world leading performance, but also to provide very affordable travel to our passengers when compared to leading metro companies around the world. Furthermore, under the FAM, between 2008 (the commencement of FAM implementation) and 2016, our fares have increased at an average annual rate of 2.9%[1], which is lower than both average annual consumer price inflation of 3.4% (as recorded by the Composite Consumer Price Index) and the average annual increase of 4.5% in salaries (as measured by the Hong Kong Payroll Index).

Discussions with Government are on-going relating to the early review of the FAM.

Service Performance

Service performance in 2016 remained at world-class levels and was MTR's best performance in terms of train service reliability since the merger with KCRC in 2007. Train service delivery and passenger journeys on-time in our heavy rail network remained at 99.9%, above the targets in our Operating Agreement as well as our own more demanding Customer Service Pledges. During the year, more than 1.91 million train trips were made on our heavy rail network and more than 1.09 million train trips were made on our light rail network. In the year there were only six delays on the heavy rail network and two delays on the light rail network each lasting 31 minutes or more which were caused by factors within our control.

Investing in Network Improvements

Rail Gen 2.0

At the beginning of 2016 we announced the launch of Rail Gen 2.0, a major programme to enhance travelling experience in the context of an extended "next generation" rail. Rail Gen 2.0 comprises four new rail projects and major upgrades to the existing rail network including new trains and Light Rail vehicles, replacement of signalling systems and chiller systems, and major interfacing works. Further information on the four new rail projects can be found under the section headed "Hong Kong Network Expansion".

Major Asset Replacements

We are spending HK$6 billion on 93 new, more comfortable 8-car trains to replace those on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. The car body production started in February 2017 and the trains will be delivered between 2018 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 total cost of HK$3.3 billion. This will increase these lines' carrying capacity by about 10%. The Tsuen Wan Line will be re-signalled first, targeted to complete by the end of 2018, and work is well underway. For the Island, Kwun Tong and Tseung Kwan O lines, site surveys began earlier in 2016.

Rail Gen 2.0 also covers the replacement of 30 Light Rail vehicles, together with ten additional vehicles to meet increasing demand. The HK$745 million procurement contract in respect of the 40 vehicles was awarded in July 2016. The first batch of new vehicles is expected to be ready for passenger service in 2019.

The installation of new chillers at Wan Chai Station began in November 2016 and is targeted to complete in 2017. This will be followed by the replacement of 160 chillers in our other stations and depots between 2017 and 2023. We are carrying out this work during the winter months for the comfort of passengers.

Major Interfacing Works

Under the Shatin to Central Link project, the existing 28 7-car trains on the West Rail Line are being converted to 8-car trains to enhance existing train services and to serve the future East West Corridor of the new line. By the end of 2016, 11 such trains had entered service. All the converted trains are targeted to be in service by 2018. All the extended station platforms on the Ma On Shan Line were commissioned and opened to public on 20 November 2016. The first 8-car train converted from the existing East Rail Line train was transferred to Tai Wai Depot in April 2016 for testing and commissioning. The existing 4-car trains on the Ma On Shan Line are being replaced by 8-car trains starting from January 2017.

Major modifications have taken place at Hung Hom station, which will serve as one of the interchange stations of the Shatin to Central Link. The southern and northern concourses at Hung Hom Station have now reopened.

1 *Excluding concession and promotions. Including the various concessions and promotions which MTR offers, our fares over the same period would have increased at an annual rate of only 2.4%*

Responding to Our Customers

During the year we continued to enhance our communication with our customers. We ran public announcements by celebrities during peak-hours at Admiralty Station to enliven customers' travelling experience. "Time to Next Train" information on gate-top Passenger Information Display Systems was introduced at certain stations, and staff with portable devices are now helping to solve ticketing problems at gates during peak hours. Our MTR Mobile has also been enhanced with a better customer interface and tourist information. Considerable efforts were also made to ensure a good customer experience during the opening of the two new railway lines.

Planning ahead, our 2030 Customer Experience Vision Blueprint provides the framework for asset upgrades and other initiatives designed to improve travel experience over the coming years.

Financial Performance

The financial performance of the Hong Kong transport operations is summarised as follows:

In HK$ million	Year ended 31 December 2016	Year ended 31 December 2015	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**17,655**	16,916	4.4
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**7,633**	7,214	5.8
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**2,572**	2,493	3.2
EBITDA Margin (in %)	**43.2%**	42.6%	0.6% pt.
EBIT Margin (in %)	**14.6%**	14.7%	(0.1)% pt.

Hong Kong Station Commercial Businesses

As illustrated below, in 2016, the financial performance of the Hong Kong station commercial businesses was stable.

	Year ended 31 December		
In HK$ million	**2016**	2015	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**3,723**	3,540	5.2
Advertising Revenue	**1,090**	1,109	(1.7)
Telecommunication Income	**561**	548	2.4
Other Station Commercial Income	**170**	183	(7.1)
Total Revenue	**5,544**	5,380	3.0
EBITDA	**5,012**	4,830	3.8
EBIT	**4,362**	4,230	3.1
EBITDA Margin (in %)	**90.4%**	89.8%	0.6% pt.
EBIT Margin (in %)	**78.7%**	78.6%	0.1% pt.

Station retail rental revenue for the year was higher than last year as rents increased due to trade mix refinements, positive rental reversions in our station shops and increases in rents in accordance with lease contracts for the Duty Free Shops at Lo Wu and Hung Hom stations. In November 2016, after an extensive tendering exercise, rental contracts for all the duty-free shops were awarded to Anway Limited, the existing operator which is wholly owned by NWS Holdings Limited. The new contracts will start in August 2017 for the Lok Ma Chau shops and in January 2018 for the Lo Wu and Hung Hom shops.

As at the end of 2016, there were 1,392 station shops, occupying 57,151 square metres of retail space, which represents an increase of 30 shops and 913 square metres compared with 2015. The increase was mainly due to the addition of 31 shops on the new Kwun Tong Line Extension and South Island Line.

Advertising revenue decreased slightly as the weaker economic environment led to a shrinking advertising market. The number of advertising units in stations and trains reached 46,232 by 2016 year end. To capture the online-to-offline trend, the "e-shop network", which enables our customers to experience online ticketing and shopping, has been expanded to 20 stations.

Revenue from telecommunications increased, mainly due to network upgrades and increased mobile data capacity by telecommunication service providers. Installation commenced for a new mobile phone network that will offer increased data capacity and more 4G services, initially at eight busy stations. During the year, we also worked with a telecom operator to upgrade Wi-Fi equipment at 84 stations to provide enhanced service.

Hong Kong Property Businesses

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

In HK$ million	Year ended 31 December 2016	2015	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**4,451**	4,267	4.3
Revenue from Property Management	**290**	266	9.0
Total Revenue	**4,741**	4,533	4.6
EBITDA	**3,930**	3,668	7.1
EBIT	**3,912**	3,650	7.2
EBITDA Margin (in %)	**82.9%**	80.9%	2.0% pts.
EBIT Margin (in %)	**82.5%**	80.5%	2.0% pts.

In the commercial sector, Grade-A office rents continued to perform well during 2016, underpinned by demand from Mainland banks and commercial enterprises. However the retail segment continued to be impacted by lower tourist visits and spending, with the total value of retail sales in Hong Kong falling by 8.1% in 2016 compared with 2015.

Residential transaction volumes and prices fell in the first three months of 2016, followed by a recovery in the second half of the year. The primary market saw a strong recovery, particularly in volume, as interest rate increases remained subdued, while developers also offered competitive financing schemes. The secondary market's recovery was steady with the Mass Centa-City Leading Index ending the year at 144.7 having started the year at 135.8 and recording a low of 127.5 in March 2016. The imposition of a 15% stamp duty on all residential transactions by non-first time Hong Kong resident buyers, from 5 November 2016, also impacted the market with a noticeable reduction in transaction volumes.

Property Rental and Management Businesses in Hong Kong

Our shopping mall portfolio in Hong Kong achieved rental reversion averaging 3.4% during the year. At the year end, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre office building remained close to 100% let.

The demographics of the eastern side of Hong Kong Island are changing and in response we have revamped the first floor of the East Wing of Paradise Mall, where a new sports and "well-being" zone opened in September 2016 with a positive market response.

As at 31 December 2016, the Company's attributable share of investment properties in Hong Kong was 212,538 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of offices, and 15,267 square metres of property for other use.

Over the next five years or so our investment properties portfolio in Hong Kong will expand significantly as we add about 120,620 square metres gross floor area ("GFA") to our retail portfolio, increasing attributable GFA by approximately 40%.

We are targeting for the new LOHAS Park shopping centre to open in the second half of 2020 and the Tai Wai shopping centre in 2022. Foundation works for both are in progress. The Tai Wai shopping centre has been impacted by difficult foundation works in between two operating rail lines and hence has suffered some delays. However, delay recovery measures are being implemented in order to mitigate this delay. The extension of Maritime Square is expected to open in the second half of 2017 and electrical and mechanical ("E&M") installation is underway. Floors seven and eight of the MTR offices above Telford Plaza II are being converted to retail use with the opening of the expanded Telford Plaza II also expected in the second half of 2017.

As at 31 December 2016, 96,066 residential units and over 758,000 square metres of commercial space were managed by MTR.

Property Development in Hong Kong

Profit from Hong Kong property development in 2016 was modest at HK$311 million, and derived largely from sundry sources such as the sharing in kind of the kindergarten at Hemera.

For West Rail projects, where we act as agent for the relevant subsidiaries of KCRC, we launched the presale of The Spectra (the Long Ping Station (North) site) in March 2016, with about 91% of 912 units sold by the end of February 2017, and also THE PAVILIA BAY (the Tsuen Wan West Station (TW6) site) in January 2017 with about 78% of 983 units sold up to the end of February 2017.

In our property tendering activities we awarded LOHAS Park Package 10 to a subsidiary of Nan Fung Group Holdings Limited in March 2016, while Ho Man Tin Station Package 1 was awarded to a consortium led by Goldin Financial Holdings Limited in December 2016. In February 2017, Wong Chuk Hang Station Package 1 was awarded to a consortium formed by Road King Infrastructure Limited and Pingan Real Estate Capital Limited.

Over the past three years, 11 MTR property development packages have been tendered out and are now in various stages of planning and construction. They will provide about 18,000 residential units with a total GFA of over 1.1 million square metres when completed over the next four to six years.

To respond to the need for more housing supply in Hong Kong, we continue to look for possible property development sites along our railway lines. One is above our depot in Siu Ho Wan on Lantau Island where, with the necessary zoning and other statutory approvals, around 14,000 residential units could be built. MTR is close to completing the Environmental Impact Assessment for the Siu Ho Wan site and the statutory planning procedures are expected to commence in 2017. Another site is above the Yau Tong Ventilation Building, where around 500 residential units could be built. The site is currently undergoing rezoning. At this preliminary stage there can be no assurance that either project would be commercially viable.

Hong Kong Network Expansion

With the opening of the Kwun Tong Line Extension and the South Island Line, our Hong Kong rail network has expanded from 220.9 km to 230.9 km. Over the coming years the two remaining new railway projects under construction, namely the Express Rail Link and Shatin to Central Link, will add another 43 km route length to the overall Hong Kong rail network.

New Rail Projects Owned by MTR

Kwun Tong Line Extension

Following extensive trials and testing, the 3-km Kwun Tong Line Extension opened on 23 October to great excitement amongst the Hong Kong public. The 3-km new line extends the Kwun Tong Line from Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa. It reduces the journey time between Whampoa and Yau Ma Tei stations to 5 minutes from the previous 15-20 minutes using other modes of transport.

Since the opening of the extension to the end of February 2017, approximately 13 million passengers have used the extension, with daily average usage of over 100,000.

South Island Line

The 7-km South Island Line, which extends MTR services from Admiralty to the Southern District of Hong Kong Island, opened on 28 December and was warmly welcomed by residents of the Southern District as well as the traveling public. The line has four new stations, Ocean Park, Wong Chuk Hang, Lei Tung and South Horizons and finally brings MTR's service to all 18 districts in Hong Kong. During the year our team overcame many construction challenges, including those relating to the extensive expansion of Admiralty Station, to enable the line to open by year end.

Since the opening of the South Island Line to the end of February 2017, approximately 7 million passengers have used the line, with daily average usage of over 110,000.

New Rail Projects Entrusted to MTR by Government

Express Rail Link

The 26-km Express Rail Link will provide high-speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. It will be served by the 380,000 square metres (GFA) West Kowloon Terminus, one of the largest underground high-speed rail stations in the world. As at 31 December 2016, overall the project was 87.4% complete with the Terminus 82.8% complete and all tunnel works substantially complete. Track installation in the main tunnels was completed in November 2016 and overall, 95.7% of tracks had been laid by the end of 2016.

In September 2016, the first of the nine high-speed trains for the Hong Kong Section of the line arrived in Hong Kong from Qingdao by sea. The train has successfully completed the first stage of dynamic testing in the pilot tunnel section in Hong Kong. The second train arrived in late January 2017.

The targeted opening date of the Express Rail Link remains the third quarter of 2018.

The Company's project management responsibilities are set out in two Entrustment Agreements with Government. The first Entrustment Agreement ("XRL Preliminary Entrustment Agreement") covers, among other things, preliminary and detailed design and site investigation, while the second Entrustment Agreement ("XRL Entrustment Agreement") covers, among other things, completion of detailed design and construction and commissioning into service of the Express Rail Link.

The XRL Agreement relating to the further funding arrangements for the project was approved by the Company's independent shareholders on 1 February 2016 and became unconditional upon approval by the Finance Committee of LegCo on 11 March 2016 of Government's additional funding obligations.

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

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

Shatin to Central Link

The ten-station 17-km Shatin to Central Link connects existing railway lines to form an East West Corridor and a North South Corridor with six interchange stations creating vital new links across Hong Kong. Overall, the project was about 68.1% complete by the end of the year, with the East West Corridor and North South Corridor being 83.1% and 45.4% complete respectively.

For the East West Corridor, a significant milestone was the breakthrough of the whole 11-km tunnel section from Tai Wai to Hung Hom in August 2016. Track laying works are in progress with 54% of tracks laid. Three of the stations on the East West Corridor have been topped out, with good progress being made on the remaining stations.

For the North South Corridor, the first tunnel boring machine started operation in March 2016 and both the uptrack and downtrack tunnel drives from Causeway Bay to Exhibition Station were completed by year end. For the immersed tube cross-harbour tunnel, piling works at the Hung Hom marine cofferdam were completed in June 2016 and dewatering began the following month. Underwater dredging for the cross-harbour tunnel alignment was about 75% complete. The concrete structure of the immersed tube tunnel units has been completed and the associated works are now underway. We expect to start immersing and subsequently connecting these tunnel units in the first half of 2017.

Construction work for the diaphragm walls of Exhibition Station and relevant railway facilities are underway. Due to space limitation in Wan Chai North, temporary traffic management schemes are being implemented at different stages along Convention Avenue, Fleming Road and Expo Drive to create additional works areas. However, the number of traffic lanes will remain unchanged at peak hours to reduce the impact on the public.

Admiralty Station will become an interchange hub for the Shatin to Central Link, Island Line, Tsuen Wan Line and South Island Line. Upon the commissioning of the South Island Line in late December 2016, the work site for the future Shatin to Central Link platforms and concourse at Admiralty Station was handed over to the Shatin to Central Link project team. Civil and building services works on these platform and concourse areas commenced in January 2017.

As part of the North South Corridor project, the existing East Rail Line will be re-signalled. The phased testing of the new signalling systems with East Rail Line trains began in October 2016 during non-service hours.

Despite reasonable construction progress, and as reported a number of times previously, the programme for delivery of the Shatin to Central Link has been impacted by certain key external events. For the East West Corridor, the discovery of archaeological relics in the To Kwa Wan area has led to an 11-month delay but with the hard work of the teams involved and the successful implementation of a number of delay recovery measures, the length of this delay has now been reduced with the estimated completion of this corridor in mid-2019. For the North South Corridor, we had previously reported a six-month delay due to a number of external factors including the anticipated late handover by a third party of construction sites for the new Exhibition Station. We had also stated that any further delay in site handover beyond those reported, will result in additional delay to the completion of this corridor. Now, as a result of the late site handover with incomplete entrusted works by another third party contractor at Wan Chai North, the completion of this corridor has been further delayed by an additional three months (to a total expected delay of nine months). However, the North South Corridor is still targeted to complete in 2021. Any additional delays by third parties in site handover or site handover with incomplete work may result in further delays in the completion of the North South Corridor.

For both the East West Corridor and the North South Corridor, our project teams continue to work diligently to explore and implement measures to improve progress and recover delays caused by external events and parties as far as possible.

The funding for construction of the Shatin to Central Link is set out in two Entrustment Agreements with Government. The Entrustment Agreement for Advance Works Relating to the Shatin to Central Link ("SCL Advance Works Entrustment Agreement") relates to advance works for the line predominately undertaken at Admiralty and Ho Man Tin stations. The subsequent agreement, the Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link ("SCL Entrustment Agreement") relates to funding for the construction and commissioning of the Shatin to Central Link.

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 Government of the Company's revised estimate for the entrustment cost for such works of HK$8,617.1 million. In December 2016, Government consulted the LegCo Panel on Transport Subcommittee on Matters Relating to Railways regarding such additional funding requirement before submitting the funding application to the LegCo Public Works Subcommittee in 2017.

For the SCL Entrustment Agreement, taking into account the continuing difficulties and challenges, including those described above, the Company considers that the cost estimate for the SCL Entrustment Agreement will need to be revised upwards significantly to take account of (i) the additional HK$4,100 million that was previously reported as a result of the archaeological finds in the To Kwa Wan area, (ii) the late handover of construction sites at Exhibition Station, (iii) the previously unbudgeted foundation works for top-side development at Exhibition Station, (iv) the late site handover with incomplete entrusted works by another third party contractor at Wan Chai North, and (v) other factors such as lower availability of labour in Hong Kong's construction sector. The Company has advised Government that it will therefore conduct a detailed review of the project cost estimate relating to the SCL Entrustment Agreement.

Given the complexity of the project works, the continuing uncertainties associated with some of the issues highlighted above and the fact that the North South Corridor is currently only 45.4% complete, this review will only be completed in the second half of 2017 after which the Company will formally report the findings to Government.

New Railway Projects Under Discussion

Beyond the two remaining Rail Gen 2.0 new rail projects currently under construction, Government has identified seven additional rail projects to be implemented under RDS 2014. Government has invited us to submit project proposals for four of these projects, namely the Tuen Mun South

Extension, the Northern Link (and Kwu Tung Station), the East Kowloon Line and Tung Chung West Extension (and Tung Chung East Station). The project proposal for the Tuen Mun South Extension was submitted to Government in December 2016. Technical studies for the Northern Link (and Kwu Tung Station) and East Kowloon Line are now underway in preparation for submission of project proposals in 2017. The project proposal for Tung Chung West Extension (and Tung Chung East Station) will be submitted thereafter.

Mainland of China and International Businesses

The financial performance of the Mainland of China and international businesses is summarised below:

In HK$ million	Year ended 31 December 2016	2015	Inc./(Dec.) %
Mainland of China Businesses			
Railway, Property Rental and Property Management subsidiaries			
Total Revenue	**814**	819	(0.6)
EBITDA	**167**	164	1.8
EBIT	**159**	155	2.6
Property Development subsidiary			
Total Revenue	**1,348**	–	N/A
EBITDA	**366**	(140)	N/A
EBIT	**366**	(140)	N/A
Share of profit of associates	**226**	85	165.9
International Businesses			
Railway subsidiaries			
Total Revenue	**12,664**	11,753	7.8
EBITDA	**421**	562	(25.1)
EBIT	**309**	478	(35.4)
Share of profit of associates	**60**	41	46.3
Total EBITDA	**954**	586	62.8
Total EBIT	**834**	493	69.2
Total EBITDA Margin (in %)	**6.4%**	4.7%	1.7% pts.
Total EBIT Margin (in %)	**5.6%**	3.9%	1.7% pts.
EBIT from Mainland of China and International Railway, Property Rental and Management Subsidiaries net of non-controlling interest plus share of profit from railway associates (before interest and tax)	**888**	852	4.2
Number of passengers carried by our railway subsidiaries and associates outside of Hong Kong (in million)	**1,828**	1,598	14.4

Railway Businesses in the Mainland of China

Beijing

In Beijing, our 49% associate Beijing MTR Corporation Limited ("BJMTR") operates four lines, Beijing Metro Line 4 ("BJL4"), the Daxing Line, BJL14 and the recently opened Phase 1 of BJL16.

Operational performance remained at high levels on the lines operated by BJMTR, with on-time performance in 2016 averaging over 99.9% across the three lines (excluding BJL16 which only opened on 31 December 2016). For BJL4 and the Daxing Line, combined ridership in 2016 was about 442 million passenger trips and average weekday patronage more than 1.29 million, increases of 3% and 4% respectively over last year.

The first three phases of BJL14 are now in service. The 30-year concession for BJL14 began on 31 December 2015, following the opening of the Phase 3 Middle Section in December 2015. One more station, at Chaoyang Park, was opened in December 2016. The three phases recorded a combined 191 million passenger trips and average weekday patronage of about 591,000 in 2016.

A Concession Agreement for the BJL16 Public-Private Partnership ("PPP") project was signed by BJMTR in November 2015. Operation of the first phase, the Northern section of 19.6 km, began on 31 December 2016. Full line operation, which also starts the service concession, is targeted after 2018.

Shenzhen

Shenzhen Metro Line 4 ("SZL4") operated by our wholly-owned subsidiary MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), achieved a 5% rise in patronage to about 199 million for the year (550,000 average weekday patronage) with solid operational and safety performance. On-time performance remained at a very high 99.9% for the year.

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

In August 2016, our consultancy company in Shenzhen entered into a project management agreement to supervise the construction of the Northern Extension of SZL4. This extension will be financed by the Shenzhen Municipal Government.

Hangzhou

Our 49% associate in Hangzhou, Hangzhou MTR Corporation Limited ("HZMTR"), operates Hangzhou Metro Line 1 ("HZL1") which in the year saw patronage increase by 12% to 199 million (537,000 average weekday patronage). Operational performance remains at high levels with on-time train performance of 99.9%. An extension of 5.7 km was added to HZL1 in November 2015; the extension was funded by Hangzhou Municipal Government and HZMTR operates it under an operating and maintenance concession.

With patronage lower than originally expected, HZMTR has been recording a net loss. However, the losses have reduced due mainly to higher revenue resulting from the increase in patronage.

MTR submitted a tender for Hangzhou Metro Line 5, another PPP project, in May 2016. In November 2016, Hangzhou Municipal Government withdrew the Competitive Negotiation since no other qualified tender was received. We are currently in discussion with Hangzhou Metro Group Company Limited on the way forward regarding Hangzhou Metro Line 5.

Property Businesses in the Mainland of China

Following very successful presales in 2015 of Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1, the first batch of units, in the low-rise buildings on top of the depot, was handed over to buyers in December 2016. The high-rise units, which form the vast majority of the development, are scheduled to hand over by the middle of 2017. The Tiara project has a total developable GFA of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA).

In the second half of 2016, we signed a Cooperation Framework Agreement with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and

BJMTR to conduct joint preliminary studies on the integrated development of selected existing station and depot sites along BJL4 and the Daxing Line. Studies have commenced with a focus on an above depot development. We have also signed a Memorandum of Understanding with BIIC in January 2017 to extend the strategic co-operation to other, predominantly rail-related, property developments projects in Beijing in addition to investment, construction and operation of other railway projects.

In Tianjin, our 49% owned associate, Tianjin TJ-Metro MTR Construction Company Limited ("Tianjin MTR"), is involved in the development of the Beiyunhe Station project on Tianjin Metro Line 6. The project faces a number of obstacles, however, including softening market demand in Tianjin, especially for offices (the mixed use project has approximately 60,000 square metres GFA of offices) as well as a significant increase in the estimated construction cost due to a more complex basement construction. We are currently exploring various options including one whereby Tianjin MTR and the project will be re-structured by the introduction of a third party.

European Railway Businesses

United Kingdom

Our 50% owned associate London Overground Rail Operations Limited ("LOROL") has been very successful in operating the London Overground network for nine years. With the concession ending and our bid for the new concession being unsuccessful, the management of the network was handed over to a new operator in November 2016. Prior to the handover, we were honoured that LOROL was presented with the prestigious "Passenger Operator of the Year" award at the UK National Rail Awards.

Having commenced the Crossrail concession in 2015, MTR Corporation (Crossrail) Limited ("MTRXR") operates under the "TfL Rail" brand-name, providing services devolved from the previous Greater Anglia franchise covering 14 stations. It will be renamed the "Elizabeth Line" when the tunnel section through central London is completed and becomes operational, which is targeted to be in late 2018. When the fully integrated line is in service in 2019, it will serve 40 stations with a route length of 118 km. MTRXR has continued to deliver improved operational performance over the course of 2016.

Also in the UK, we have partnered with FirstGroup in a bid for the South Western Rail franchise, as a minority 30% shareholder. The tender was submitted in September 2016 and the result is due in April 2017. We have also pre-qualified to bid for the Wales and Borders rail franchise. The Welsh Government has invited qualified bidders to enter the Competitive Dialogue phase of the process in the first half of 2017, with the formal tender expected in the second half of 2017.

Sweden

The operational performance of Stockholm metro in 2016 was good with punctuality of all lines remaining above contractual targets and customer satisfaction at a record high. Ridership for the year was estimated at 349 million and average weekday patronage at 1.23 million. On 15 February 2016, MTR acquired the remaining 50% shareholding in Tunnelbanan Teknik Stockholm AB ("TBT") from our partner, Mantena AS, following which TBT was renamed as MTR Tech AB. The acquisition has brought rolling stock maintenance for the Stockholm metro fully under MTR management.

The MTR Express service that runs between Stockholm and Gothenburg also had a very high level of operational performance with punctuality consistently above market performance. Passenger numbers have continued to increase and customer satisfaction remains at a high level. Detailed plans are in place to continue to improve passenger numbers in 2017. Overall in 2016, MTR Express was rated as the best rail operator in Sweden by an independent survey.

In December 2015, we were awarded the concession to operate the Stockholms pendeltåg for ten years, with an option to extend for four more years. This concession includes the maintenance of rolling stock undertaken by Emtrain AB, a 50% owned associate with EuroMaint Rail AB. The Stockholms pendeltåg serves the greater Stockholm area, with 53 stations and a total route length of 241 km. Our wholly-owned subsidiary MTR Pendeltågen AB began operating the service in December 2016 and performance to date has been satisfactory.

We have submitted a bid to tender for the Skåne county commuter rail ("Pågatåg") concession in December 2016. The result is expected to be announced by the second half of 2017.

Australian Railway Businesses

In Melbourne, our 60% owned subsidiary Metro Trains Melbourne Pty. Ltd. ("MTM"), which operates the Melbourne metro network, achieved steady performance exceeding franchise requirements. This concession expires in November 2017 and MTM's good operational performance has qualified it to negotiate an extension of the franchise directly with the Government of Victoria. MTM submitted its proposal on 23 December 2016 for an extension for an additional seven years (plus three years option) and the result should be known in the first half of 2017.

In Sydney, a consortium of which MTR is a member is responsible for the design, construction, financing as well as the future operation and maintenance of the Sydney Metro Northwest ("SMNW") PPP project. When completed, it will be the country's first fully automated rapid transit system. Service commencement is expected in the first half of 2019.

Sydney Metro City and Southwest ("SMCSW") is a 30-km extension of SMNW. Construction of the early works is planned to start in 2017 and the line is expected to open in 2024. MTR is exploring potential participation in the SMCSW project.

Financial Review

Profit and Loss

In 2016, the Group recorded revenue growth in all business segments. Total revenue increased by 8.4% to HK$45,189 million, reflecting mainly the contribution from Tiara, railway subsidiaries outside of Hong Kong, as well as the adjustment in fares under the FAM, net of fare concessions.

Operating profit from recurrent businesses (being operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment) increased by 4.2% to HK$16,947 million. The increase was mainly due to the adjustment in fares under the

FAM, positive rental reversions of station shops, and increases in base rents in accordance with lease contracts of Duty Free Shops, as well as an average of 3.4% positive rental reversions in our shopping malls in Hong Kong. The increase was partly offset by higher costs of our Hong Kong Transport Operations due to increased train trips and staff salaries, as well as lower profit contribution from MTM in Australia resulting from refranchising costs. Operating margin from recurrent businesses decreased by 0.3 percentage point to 38.7%. Excluding the Company's Mainland of China and international subsidiaries, operating margin increased by 0.6 percentage point to 53.9%.

Hong Kong property development profit was HK$311 million, mainly derived from sundry income sources such as the sharing in kind of the kindergarten at Hemera and sales of inventory units. This was HK$2,580 million lower than 2015 when substantial property development profit was recognised from Hemera.

Operating profit from our Mainland of China property development was HK$366 million, derived from profit recognition of the first batch of units handed over at Tiara. In 2015, Tiara recorded operating loss of HK$140 million, being mainly sales and marketing expenses.

Depreciation and amortisation charges increased by 7.2% to HK$4,127 million, mainly due to new asset additions in our Hong Kong railway network. Variable annual payment to KCRC increased by 8.4% to HK$1,787 million as the incremental revenue was charged at the top progressive rate of 35%.

After taking into account Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment, operating profit before interest and tax therefore decreased by 13.3% to HK$11,710 million.

Interest and finance charges were HK$612 million, representing a slight increase of 2.2% over 2015. Investment property revaluation gain amounted to HK$808 million. Our share of profit from Octopus Holdings Limited increased by 6.0% to HK$249 million. Our share of profit from other associates was HK$286 million, an increase of HK$160 million over 2015. The increase was primarily due to improvements in the result of HZMTR, which benefited from HZL1 patronage growth, as well as higher share of profits from BJMTR, mainly resulting from a full 12-month profit contribution from the BJL14 concession.

Net profit attributable to shareholders, after deducting income tax of HK$2,093 million and profits shared by non-controlling interests of HK$94 million, decreased by 21.1% to HK$10,254 million. Earnings per share therefore decreased 21.6% from HK$2.22 to HK$1.74. Excluding investment property revaluation which is a non-cash accounting adjustment, the underlying profit attributable to shareholders was HK$9,446 million, with underlying earnings per share of HK$1.61. Within this total, our recurrent profit grew by 4.1% to HK$8,916 million, while post-tax property development profits decreased from HK$2,329 million to HK$530 million. Return on average equity attributable to shareholders arising from underlying businesses was 5.9% in 2016, compared to 6.5% in 2015.

Statement of Financial Position

Our statement of financial position remained strong overall. The Group's net assets decreased by HK$20,615 million to HK$149,556 million as at 31 December 2016, mainly due to accounting for the special dividend amounting to HK$25,902 million under the XRL Agreement.

Total assets increased by HK$16,237 million to HK$257,340 million as a result of the increase in cash balances, capitalisation of further construction costs of the South Island Line and Kwun Tong Line Extension, as well as renewal and upgrade works for our existing Hong Kong railway network. There was also equity contribution made to BJMTR to support our investment in BJL14.

Total liabilities increased by HK$36,852 million to HK$107,784 million. This was mainly due to an amount of HK$12,978 million being accrual for the second tranche special dividend under the XRL Agreement and the increase in total borrowings of HK$19,128 million to HK$39,939 million. The Group's net debt-to-equity ratio increased from 11.3% at 31 December 2015 to 20.2% at 31 December 2016.

Cash Flow

Net cash generated from operating activities increased by HK$2,194 million to HK$17,135 million in 2016, mainly reflecting higher operating EBITDA and the deposit received after award of the Ho Man Tin Station property development package. In addition, receipts from property developments were HK$5,403 million, a decrease of HK$2,831 million compared to 2015 mainly due to lower cash receipts in 2016 from Tiara in Shenzhen. Including other cash receipts of HK$1,160 million primarily from the proceeds of share issuance under our share option scheme, net cash receipts amounted to HK$23,698 million in 2016.

Total capital expenditure was HK$11,939 million. This comprised HK$4,615 million for the purchase of assets for our Hong Kong existing railways and related operations, HK$5,243 million for the construction of the Hong Kong railway extension projects, HK$1,059 million for investment in Hong Kong property related businesses and HK$1,022 million for investment in Mainland of China and overseas subsidiaries. Total capital expenditure was lower than 2015 by HK$9,731 million due to one-off contributions in 2015 to Tai Wai Station and LOHAS Park Package 7 property development projects which totalled HK$9,940 million.

The Group also paid HK$2,399 million in fixed and variable annual payments to KCRC in accordance with the Service Concession Agreement with KCRC, as well as ordinary dividends and the first tranche of the special dividend under the XRL Agreement to our shareholders totalling HK$18,508 million. Taking into account the cash investment into BJMTR of HK$1,191 million and other payments, total cash outflow amounted to HK$34,858 million in 2016.

Therefore, net cash outflow before financing amounted to HK$11,160 million. Including the proceeds of drawdown of part of the HK$25 billion syndicated loan and from the US$600 million Green Bond, net loan drawdown was HK$19,431 million. Including the effect of exchange rate changes on cash position in foreign currencies, the Group's cash balance increased by HK$7,972 million to HK$20,290 million at 31 December 2016.

Human Resources

The Company, together with its subsidiaries, employed 17,639 people in Hong Kong and 9,866 people outside of Hong Kong as at the end of 2016. Our associates employed an additional 10,216 people in and outside of Hong Kong.

Our people are MTR's most valuable asset. We endeavour to develop and nurture our people by providing comprehensive training as well as ample opportunities for their personal and career development. During 2016, our colleagues in Hong Kong attended an average of 7.1 training days. To promote understanding and align our objectives, more than 8,600 staff communication sessions were conducted in the year.

Our efforts in employee engagement and development resulted in strong staff retention and commitment. In 2016, staff turnover in Hong Kong was 3.5% which is the lowest in recent years. We were also honoured with a number of local and international awards for our human resources and training practices, including the "Best Companies to Work for in Asia 2016" by HR Asia Magazine, the first runner-up of the "Most Attractive Employers in Hong Kong" by the Randstad Group, three honours in the "Award for Excellence in Training and Development" by the Hong Kong Management Association and an "Excellence in Practice Award" from the Association for Talent Development in the US.

Culture of Improvement and Innovation

We are always on the look-out for new ideas and in November 2016 we sponsored "HackTrain HK". This was the first railway hackathon event in Asia, and 40 individuals participated in teams, brainstorming innovative ideas to improve our services. By supporting these events we can extend MTR's culture of continuous improvement.

MTR Academy

In November 2016 we celebrated the official opening of MTR Academy ("the Academy") with a Hong Kong campus situated at renovated space in the MTR Hung Hom Building. As our wholly owned subsidiary, the Academy aims to become a globally recognised railway management and engineering centre that offers high quality programmes to extend our rail expertise from Hong Kong to other "Belt and Road" countries.

The Academy has attained accreditation for its first programme 'Advanced Diploma in Railway Engineering', and further accredited programmes are in the pipeline, as well as a series of stand-alone short courses for members of the public. The Academy now has official partnerships with Hong Kong Polytechnic University, Vocational Training Council, Hong Kong College of Technology and Hong Kong Wen Wei Management College, and this list is expected to grow in the coming months.

The Academy also offers programmes to railway executives and professionals. Moreover, it will host a "Rail Transit Excellence Community" platform, where metro operators and authorities can network through areas under "Centres of Excellence" including Safety, Asset Management, Customer Service, Systems Engineering and Operations Training.

Outlook

The global economy faces uncertainties in 2017, with rising US interest rates and geopolitical challenges offsetting potentially reflationary fiscal policies in some countries. As an open trading economy, Hong Kong will feel the effects of these trends and changes, having already witnessed a slowdown in GDP growth as well as continued declines in retail sales.

In Hong Kong many of our businesses have a degree of resilience against an economic slowdown. Although patronage growth has slowed in our Hong Kong transport business, the full year effect of the opening of the Kwun Tong Line Extension and the South Island Line will positively impact passenger volume. However the opening of these two lines will also significantly increase depreciation and interest expenses, hence negatively impacting reported profits. Rental reversions at our station retail and property rental businesses will reflect market conditions, while our advertising business will be impacted by economic conditions and retail sales. In our plan to expand our shopping centre portfolio, we aim to open our new mall extensions in Maritime Square and Telford Plaza, in the second half of 2017.

Profits from Hong Kong property development were muted in 2016 and will remain so in 2017, as we will have no new developments scheduled for completion in the year. In our property tendering activities in Hong Kong, subject to market conditions, we are looking at tendering out six more development packages over the next 12 months or so. These packages are likely to be our eleventh and twelfth packages at LOHAS Park, our second and third packages at Wong Chuk Hang Station, our second package at Ho Man Tin Station and, subject to rezoning and other statutory approvals, the Yau Tong Ventilation Building site. If completely tendered out, these packages will provide about 6,380 residential units. As agent for the relevant subsidiary of KCRC, subject to market conditions, we plan to tender out the first package of the Kam Sheung Road Station site during 2017, which will provide about 1,650 residential units.

For our businesses outside Hong Kong, currency movements will play a role, as they affect profits when translated back into our reporting currency, Hong Kong dollars. However, the recent opening of Phase 1 of BJL16 and the Stockholms pendeltåg operations will add to our overseas revenues. In

Australia, we await the results of the franchise extension of MTM. In property development in the Mainland of China, we aim to hand over the high-rise units at Tiara in Shenzhen in the middle of 2017, which form the bulk of the development. Profits will be booked on handover of units.

As noted, the second tranche of HK$2.20 per share of the special dividend relating to the XRL Agreement will be paid in the second half of this year, at the same time as payment of the 2016 final ordinary dividend.

Finally, I wish to thank the Board for their continued support. Most importantly I thank all my colleagues at MTR for their hard work, professionalism and tremendous support, which have allowed MTR to achieve many key milestones in 2016. I would like to pay special tribute to our staff who responded so quickly and calmly to the arson attack in February. They truly are the heroes of MTR and we are deeply proud of them.

Lincoln Leong Kwok-kuen
Chief Executive Officer
Hong Kong, 7 March 2017

SAFETY

PATRONAGE

MARKET SHARE

FARE REVENUE

SERVICE PERFORMANCE

Hong Kong Transport Operations

Our Aims and Achievements

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

In 2016, our services were again amongst the safest and most reliable in the world. We continue to gain deeper understanding of our customers to allow us to plan ahead and devise enhancements to our services, as outlined in our 2030 Customer Experience Vision Blueprint. To support the "Belt and Road" Initiative, the MTR Academy shall play a strategic role in promoting the export of Hong Kong's professional railway industrial skills and knowledge.

Our Strategies

- Safety First, Excellent Service: continue to cultivate our already strong "Safety First" culture. Equip staff with clear guidelines and sound training to respond to operational requirements and customer needs. Continue to raise customers' safety awareness through implementing safety initiatives and campaigns
- Maintaining Very High Performance Standards: maintain world-class levels of service performance that exceed the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. Continue implementing a very stringent maintenance regime, with significant investments in renewing and upgrading our existing railway assets
- Customer Engagement and Experience: understand and deliver what matters most to customers. Develop initiatives to enhance the travelling experience and meet evolving customers' needs arising from an aging population and service digitalisation
- Staff Development: recognising people as our most valuable asset, be committed to inspiring, engaging and developing our employees while continuing to offer long-term, rewarding careers in many disciplines
- MTR Academy: with the establishment of MTR Academy, aim to become a globally recognised railway management and engineering centre of excellence in providing programmes for staff, Hong Kong community and the railway industry in the Mainland of China and overseas

Rail Gen 2.0

- 4 new rail lines with 2 opened
- New trains and light rail vehicles
- Replacement of signalling systems and chiller systems
- Major interfacing works with new rail projects

5.59 million
average weekday patronage in Hong Kong

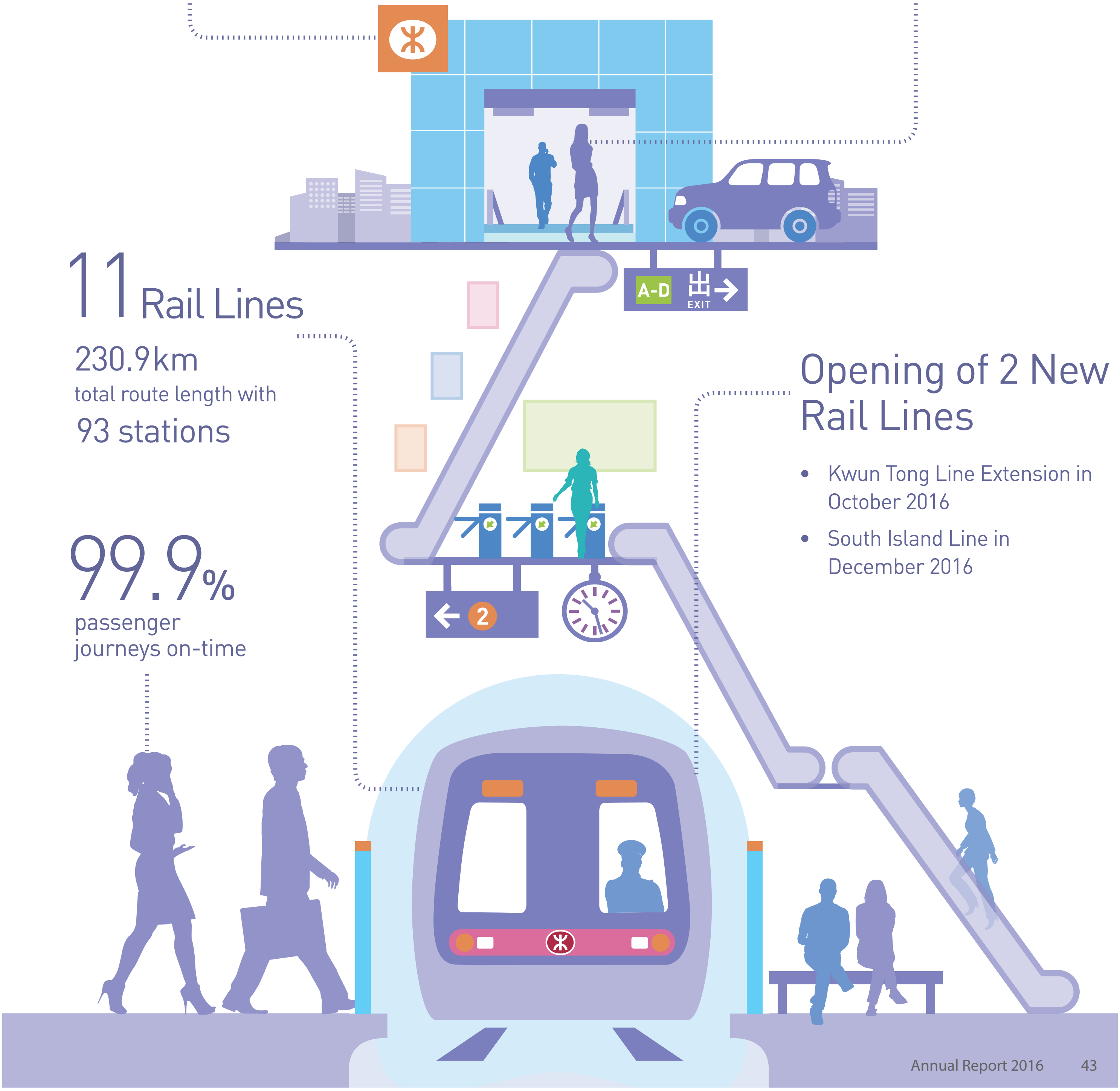
11 Rail Lines

230.9km
total route length with
93 stations

99.9%
passenger journeys on-time

Opening of 2 New Rail Lines

- Kwun Tong Line Extension in October 2016
- South Island Line in December 2016



Financial Performance

The financial performance of the Hong Kong transport operations is summarised as follows:

In HK$ million	Year ended 31 December 2016	2015	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**17,655**	16,916	4.4
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**7,633**	7,214	5.8
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**2,572**	2,493	3.2
EBITDA Margin (in %)	**43.2%**	42.6%	0.6% pt.
EBIT Margin (in %)	**14.6%**	14.7%	(0.1)% pt.

Safety

Safety, as always, is our top priority, and during 2016 our performance in this area remained world class. There were 9.1% fewer reportable events on the Hong Kong heavy rail network in 2016 when compared to the already world-leading safety standard achieved in 2015.

The results of our "safety first" culture were well demonstrated by our response to an arson attack on one of our trains on 10 February 2017. Investigation revealed that an individual ignited flammable liquid and set fire in the compartment of a Tsuen Wan Line train travelling from Admiralty Station to Tsim Sha Tsui Station during the Friday evening peak hour. The train captain calmly brought the train to Tsim Sha Tsui Station having forewarned colleagues at our Operation Control Centre who had in turn alerted staff in the station. On arrival the train was evacuated and the injured attended to. The station was also quickly and orderly evacuated, all within a few minutes. Our colleagues responded robustly, professionally and speedily, working in partnership with the Police and Fire Services Department, enabling injuries and damages to be minimised. Unfortunately, 19 passengers were injured in the incident, including the suspect. We convey our sympathy to those injured and wish them a speedy recovery. Our staff's response was the result of safety training provided by the Company, including the provision of clear safety guidelines, regular exercises and drills. In addition, the fire-resistant train car interior minimises the potential damage of incidents of this nature. We salute the professionalism of our MTR colleagues and Hong Kong emergency services personnel and thank our passengers for their assistance and calm and orderly response in the incident.

During the year numerous initiatives were implemented to promote safety in our heavy rail network with an emphasis on the safe use of escalators. Safety initiatives were also implemented in our light rail systems, focusing on improving awareness at road junctions. Further details can be found under the section headed "Corporate Responsibility".


出
EXIT
海洋公園
Ocean Park


Ocean Park


往海怡半島
to South Horizons
5

Patronage

The impact on patronage of the slowdown in economic growth in Hong Kong was partially offset by the opening of two new rail lines in Hong Kong, leading to total patronage of all our rail and bus passenger services increasing by 0.5% to 1,948.8 million in 2016.

For the Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail, Ma On Shan and South Island lines), total patronage reached 1,586.5 million, a 0.6% increase for the year. The Cross-boundary Service to Lo Wu and Lok Ma Chau recorded a 0.8% decrease in patronage to 113.3 million following a fall in Mainland of China visitors. Patronage on the Airport Express increased by 2.6% to 16.1 million, supported by a moderate increase in air passenger traffic.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong for the year increased by 0.6% to 5.59 million. The Domestic Service, which accounts for the majority of this patronage, saw a 0.7% rise to 4.61 million.

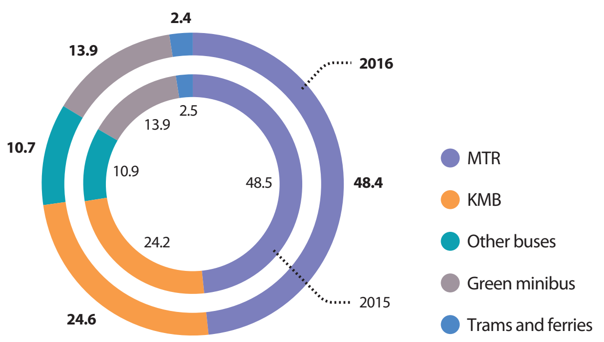
Market Share

The Company's overall share of the franchised public transport market in Hong Kong in 2016 was 48.4%, compared to 48.5% in 2015. Within this total, our share of cross-harbour traffic was 68.6%, compared to 68.8% in 2015.

Competition from other modes of transport saw our share of the Cross-boundary business for the year decrease marginally from 51.3% to 51.2%, and our market share to and from the airport also reduced marginally from 21.5% to 21.4%.

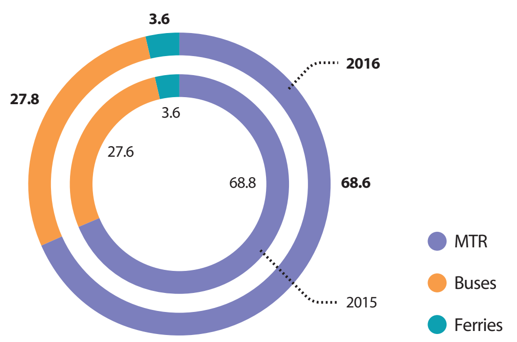
Market Share of Major Transport Operators in Hong Kong

(Percentage)



Market Share of Major Transport Operators Crossing the Harbour

(Percentage)



Fare Revenue, Promotions and Concessions

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

In HK$ million	Year ended 31 December 2016	2015	Inc./(Dec.) %
Fare Revenue			
Domestic Service	**12,395**	11,819	4.9
Cross-boundary Service	**3,252**	3,172	2.5
Airport Express	**998**	950	5.1
Light Rail and Bus	**707**	671	5.4
Intercity	**137**	142	(3.5)
Total Fare Revenue	**17,489**	16,754	4.4

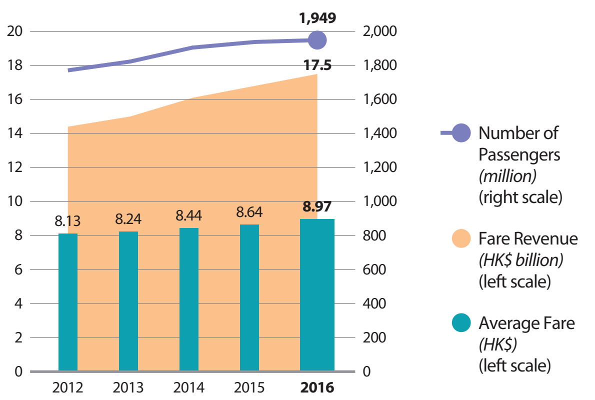
Changes to our fares are in accordance with the Fare Adjustment Mechanism ("FAM") and an overall 2.65% adjustment was made to applicable fares on 26 June 2016. At the same time we announced our 2016/2017 fare promotions package, bringing further savings of more than HK$500 million to customers between June 2016 and June 2017. This is in addition to our ongoing fare concessions and promotions such as those offered to the elderly and students, which during 2016 amounted to approximately HK$2,536 million. Some of the promotions launched in 2016 include:

Name of promotion	Period offered
Designated Saturday Offer	November 2016 to March 2017
MTR Fare Savers	Standardised at HK$2 starting from 1 July 2016
10% Same-Day Second-Trip Discount	26 June to 31 October 2016
Early Bird Discount	Extended to 31 May 2017
MTR City Saver and Monthly Pass Extra	Extended to 30 June 2017

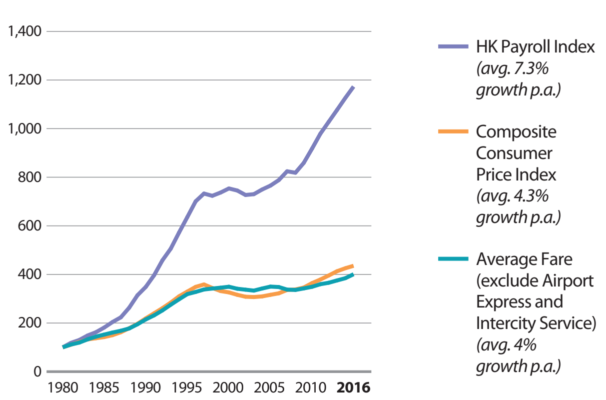
Maintaining the quality of our services and expanding the network to meet future demand requires heavy investment in our people, our existing lines and in new rail lines. In 2016 we spent more than HK$8 billion on maintaining, replacing and upgrading our existing network. This annual spending will increase significantly over time.

We can only make these investments if we have a sustainable fare adjustment structure, which in MTR's case is the FAM. The mechanism, which is completely transparent, was agreed by Government and approved by the Legislative Council of the HKSAR at the time of our merger with Kowloon-Canton Railway Corporation ("KCRC") in 2007. By using objective criteria to calculate adjustments to fares, the FAM has provided MTR with capital for upgrades, replacement and investment, which allows us not only to provide world leading performance, but also to provide very affordable travel to our passengers when compared to leading metro companies around the world. Furthermore, under the FAM, between

Passengers and Fares



Fare Trend




往調景嶺
to Tiu Keng Leng
1

11:18
下一班列車
Next Train
烏溪沙
下一班列車
8
卡車
Cars

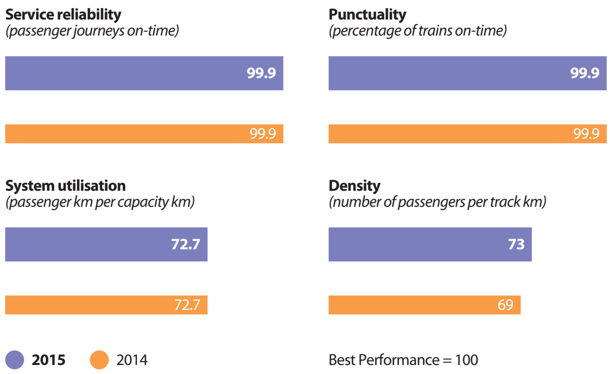
尖沙咀站

2008 (the commencement of FAM implementation) and 2016, our fares have increased at an average annual rate of 2.9%[1], which is lower than both average annual consumer price inflation of 3.4% (as recorded by the Composite Consumer Price Index) and the average annual increase of 4.5% in salaries (as measured by the Hong Kong Payroll Index).

Under our Operating Agreement, the FAM is normally reviewed once every five years and the next scheduled review was originally due to take effect in June 2018. However, MTR and Government agreed in April 2016 to an early joint review, bringing it forward by one year. Discussions are on-going with Government regarding this review.

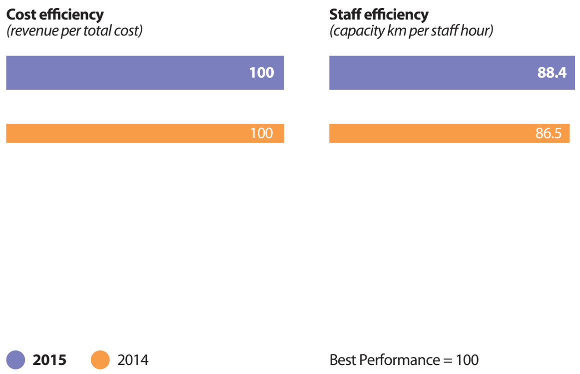
Benchmarking Comparisons

MTR Performance vs. Best Performance



Cost and Staff Efficiency

MTR Performance vs. Best Performance



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

Metro system network data (2015)	MTR*	Metro A	Metro B	Metro C	Metro D	Metro E	Metro F	Metro G	Metro H	Metro I	Metro J	Metro K	Metro L	Metro M	Metro O	Metro P	Metro Q
Passenger journeys *(million)*	**1,692**	1,489	1,436	1,369	1,624	571	2,385	1,790	1,565	481	662	1,785	899	718	535	756	947
Car kilometres *(million)*	**284**	434	247	572	365	171	794	556	261	109	138	439	114	127	124	131	178
Route length *(km)*	**177**	460	260	427	226	286	329	531	206	115	104	588	69	131	146	130	187
Number of stations	**85**	231	147	270	163	248	184	425	303	66	100	304	61	108	173	79	147

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

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

1 *Excluding concession and promotions. Including the various concessions and promotions which MTR offers, our fares over the same period would have increased at an annual rate of only 2.4%*

Service Performance

Service performance in 2016 remained at world-class levels and was MTR's best performance in terms of train service reliability since the merger with KCRC in 2007. Train service delivery and passenger journeys on-time in our heavy rail network remained at 99.9%, above the targets in our Operating Agreement as well as our own more demanding Customer Service Pledges.

During the year, more than 1.91 million train trips were made on our heavy rail network and more than 1.09 million train trips were made on our light rail network. In the year there were only six delays on the heavy rail network and two delays on the light rail network each lasting 31 minutes or more which were caused by factors within our control.

Customer satisfaction regarding our services and fares is measured by regular surveys and research, and reflected in the Service Quality Index and Fare Index respectively. Based on these results, we continue to develop various initiatives to enhance travelling experience of our customers.

Service Quality Index	2016	2015
Domestic and Cross-boundary services	**69**	71
Airport Express	**83**	82
Light Rail	**69**	74
Bus	**69**	69

Fare Index	2016	2015
Domestic and Cross-boundary services	**58**	61
Airport Express	**74**	75
Light Rail	**68**	73
Bus	**66**	68

Recognition of our services

As in previous years, the MTR's high level of service was recognised by a number of awards and these are listed in the table below:

Awards Received	Organisation
Hong Kong Service Awards 2016 • Public Transportation Award • Corporate Responsibility Award	East Week Magazine
Top Service Awards 2016 • Category Award of Public Transportation	Next Magazine
HKACE Customer Service Excellence Award 2016 • Service Appreciation Award – Gold Award	Hong Kong Association for Customer Service Excellence
Sing Tao Service Awards 2015 • Public Transportation Award	Sing Tao Daily
Web Accessibility Recognition Scheme 2016 MTR Mobile app • Triple Gold Award (iOS) • Triple Gold Award (Android) • "Most Favorite Mobile Apps" Award • "Easiest-to-use Mobile Apps" Award MTR Website • Gold Award	Office of the Government Chief Information Officer & Equal Opportunities Commission

Operations Performance in 2016

Service performance item	Performance Requirement	Customer Service Pledge Target	Actual Performance
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on-time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	**99.9%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.7%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥ 5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	650,000	**3,964,527**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	650,000	**7,327,371**
Ticket reliability: smart ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	8,500	**72,775**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.7%**
– Light Rail	N/A	99.0%	**99.7%**
Ticket machine reliability*			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.7%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.7%**
– West Rail Line	97.0%	99.0%	**97.6%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability	N/A	99.0%	**99.9%**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.7%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.8%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.5%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	91.0%	**99.9%**
Cleanliness			
– Train compartment: cleaned daily	N/A	99.0%	**99.9%**
– Train exterior: washed every 2 days (on average)	N/A	99.0%	**100.0%**
Northwest Transit Service Area Bus Service			
– Service Delivery	N/A	99.0%	**99.7%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

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

Investing in Network Improvements

Rail Gen 2.0

At the beginning of 2016 we announced the launch of Rail Gen 2.0, a major programme to enhance travelling experience in the context of an extended "next generation" rail. Rail Gen 2.0 comprises four new rail projects and major upgrades to the existing rail network including new trains and Light Rail vehicles, replacement of signalling systems and chiller systems, and major interfacing works.

New Railway Projects

Our four new railway projects, the Kwun Tong Line Extension, South Island Line (East), Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Shatin to Central Link, will improve connectivity across Hong Kong when they are completed. Further information on the four new rail projects can be found under the section headed "Hong Kong Network Expansion".

Major Asset Replacements

We are spending HK$6 billion on 93 new, more comfortable 8-car trains to replace those on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. The car body production started in February 2017 and the trains will be delivered between 2018 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 total cost of HK$3.3 billion. This will increase these lines' carrying capacity by about 10%. The Tsuen Wan Line will be re-signalled first, targeted to complete by the end of 2018, and work is well underway. For the Island, Kwun Tong and Tseung Kwan O lines, site surveys began earlier in 2016.

Rail Gen 2.0 also covers the replacement of 30 Light Rail vehicles, together with ten additional vehicles to meet increasing demand. The HK$745 million procurement contract in respect of the 40 vehicles was awarded in July 2016. The first batch of new vehicles is expected to be ready for passenger service in 2019.

The installation of new chillers at Wan Chai Station began in November 2016 and is targeted to complete in 2017. This will be followed by the replacement of 160 chillers in our other stations and depots between 2017 and 2023. We are carrying out this work during the winter months for the comfort of passengers.

Major Interfacing Works

Under the Shatin to Central Link project, the existing 28 7-car trains on the West Rail Line are being converted to 8-car trains to enhance existing train services and to serve the future East West Corridor of the new line. By the end of 2016, 11 such trains had entered service. All the converted trains are targeted to be in service by 2018. All the extended station platforms on the Ma On Shan Line were commissioned and opened to public on 20 November 2016. The first 8-car train converted from the existing East Rail Line train was transferred to Tai Wai Depot in April 2016 for testing and commissioning. The existing 4-car trains on the Ma On Shan Line are being replaced by 8-car trains starting from January 2017.

Major modifications have taken place at Hung Hom station, which will serve as one of the interchange stations of the Shatin to Central Link. The southern and northern concourses at Hung Hom Station have now reopened.

Other Network Improvements

Providing more frequent services

- 140 additional weekly services were added on the Island, Tsuen Wan and Kwun Tong lines in 2016
- Five additional weekly services were added and more coupled sets Light Rail vehicles were deployed on Light Rail

Enhancing station facilities

- Six new external lifts at Lai King, Tsim Sha Tsui, Diamond Hill, Shau Kei Wan, Admiralty and Yau Ma Tei stations and six refurbished escalators at Sai Wan Ho, Sheung Wan, North Point, Quarry Bay, Fortress Hill and Lam Tin stations came into service in 2016
- New public toilets at Admiralty Station opened upon the service commencement of the South Island Line

Improving passenger communications

- New liquid-crystal passenger information display systems ("PIDS") for station concourses and platforms are being installed on the Island, Kwun Tong, Tsuen Wan, West Rail and East Rail lines. By the end of 2016, the new PIDS had been installed at 39 stations

Responding to Our Customers

The "Happy Birthday • Happy Journey" programme has brought much joy to passengers since its launch in April 2016. One day of each month is chosen by lucky draw and all Hong Kong Identity Card holders whose birthday falls on that day become eligible to redeem a Birthday Pack. A total of 67,249 packs were given out in 2016.

To communicate better with our customers, "Time to Next Train" information on gate-top PIDS was introduced at certain stations, and staff with portable devices are now helping to solve ticketing problems at gates during peak hours. We ran public announcements by celebrities during peak-hours at Admiralty Station to enliven customers' travelling experience. Our MTR Mobile has also been enhanced with a better customer interface and tourist information. Considerable efforts were made to ensure a good customer experience during the opening of the two new railway lines.

Planning ahead, our 2030 Customer Experience Vision Blueprint provides the framework for asset upgrades and other initiatives designed to improve travel experience over the coming years.

To remind passengers of the need for courteous behaviour, two rounds of the "Ride with manners" courtesy campaign were launched in March and August 2016 respectively, focusing on train boarding.

In January 2016, a Service Appreciation campaign was launched. Customers were invited to vote for their most liked MTR service team and share their related personal stories. More than 12,000 votes and 2,000 stories were received.

System Information

Railway operation data	2016		2015	
Total route length *(km)*	**230.9**		220.9	
Number of rail cars	**2,146**		2,106	
Daily hours of operation				
Island Line, Tsuen Wan Line, Kwun Tong Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line, West Rail Line, Airport Express and Light Rail	**19.0**		19.0	
East Rail Line and Ma On Shan Line	**19.5**		19.5	
Minimum train headway *(second)*	Morning Peak	Evening Peak	Morning Peak	Evening Peak
– Tsuen Wan Line	**120**	**120**	120	120
– Kwun Tong Line	**126**	**140**	126	140
– Island Line	**112**	**124**	112	124
– South Island Line	**200**	**200**	–	–
– East Rail Line				
Hung Hom to Sheung Shui	**212**	**200**	212	200
Hung Hom to Lo Wu	**327**	**327**	327	327
Hung Hom to Lok Ma Chau	**600**	**600**	600	600
– Ma On Shan Line	**180**	**240**	180	240
– Tseung Kwan O Line	**133**	**133**	133	133
– Tung Chung Line				
Hong Kong to Tung Chung	**360**	**360**	360	360
Hong Kong to Tsing Yi	**240**	**240**	240	240
– Airport Express	**600**	**600**	600	600
– West Rail Line	**171**	**210**	171	210
– Disneyland Resort Line	**270**	**270**	270	270
– Light Rail	**270**	**300**	270	300

STATION RETAIL

ADVERTISING

TELECOMMUNICATIONS

Hong Kong Station Commercial Businesses

Our Aims and Achievements

We aim to enhance the journey experience and convenience of our customers by offering them railway related services. These services currently cover mainly station retail outlets, advertising and telecommunications. Our strategy is to carefully explore new ways to optimise the use of our stations, trains and other assets to provide such services, while at the same time generating non-fare-related revenues for the Company.

During 2016, new shops and brands were added, offering greater choice to our customers. New advertising formats were introduced to raise our customers' awareness while travelling on the network. We have increased the number of e-shops sales packages to capture the popular trend of online-to-offline commerce. We have continued to work with telecom operators to upgrade mobile and Wi-Fi services, while ensuring coverage on the Kwun Tong Line Extension and South Island Line on their first days of operation.

Our Strategies

Station Retail

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

Advertising

- Offer flexible and multiple platform sales packages and innovative solutions to advertisers, to meet their changing needs and succeed in a highly competitive market
- Continue to upgrade advertising products and develop digital formats to reinforce the competitiveness of MTR advertising and so capture the rising trend of online-to-offline marketing campaigns

Telecommunications

- Work with telecommunication operators to explore new technologies to enhance mobile communications for passengers
- Support telecommunication operators to speed up the upgrade and installation of mobile phone and Wi-Fi systems

31
new brands were introduced

Over
1,300
station shops

Over
22,000
advertising units at stations

4G
data access along the journey

Over
23,000
advertising units in trains


燒味站
BBQ HOUSE
FOOD

Financial Performance

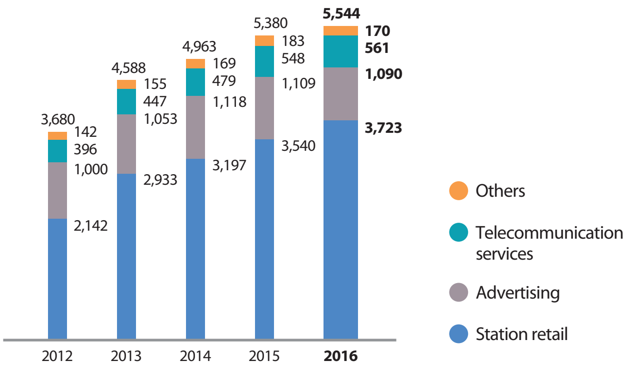
As illustrated below, in 2016, the financial performance of the Hong Kong station commercial businesses was stable.

In HK$ million	Year ended 31 December 2016	2015	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**3,723**	3,540	5.2
Advertising Revenue	**1,090**	1,109	(1.7)
Telecommunication Income	**561**	548	2.4
Other Station Commercial Income	**170**	183	(7.1)
Total Revenue	**5,544**	5,380	3.0
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**5,012**	4,830	3.8
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**4,362**	4,230	3.1
EBITDA Margin (in %)	**90.4%**	89.8%	0.6% pt.
EBIT Margin (in %)	**78.7%**	78.6%	0.1% pt.

Station retail rental revenue for the year was higher than last year as rents increased due to trade mix refinements, positive rental reversions in our station shops and increases in rents in accordance with lease contracts for the Duty Free Shops at Lo Wu and Hung Hom stations. Advertising revenue decreased slightly as the weaker economic environment led to a shrinking advertising market. Revenue from telecommunications increased, mainly due to network upgrades and increased mobile data capacity by telecommunication service providers.

Revenue from Hong Kong Station Commercial Businesses

(HK$ million)



Station Retail

As at 31 December 2016, there were 1,392 station shops, occupying 57,151 square metres of retail space in the Company's retail portfolio. This represents an increase of 30 shops and 913 square metres as compared with 31 December 2015, mainly resulting from the addition of 31 new shops on the Kwun Tong Line Extension and South Island Line.

In November 2016, after an extensive tendering exercise, rental contracts for all the duty-free shops were awarded to Anway Limited, the existing operator which is wholly owned by NWS Holdings Limited. The new contracts will start in August 2017 for the Lok Ma Chau shops and in January 2018 for the Lo Wu and Hung Hom shops.

During the year, 31 new brands were introduced and posters featuring the new brands have been displayed across the MTR network. Renovation works were completed at Tai Po Market Station, as was the first phase of renovations at Hung Hom Station. Works remain in progress at Lo Wu, Hung Hom and Admiralty stations.

To strengthen MTR Shops' "Style to Go" brand positioning, a new thematic campaign featuring two local artists and a voting campaign were launched in 2016.

Advertising

The number of advertising units at stations and in trains reached 22,485 and 23,747 respectively by 2016 year end. To capture the online-to-offline trend, the "e-shop network", which enables our customers to experience online ticketing and shopping, has been expanded from ten to 20 stations.

A new animated zone featuring 95" digital screens has been installed at the arrival hall of Lo Wu Station, while 277 advertising panels were revamped across the rail network. The 12-sheet lightbox packages have been upgraded by adding Beacon mobile technology, along with QR (Quick Response) code and NFC (Near Field Communication), to enhance the interactivity with passengers.

Telecommunications

During the year MTR worked with a telecom operator to upgrade Wi-Fi equipment at 84 stations to provide enhanced service. Provision of mobile phone and Wi-Fi services were achieved for both the Kwun Tong Line Extension and South Island Line on their first days of operation.

The installation of a new mobile phone network, offering increased data capacity and more 4G services, initially at eight busy stations has made good progress. Works in the concourses of the first two stations were completed during 2016 and the whole project is scheduled for completion in the third quarter of 2018. The second phase of the project, covering installation of the new mobile phone network at another nine busy stations, went out to tender in November 2016.


PANDORA
THE JOY OF GIVING
PANDORA
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GAP

INVESTMENT PROPERTIES

PROPERTY MANAGEMENT

PROPERTY DEVELOPMENT

OTHER BUSINESSES

Hong Kong Property and Other Businesses

Our Aims and Achievements

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

In 2016, two new property development packages, LOHAS Park Package 10 and Ho Man Tin Station Package 1 were awarded. We continue to look for new development opportunities along our railway network that would increase housing supply in Hong Kong. Our property management business continued to win awards during the year. Work also pressed ahead on our major investment in expanding the retail property portfolio. Two of the four projects, namely the extension of Maritime Square and the conversion project of Telford Plaza II, are both on schedule to open in 2017.

Our Strategies

Property Safety

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

Property Development

- Optimising, through building good quality property developments that offers seamless integration with railway and other modes of transport
- Expanding, through seeking rezoning of feasible existing railway sites, and through applying the proven "Rail plus Property" integrated development model to the implementation of new lines announced under the Railway Development Strategy 2014
- Delivering property developments awarded to a good quality standard, on time and within budget
- Pursuing continuous improvement against our standards through innovation and capturing new development opportunities

Property Rental

- Sustaining profit and value growth in our property portfolio in Hong Kong
- Sustaining the value of our investment property portfolio through optimising both existing and new shopping malls, and achieving 40% growth of attributable GFA through new investment properties, while creating high quality and customer-centric shopping mall environments for the community

Property Management

- Enhancing our property management service so as to provide excellent services that meet or exceed customer requirements and expectations
- Promoting green projects with greater energy efficiency to foster health and sustainability in our managed properties

Property Tendering Activities

- LOHAS Park Package 10 awarded in March 2016
- Ho Man Tin Station Package 1 awarded in December 2016
- Wong Chuk Hang Station Package 1 awarded in February 2017

11 MTR Property Development Packages Awarded

About **18,000** residential units to be built

Over **96,000** residential flats managed

Our investment properties portfolio will be expanded by 40% attributable GFA and over **120,000** square metres GFA

13 Shopping Malls in our investment properties portfolio

Financial Performance

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

	Year ended 31 December		
In HK$ million	2016	2015	Inc./(Dec.) %
Hong Kong property rental and property management businesses			
Revenue from Property Rental	**4,451**	4,267	4.3
Revenue from Property Management	**290**	266	9.0
Total Revenue	**4,741**	4,533	4.6
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**3,930**	3,668	7.1
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**3,912**	3,650	7.2
EBITDA Margin (in %)	**82.9%**	80.9%	2.0% pts.
EBIT Margin (in %)	**82.5%**	80.5%	2.0% pts.

Property Rental Business in Hong Kong

Our shopping mall portfolio in Hong Kong achieved rental reversion averaging 3.4% during the year. At the year end, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre office building remained close to 100% let.

The demographics of the eastern side of Hong Kong Island are changing and in response we have revamped the first floor of the East Wing of Paradise Mall, where a new sports and "well-being" zone opened in September 2016 with a positive market response.

During 2016, MTR Malls made the "Favourite Shopping Mall" lists of the Hong Kong Economic Times and Atnext Action News. Elements, Telford Plaza, Maritime Square and PopCorn received accreditation during 2016 for their Barrier Free Accessibility Management Systems from the Hong Kong Quality Assurance Agency.

As at 31 December 2016, the Company's attributable share of investment properties in Hong Kong was 212,538 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of offices, and 15,267 square metres of property for other use.

Investment Property Portfolio in Hong Kong (as at 31 December 2016)

Location	Type	Lettable floor area *(sq. m.)*	No. of parking spaces	Company's ownership interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping centre	39,305	–	100%
	Car park	–	993	100%
Telford Plaza II, Kowloon Bay, Kowloon	Shopping centre	19,328	–	50%
	Car park	–	136	50%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping centre	11,107	–	100%
	Car park	–	651	100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping centre	18,284	–	100%
	Wet market	1,216	–	100%
	Car park	–	415	100%
Maritime Square, Tsing Yi	Shopping centre	29,161	–	100%
	Kindergarten	920	–	100%
	Car park	–	220	100%
	Motorcycle park	–	50	100%


new balance
Kappa


TANGO
S'ate

Investment Property Portfolio in Hong Kong (as at 31 December 2016) (continued)

Location	Type	Lettable floor area *(sq. m.)*	No. of parking spaces	Company's ownership interest
The Lane, Hang Hau	Shopping centre Car park Motorcycle park	2,629 – –	– 16 1	100% 100% 100%
PopCorn 2, Tseung Kwan O	Shopping centre Car park	8,456 –	– 50	70% 70%
PopCorn 1, Tseung Kwan O	Shopping centre Car park Motorcycle park	12,173 – –	– 115 16	50% 50% 50%
G/F, No. 308 Nathan Road, Kowloon	Shop unit	70	–	100%
G/F, No. 783 Nathan Road, Kowloon	Shop unit	36	–	100%
New Kwai Fong Gardens, Kwai Chung, New Territories	Kindergarten Car park	540 –	– 126	100% 100%
International Finance Centre ("ifc"), Central, Hong Kong – Two ifc – One and Two ifc	 Office Car park	 39,410 –	 – 1,308	 100% 51%
Phase I, Carpark Building, Kornhill, Quarry Bay, Hong Kong	Car park	–	292	100%
Roof Advertising Signboard, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Advertising signboard	–	–	100%
Ten Shop Units, First Floor Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Shop unit	286	–	50%
Olympian City One, Tai Kok Tsui, Kowloon	Indoor sports hall	13,219	–	100%
Olympian City Two, Tai Kok Tsui, Kowloon	Shop unit	1,252	–	100%
Choi Hung Park & Ride Public Car Park, No. 8 Clear Water Bay Road, Choi Hung, Kowloon	Car park Motorcycle park Park & ride	– – –	54 10 450	100% 100% 100%
Elements, No. 1 Austin Road West, Kowloon	Shopping centre Car park	45,800 –	– 898	81% 81%
Cross Border Coach Terminus, No. 1 Austin Road West, Kowloon	Coach terminus	5,113	–	100%
Kindergarten, No. 1 Austin Road West, Kowloon	Kindergarten	1,045	–	81%
Plaza Ascot, Fo Tan	Shopping centre	7,720	–	100%
Royal Ascot, Fo Tan	Residential Car park	2,784 –	– 20	100% 100%
Ocean Walk, Tuen Mun	Shopping centre Car park	6,083 –	– 32	100% 100%
Sun Tuen Mun Shopping Centre, Tuen Mun	Shopping centre Car park	9,022 –	– 421	100% 100%
Hanford Plaza, Tuen Mun	Shopping centre Car park	1,924 –	– 22	100% 100%
Retail Floor and 1-6/F, Citylink Plaza, Shatin	Shopping centre	12,054	–	100%
The Capitol, LOHAS Park	Shop unit Residential care home for the elderly	391 2,571	– –	100% 100%
Le Prestige, LOHAS Park	Kindergarten	800	2	100%
The Riverpark, Che Kung Temple	Shop unit Kindergarten	154 708	– –	100% 100%
Hemera, LOHAS Park	Kindergarten	985	–	100%

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

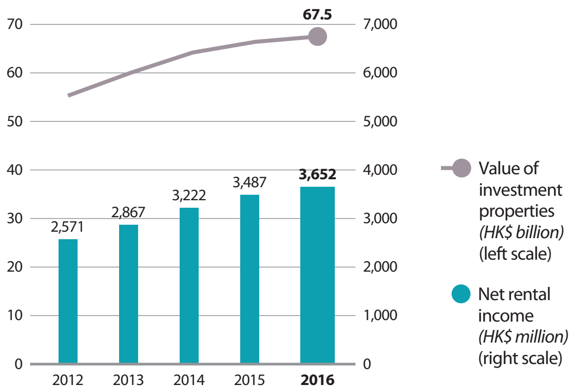
- *Telford Plaza I and II, Luk Yeung Galleria, Maritime Square, New Kwai Fong Gardens, ifc, Olympian City, Elements, Cross Border Coach Terminus and Kindergarten at No. 1 Austin Road West, Plaza Ascot, Royal Ascot, Ocean Walk, Sun Tuen Mun Shopping Centre and Hanford Plaza where the Government Leases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

Properties held for sale (as at 31 December 2016)

Location	Type	Gross floor area *(sq.m.)*	No.of parking spaces	Company's ownership interest
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping centre	6,026*	–	40%
	Car park	–	330	40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car park	–	117	40%
The Arch, No. 1 Austin Road West, Kowloon	Residential	548**	–	38.5%
	Car park	–	12	38.5%
Residence Oasis, No. 15 Pui Shing Road, Hang Hau, Tseung Kwan O	Motorcycle park	–	18	71%
The Grandiose, No. 9 Tong Chun Street, Tseung Kwan O	Motorcycle park	–	24	70%
Harbour Green, No. 8 Sham Mong Road, Kowloon	Car park	–	24	35%
	Kindergarten	1,299	–	50%
The Palazzo, No. 28 Lok King Street, Shatin	Residential	1,022**	–	55%
	Retail	2,000	–	55%
	Car park	–	15	55%
	Motorcycle park	–	5	55%
Lake Silver, No. 599 Sai Sha Road, Shatin	Residential	1,674**	–	92.88%
	Retail	3,000	–	92.88%
	Kindergarten	1,000	–	92.88%
	Car park	–	38	92.88%
Festival City, No. 1 Mei Tin Road, Shatin	Car park	–	231	100%
Hemera, LOHAS Park, Tseung Kwan O	Car park	–	240	100%
The Riverpark, No. 8 Che Kung Miu Road, Shatin	Residential	766***	–	87%
	Car park	–	11	87%

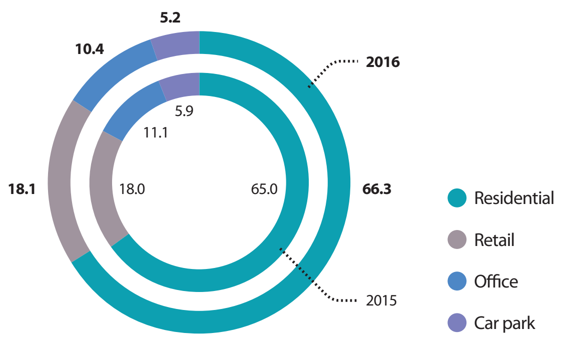
* *Lettable floor area*
** *Brochure gross floor area as per previously issued marketing brochures*
*** *Saleable area*

Investment Properties



Distribution of Hong Kong Property Management Income

(Percentage)



Hong Kong Property Investment Projects

Over the next five years or so our investment properties portfolio in Hong Kong will expand significantly as we add about 120,620 square metres gross floor area ("GFA") to our retail portfolio, increasing attributable GFA by approximately 40%.

Tai Wai shopping centre

- GFA: 60,620 square metres
- Target opening: 2022

The Company has already contributed HK$7.5 billion to this development package, and will retain ownership of the mall when completed and bear the fit-out costs.

Foundation works are in progress. The Tai Wai shopping centre has been impacted by difficult foundation works in between two operating rail lines and hence has suffered some delays. However, delay recovery measures are being implemented in order to mitigate this delay. Superstructure works will commence in the first half of 2017.

LOHAS Park shopping centre

- GFA: 44,500 square metres
- Target opening: second half of 2020

The Company will contribute a total of HK$4.98 billion to the development package, of which HK$2.44 billion has already been invested. The remaining HK$2.54 billion will be paid upon the completion of mall construction, which is expected to be in 2019. MTR will also retain ownership and bear the fit out cost of the shopping centre.

Foundation works are making good progress and superstructure works are expected to begin in the first half of 2017.

The extension of Maritime Square

- GFA: 12,100 square metres
- Target opening: second half of 2017

The cost of the extension of Maritime Square is approximately HK$2.4 billion. The superstructure was topped out in December 2016 and electrical and mechanical installation is underway.

Telford Plaza II – floors seven and eight

- GFA: 3,400 square metres
- Target opening: second half of 2017

The cost of the conversion of floors seven and eight of our offices above Telford Plaza II to retail use is estimated to be HK$550 million. Conversion works commenced in December 2015 and have achieved good progress.

Property Management Business in Hong Kong

As at 31 December 2016, 96,066 residential units and over 758,000 square metres of commercial space were managed by MTR.

During 2016, eight of our managed properties achieved recognition by the Quality Lift Service Recognition Scheme run by the Electrical and Mechanical Services Department.

Two International Finance Centre won the Grand Award (Office Building Management) while The Cullinan received the Excellence Award (Medium–Scale Residential Property Management) in the Quality Property & Facility Management Award 2016 organised by The Hong Kong Association of Property Management Companies and The Hong Kong Institute of Surveyors.

Property Development in Hong Kong

Profit from Hong Kong property development in 2016 was modest at HK$311 million, and derived largely from sundry sources such as the sharing in kind of the kindergarten at Hemera.

For West Rail projects, where we act as agent for the relevant subsidiaries of Kowloon-Canton Railway Corporation, we launched the presale of The Spectra (the Long Ping Station (North) site) in March 2016, with about 91% of 912 units sold by the end of February 2017, and also THE PAVILIA BAY (the Tsuen Wan West Station (TW6) site) in January 2017 with about 78% of 983 units sold up to the end of February 2017.

In our property tendering activities we awarded LOHAS Park Package 10 to a subsidiary of Nan Fung Group Holdings Limited in March 2016, while Ho Man Tin Station Package 1 was awarded to a consortium led by Goldin Financial Holdings Limited in December 2016. In February 2017, Wong Chuk Hang Station Package 1 was awarded to a consortium formed by Road King Infrastructure Limited and Pingan Real Estate Capital Limited.

Over the past three years, 11 MTR property development packages have been tendered out and are now in various stages of planning and construction. They will provide about 18,000 residential units with a total GFA of over 1.1 million square metres when completed over the next four to six years.

To respond to the need for more housing supply in Hong Kong, we continue to look for possible property development sites along our railway lines. One is above our depot in Siu Ho Wan on Lantau Island where, with the necessary zoning and other statutory approvals, around 14,000 residential units could be built. MTR is close to completing the Environmental Impact Assessment for the Siu Ho Wan site and the statutory planning procedures are expected to commence in 2017. Another site is above the Yau Tong Ventilation Building, where around 500 residential units could be built. The site is currently undergoing rezoning. At this preliminary stage there can be no assurance that either project would be commercially viable.

Progress of Property Development Packages Awarded

	Project Status		
Location	Design	Foundation Works	Superstructure
LOHAS Park Package 4	Completed	Completed	In Progress
Tai Wai Station	Completed	In Progress	To be started in the first half of 2017
LOHAS Park Package 5	Completed	Completed	In Progress
LOHAS Park Package 6	Completed	Completed	To be started in the first half of 2017
Tin Wing Stop	Completed	To be started in the first half of 2017	
LOHAS Park Package 7	Completed	In Progress	To be started in the second half of 2017
LOHAS Park Package 8	In Progress		
LOHAS Park Package 9	In Progress	In Progress	
LOHAS Park Package 10	In Progress	To be started in the first half of 2017	
Ho Man Tin Station Package 1	In Progress		
Wong Chuk Hang Station Package 1	In Progress		

Property Development Packages Completed during the year and Awarded

Location	Developers	Type	Gross floor area *(sq. m.)*	Tender award date	Expected completion date
Ho Man Tin Station					
Package 1	Goldin Financial Holdings Limited	Residential	69,000	December 2016	2022
LOHAS Park Station					
Package 4	Sun Hung Kai Properties Limited	Residential	122,302	April 2014	2020
Package 5	Wheelock and Company Limited	Residential	102,336	November 2014	2020
Package 6	Nan Fung Group Holdings Limited	Residential	136,970	January 2015	2021
Package 7	Wheelock and Company Limited	Residential Retail Kindergarten	70,260 44,500 1,160	June 2015	2022
Package 8	Cheung Kong Property Holdings Limited	Residential	97,000	October 2015	2021
Package 9	Wheelock and Company Limited	Residential Kindergarten	104,110 810	December 2015	2022
Package 10	Nan Fung Group Holdings Limited	Residential	75,400	March 2016	2022
Tai Wai Station					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	October 2014	2022
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	February 2015	2021
Wong Chuk Hang Station					
Package 1	Road King Infrastructure Limited and Pingan Real Estate Capital Limited	Residential	53,600	February 2017	2022
Long Ping Station#					
The Spectra	K. Wah International Holdings Limited and Sino Land Company Limited	Residential	48,675	October 2012	2017
Long Ping (South)	Chinachem Group	Residential	41,990	June 2013	2019
Nam Cheong Station#					
Cullinan West	Sun Hung Kai Properties Limited	Residential Retail Kindergarten	214,700 26,660 1,000	October 2011	By phases from 2017 – 2019
Tsuen Wan West Station#					
TW5 Cityside	Chinachem Group	Residential Retail	66,114 11,210	January 2012	2018
TW5 Bayside	Cheung Kong Property Holdings Limited	Residential Retail Kindergarten	167,100 40,000 550	August 2012	2018
THE PAVILIA BAY	New World Development Co. Ltd. and Vanke Property (Overseas) Limited	Residential	62,711	January 2013	2017
Yuen Long Station#					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	August 2015	2022

\# *as a development agent for the relevant subsidiaries of KCRC*

* *excluding a bicycle park with cycle track*

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

Property Development Packages to be Awarded Notes 1 and 2

Location	Type	Gross floor area *(sq. m.)*	Period of package tenders	Expected completion date
LOHAS Park Station	Residential	About 320,000	2017 – 2020	2020 – 2025
Wong Chuk Hang Station	Residential Retail	303,900 47,000		
Ho Man Tin Station	Residential	59,400		

Notes:

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

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

West Rail Line Property Development Plan

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

Station/Site	Site Area *(hectares)*	Actual/Expected tender award date	Actual/Expected completion date
Property Development Packages awarded			
Tuen Mun	2.65	August 2006	By phases from 2012 – 2014
Tsuen Wan West (TW7)	2.37	September 2008	2014
Nam Cheong	6.18	October 2011	By phases from 2017 – 2019
Tsuen Wan West (TW5) Cityside	1.34	January 2012	2018
Tsuen Wan West (TW5) Bayside	4.29	August 2012	2018
Long Ping (North)	0.99	October 2012	2017
Tsuen Wan West (TW6)	1.38	January 2013	2017
Long Ping (South)	0.84	June 2013	2019
Yuen Long	3.91	August 2015	2022
	23.95		
Property Development Packages to be awarded			
Kam Sheung Road	About 9.37	2017 – 2024	2025 – 2031
Pat Heung Maintenance Centre	About 23.56	Under review	Under review
	32.93		
Total	**56.88**		

Other Businesses

Ngong Ping 360

The Ngong Ping Cable Car and associated theme village ("Ngong Ping 360") saw revenue increased by 12.7% in 2016 to HK$391 million. Visitor numbers during the year rose by 5.5% to 1.71 million, mainly attributable to the growth in overseas visitors from Asia and Western countries as well as 7.5 more operating days compared with last year.

As part of the long-term asset replacement programme designed to ensure safety and service reliability, the rope replacement project was commenced on 9 January 2017, with target completion in June 2017.

Octopus

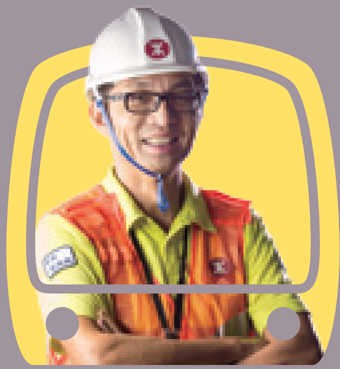
The Company's share of Octopus' net profit in 2016 grew by 6.0% to HK$249 million. As at 31 December 2016, more than 8,000 service providers in Hong Kong were accepting Octopus for payment. Total cards and other stored-value Octopus products in circulation were 32.8 million, with average daily transaction volumes and value reaching 14.1 million and HK$179.2 million respectively.

Consultancy Business

We continue to leverage our experience as one of the world's leading railway operators to offer consultancy services to clients in Hong Kong and overseas. Revenue from the consultancy business in 2016 was HK$216 million, an increase of 14.3% over 2015.

Project Management

Income from project management services to Government is predominately for entrustment works on the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Shatin to Central Link. This income increased by 3.1% in 2016 to HK$1,790 million. Income from the entrustment works is currently booked on a cost recovery basis.



NEW RAILWAY
PROJECTS OWNED BY MTR

NEW RAILWAY
PROJECTS ENTRUSTED TO MTR

NEW RAILWAY
PROJECTS UNDER DISCUSSION

Hong Kong Network Expansion

Our Aims and Achievements

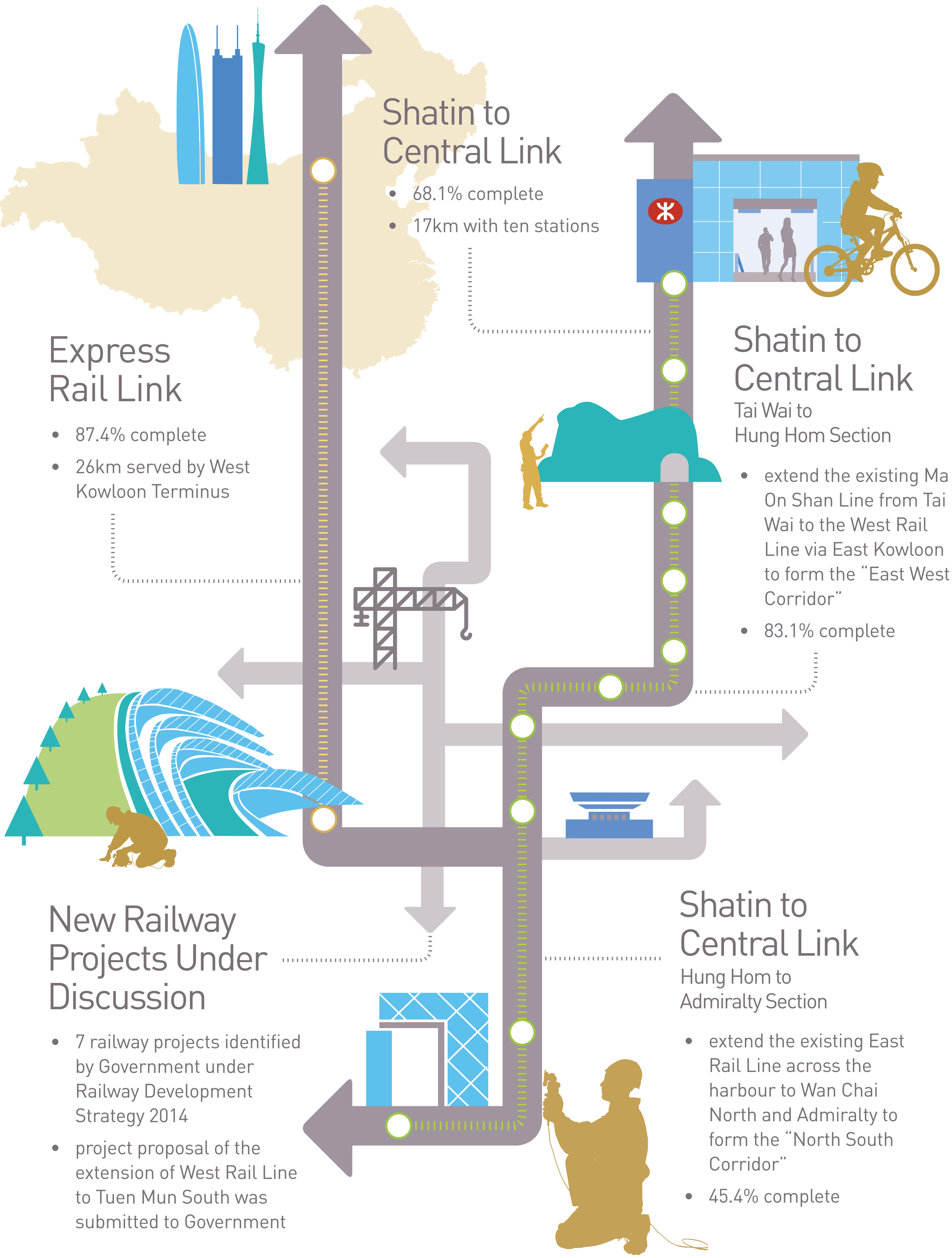
The expansion of our Hong Kong railway network contributes to our overall goals by building the additional capacity needed to meet the future transport needs of Hong Kong. It covers both railway projects owned by MTR and those entrusted to MTR by Government. In developing these new rail lines we make every effort to meet the community's expectations regarding the environment, safety and efficiency.

We opened two new rail lines in 2016, the Kwun Tong Line Extension on 23 October and the South Island Line (East) on 28 December, bringing the convenience of MTR travel to all 18 districts in Hong Kong. Work also continued to progress on the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link.

We continue to work with Government on its strategy to continue using railway as the backbone in the development of Hong Kong's public transport network. Under Railway Development Strategy 2014 ("RDS 2014"), Government has identified seven additional rail projects. The project proposal for the Tuen Mun South Extension was submitted to Government in December 2016, and we are now preparing project proposals for three more rail lines.

Our Strategies

- Delivery Targets: Implementing good project management practices to ensure that the progress of the Ownership Projects, Kwun Tong Line Extension and South Island Line (East), were on track for opening by October and December 2016, respectively; and for projects entrusted by Government, on track for the Express Rail Link to open by the third quarter of 2018, the Shatin to Central Link East West Corridor to open in mid-2019, and the Shatin to Central Link North South Corridor to open in 2021
- Interfacing Effectiveness: Proactively strengthening channels for collaboration with interfacing departments and divisions within the Company and key external stakeholders. Enhancing integration, particularly with the Operations Division, on the handover of railway extension projects and works in the operating railway
- Growth and Development: Pursuing new railway development opportunities through RDS 2014 to establish a pipeline of future project deliveries in Hong Kong. Leveraging opportunities afforded by new projects in Hong Kong and overseas for staff career development and the enhancement of capabilities



Express Rail Link

- 87.4% complete
- 26km served by West Kowloon Terminus

Shatin to Central Link

- 68.1% complete
- 17km with ten stations

Shatin to Central Link

Tai Wai to Hung Hom Section

- extend the existing Ma On Shan Line from Tai Wai to the West Rail Line via East Kowloon to form the "East West Corridor"
- 83.1% complete

New Railway Projects Under Discussion

- 7 railway projects identified by Government under Railway Development Strategy 2014
- project proposal of the extension of West Rail Line to Tuen Mun South was submitted to Government

Shatin to Central Link

Hung Hom to Admiralty Section

- extend the existing East Rail Line across the harbour to Wan Chai North and Admiralty to form the "North South Corridor"
- 45.4% complete

New Rail Projects Owned by MTR

Kwun Tong Line Extension

Following extensive trials and testing, the 3-km Kwun Tong Line Extension opened on 23 October to great excitement amongst the Hong Kong public. The 3-km new line extends the Kwun Tong Line from Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa. It reduces the journey time between Whampoa and Yau Ma Tei stations to 5 minutes from the previous 15-20 minutes using other modes of transport.

Since the opening of the extension to the end of February 2017, approximately 13 million passengers have used the extension, with daily average usage of over 100,000.

South Island Line (East) ("South Island Line")

The 7-km South Island Line, which extends MTR services from Admiralty to the Southern District of Hong Kong Island, opened on 28 December and was warmly welcomed by residents of the Southern District as well as the travelling public. The line has four new stations, Ocean Park, Wong Chuk Hang, Lei Tung and South Horizons and finally brings MTR's service to all 18 districts in Hong Kong. During the year our team overcame many construction challenges, including those relating to the extensive expansion of Admiralty Station, to enable the line to open by year end.

Since the opening of the South Island Line to the end of February 2017, approximately 7 million passengers have used the line, with daily average usage of over 110,000.

New Rail Projects Entrusted to MTR by Government

Express Rail Link

The 26-km Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") will provide high-speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. It will be served by the 380,000 square metres gross floor area ("GFA") West Kowloon Terminus, one of the largest underground high-speed rail stations in the world. As at 31 December 2016, overall the project was 87.4% complete with the Terminus 82.8% complete and all tunnel works substantially complete. Track installation in the main tunnels was completed in November 2016 and overall, 95.7% of tracks had been laid by the end of 2016.

In September 2016, the first of the nine high-speed trains for the Hong Kong Section of the line arrived in Hong Kong from Qingdao by sea. The train has successfully completed the first stage of dynamic testing in the pilot tunnel section in Hong Kong. The second train arrived in late January 2017.

The targeted opening date of the Express Rail Link remains the third quarter of 2018.

The Company's project management responsibilities are set out in two Entrustment Agreements with Government. The first Entrustment Agreement ("XRL Preliminary Entrustment Agreement") covers, among other things, preliminary and detailed design and site investigation, while the second Entrustment Agreement ("XRL Entrustment Agreement") covers, among other things, completion of detailed design and construction and commissioning into service of the Express Rail Link.

The XRL Agreement relating to the further funding arrangements for the project was approved by the Company's independent shareholders on 1 February 2016 and became unconditional upon approval by the Finance Committee of the Legislative Council of the HKSAR ("LegCo") on 11 March 2016 of Government's additional funding obligations.

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

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

Shatin to Central Link

The ten-station 17-km Shatin to Central Link connects existing railway lines to form an East West Corridor and a North South Corridor with six interchange stations creating vital new links across Hong Kong. Overall, the project was about 68.1% complete by the end of the year, with the East West Corridor and North South Corridor being 83.1% and 45.4% complete respectively.

For the East West Corridor, a significant milestone was the breakthrough of the whole 11-km tunnel section from Tai Wai to Hung Hom in August 2016. Track laying works are in progress with 54% of tracks laid. Three of the stations on the East West Corridor have been topped out, with good progress being made on the remaining stations.

For the North South Corridor, the first tunnel boring machine started operation in March 2016 and both the uptrack and downtrack tunnel drives from Causeway Bay to Exhibition Station were completed by year end. For the immersed tube cross-harbour tunnel, piling works at the Hung Hom marine cofferdam were completed in June 2016 and dewatering began the following month. Underwater dredging for the cross-harbour tunnel alignment was about 75% complete. The concrete structure of the immersed tube tunnel units has been completed and the associated works are now underway. We expect to start immersing and subsequently connecting these tunnel units in the first half of 2017.

Construction work for the diaphragm walls of Exhibition Station and relevant railway facilities are underway. Due to space limitation in Wan Chai North, temporary traffic management schemes are being implemented at different stages along Convention Avenue, Fleming Road and Expo Drive to create additional works areas. However, the number of traffic lanes will remain unchanged at peak hours to reduce the impact on the public.

Admiralty Station will become an interchange hub for the Shatin to Central Link, Island Line, Tsuen Wan Line and South Island Line. Upon the commissioning of the South Island Line in late December 2016, the work site for the future Shatin to Central Link platforms and concourse at Admiralty Station was handed over to the Shatin to Central Link project team. Civil and building services works on these platform and concourse areas commenced in January 2017.

As part of the North South Corridor project, the existing East Rail Line will be re-signalled. The phased testing of the new signalling systems with East Rail Line trains began in October 2016 during non-service hours.

Despite reasonable construction progress, and as reported a number of times previously, the programme for delivery of the Shatin to Central Link has been impacted by certain key external events. For the East West Corridor, the discovery of archaeological relics in the To Kwa Wan area has led to an 11-month delay but with the hard work of the teams involved and the successful implementation of a number of delay recovery measures, the length of this delay has now been reduced with the estimated completion of this corridor in mid-2019. For the North South Corridor, we had previously reported a six-month delay due to a number of external factors including the anticipated late handover by a third party of construction sites for the new Exhibition Station. We had also stated that any further delay in site handover beyond those reported, will result in additional delay to the completion of this corridor. Now, as a result of the late site handover with incomplete entrusted works by another third party contractor at Wan Chai North, the completion of this corridor has been further delayed by an additional three months (to a total expected delay of nine months). However, the North South Corridor is still targeted to complete in 2021. Any additional delays by third parties in site handover or site handover with incomplete work may result in further delays in the completion of the North South Corridor.

For both the East West Corridor and the North South Corridor, our project teams continue to work diligently to explore and implement measures to improve progress and recover delays caused by external events and parties as far as possible.

The funding for construction of the Shatin to Central Link is set out in two Entrustment Agreements with Government. The Entrustment Agreement for Advance Works Relating to the Shatin to Central Link ("SCL Advance Works Entrustment Agreement") relates to advance works for the line predominately undertaken at Admiralty and Ho Man Tin stations. The subsequent agreement, the Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link ("SCL Entrustment Agreement") relates to funding for the construction and commissioning of the Shatin to Central Link.

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 Government of the Company's revised estimate for the entrustment cost for such works of HK$8,617.1 million. In December 2016, Government consulted the LegCo Panel on Transport Subcommittee on Matters Relating to Railways regarding such additional funding requirement before submitting the funding application to the LegCo Public Works Subcommittee in 2017.

For the SCL Entrustment Agreement, taking into account the continuing difficulties and challenges, including those described above, the Company considers that the cost estimate for the SCL Entrustment Agreement will need to be revised upwards significantly to take account of (i) the additional HK$4,100 million that was previously reported as a result of the archaeological finds in the To Kwa Wan area, (ii) the late handover of construction sites at Exhibition Station, (iii) the previously unbudgeted foundation works for top-side development at Exhibition Station, (iv) the late site handover with incomplete entrusted works by another third party contractor at Wan Chai North, and (v) other factors such as lower availability of labour in Hong Kong's construction sector. The Company has advised Government that it will therefore conduct a detailed review of the project cost estimate relating to the SCL Entrustment Agreement.

Given the complexity of the project works, the continuing uncertainties associated with some of the issues highlighted above and the fact that the North South Corridor is currently only 45.4% complete, this review will only be completed in the second half of 2017 after which the Company will formally report the findings to Government.

New Railway Projects Under Discussion

Beyond the two remaining Rail Gen 2.0 new rail projects currently under construction, Government has identified seven additional rail projects to be implemented under Railway Development Strategy 2014. Government has invited us to submit project proposals for four of these projects, namely the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station), the East Kowloon Line and Tung Chung West Extension (and Tung Chung East Station). The project proposal for the Tuen Mun South Extension was submitted to Government in December 2016. Technical studies for the Northern Link (and Kwu Tung Station) and East Kowloon Line are now underway in preparation for submission of project proposals in 2017. The project proposal for Tung Chung West Extension (and Tung Chung East Station) will be submitted thereafter.

New Engineering Division

Early in 2016 we established a new Engineering Division, headed by the new Engineering Director. This helps us to ensure excellence in our engineering functions and has strengthened our controls on all engineering related work.


TFL-RAIL
Forest Gate
Caution
For your safety
Keep back behind
the yellow line

RAILWAY BUSINESSES IN THE MAINLAND OF CHINA

PROPERTY BUSINESSES IN THE MAINLAND OF CHINA

EUROPEAN RAILWAY BUSINESSES

AUSTRALIAN RAILWAY BUSINESSES

Mainland of China and International Businesses

Our Aims and Achievements

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

In 2016, our existing operations in the Mainland of China, the UK, Sweden and Australia continued to improve their reliability and levels of customer satisfaction, benefitting the communities we serve. During the year we began operating two new lines, Beijing Metro Line 16 Phase 1 and Stockholm commuter rail ("Stockholms pendeltåg"), the commuter rail service which connects the Swedish capital with surrounding suburban areas. We also handed over to buyers a number of sold units from Tiara in Shenzhen, our first property development outside Hong Kong.

Our Strategies

- Continue to capture rail construction, operation and maintenance opportunities in markets where we already operate
- Explore other business models in these markets, such as "Rail plus Property" to help address the demands of growing urban populations
- Selectively pursue opportunities in new markets
- Ensure that best practice is shared among our different businesses in and outside of Hong Kong, so as to deliver on our aim of becoming a leading multinational company

UK

- TfL Rail/ Elizabeth Line
took over of operations in 2015

Sweden

- 3 Railway Services
including Stockholm Metro, MTR Express and Stockholms pendeltåg

Mainland of China

- Railway Services in Beijing, Shenzhen and Hangzhou
- Tiara in Shenzhen
is our first **Property Development** in Mainland of China

over
1.8 billion
passengers carried by our rail services in 6 cities outside of Hong Kong

over
960km
total operating route length outside of Hong Kong

Australia

- Melbourne's Metropolitan Rail Service
took over of operations in 2009
- Sydney Metro Northwest
service commencement is expected in 2019

Financial Performance

The financial performance of the Mainland of China and international businesses is summarised below:

In HK$ million	Year ended 31 December 2016	2015	Inc./(Dec.) %
Mainland of China Businesses			
Railway, Property Rental and Property Management subsidiaries			
Total Revenue	**814**	819	(0.6)
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**167**	164	1.8
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**159**	155	2.6
Property Development subsidiary			
Total Revenue	**1,348**	–	N/A
EBITDA	**366**	(140)	N/A
EBIT	**366**	(140)	N/A
Share of profit of associates	**226**	85	165.9
International Businesses			
Railway subsidiaries			
Total Revenue	**12,664**	11,753	7.8
EBITDA	**421**	562	(25.1)
EBIT	**309**	478	(35.4)
Share of profit of associates	**60**	41	46.3
Total EBITDA	**954**	586	62.8
Total EBIT	**834**	493	69.2
Total EBITDA Margin (in %)	**6.4%**	4.7%	1.7% pts.
Total EBIT Margin (in %)	**5.6%**	3.9%	1.7% pts.
EBIT from Mainland of China and International Railway, Property Rental and Management Subsidiaries net of non-controlling interest plus share of profit from railway associates (before interest and tax)	**888**	852	4.2
Number of passengers carried by our railway subsidiaries and associates outside of Hong Kong (in million)	**1,828**	1,598	14.4

In the Mainland of China businesses, the operating profit from our railway, property rental and property management subsidiaries remained steady. Operating profit from property development was derived from the hand-over of low-rise units in Tiara in Shenzhen. The increase in share of profit of associates was mainly due to improvements in the result of Hangzhou MTR Corporation Limited ("HZMTR"), which benefited from Hangzhou Metro Line 1 ("HZL1") patronage growth, as well as a higher share of profits from Beijing MTR Corporation Limited ("BJMTR"), as the concession commenced for Beijing Metro Line 14 ("BJL14").

In the International businesses, the decrease in operating profit from our railway related subsidiaries was mainly due to lower profit contribution from Metro Trains Melbourne Pty. Ltd. ("MTM") in Australia resulting from refranchising costs and lower contribution from maintenance and overhaul activities.

Railway Businesses in the Mainland of China

Beijing

In China's capital, our 49% associate BJMTR operates four lines, Beijing Metro Line 4 ("BJL4"), the Daxing Line, BJL14 and the recently opened Phase 1 of Beijing Metro Line 16 ("BJL16"). Operational performance remained at high levels on the lines operated by BJMTR, with on-time performance in 2016 averaging over 99.9% across the three lines (excluding BJL16 which only opened on 31 December 2016).

Beijing Metro Line 4 and the Daxing Line

For BJL4 and the Daxing Line, combined ridership in 2016 was about 442 million passenger trips and average weekday patronage more than 1.29 million, increases of 3% and 4% respectively over last year.

Beijing Metro Line 14

The first three phases of BJL14 are now in service. The 30-year concession for BJL14 began on 31 December 2015, following the opening of the Phase 3 Middle Section in December 2015. One more station, at Chaoyang Park, was opened in December 2016. The three phases recorded a combined 191 million passenger trips and average weekday patronage of about 591,000 in 2016. MTR's equity contribution to BJMTR to support BJL14 is estimated at RMB 2.45 billion.

Beijing Metro Line 16

A Concession Agreement for the BJL16 Public-Private Partnership ("PPP") project was signed by BJMTR in November 2015. Operation of the first phase, the Northern Section of 19.6 km, began on 31 December 2016. Full line operation, which also starts the service concession, is targeted after 2018.

Shenzhen

Shenzhen Metro Line 4 ("SZL4") operated by our wholly-owned subsidiary MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), achieved a 5% rise in patronage to about 199 million for the year (550,000 average weekday patronage) with solid operational and safety performance. On-time performance remained at a very high 99.9% for the year.

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

In August 2016, our consultancy company in Shenzhen entered into a project management agreement to supervise the construction of the Northern Extension of SZL4. This extension will be financed by the Shenzhen Municipal Government.

Hangzhou

Hangzhou Metro Line 1 and Extension

Our 49% associate in Hangzhou, HZMTR, operates HZL1 which in the year saw patronage increase by 12% to 199 million (537,000 average weekday patronage). Operational performance remains at high levels with on-time train performance of 99.9%. An extension of 5.7 km was added to HZL1 in November 2015; the extension was funded by Hangzhou Municipal Government and HZMTR operates it under an operating and maintenance concession.

With patronage lower than originally expected, HZMTR has been recording a net loss. However, the losses have reduced due mainly to higher revenue resulting from the increase in patronage.

Hangzhou Metro Line 5

MTR submitted a tender for Hangzhou Metro Line 5, another PPP project, in May 2016. In November 2016, Hangzhou Municipal Government withdrew the Competitive Negotiation since no other qualified tender was received. We are currently in discussion with Hangzhou Metro Group Company Limited on the way forward regarding Hangzhou Metro Line 5.

"Belt and Road" Initiative

MTR signed a Letter of Intent with China Railway Corporation in December 2016, agreeing to explore areas of strategic cooperation. These focus on high-speed rail construction, operations and related integrated development, as well as the training of railway professionals within and outside of the Mainland of China. This strategic partnership allows us to tap into opportunities arising from the Mainland's "Belt and Road" Initiative.

Property Development Businesses in the Mainland of China

Shenzhen

Following very successful presales in 2015 of Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1, the first batch of units, in the low-rise buildings on top of the depot, was handed over to buyers in December 2016. The high-rise units, which form the vast majority of the development, are scheduled to hand over by the middle of 2017. The Tiara project has a total developable gross floor area ("GFA") of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA).

Tianjin

In Tianjin, our 49% owned associate, Tianjin TJ-Metro MTR Construction Company Limited ("Tianjin MTR"), is involved in the development of the Beiyunhe Station project on Tianjin Metro Line 6. The project faces a number of obstacles, however, including softening market demand in Tianjin, especially for offices (the mixed use project has approximately 60,000 square metres GFA of offices) as well as a significant increase in the estimated construction cost due to a more complex basement construction. We are currently exploring various options including one whereby Tianjin MTR and the project will be re-structured by the introduction of a third party.

Business Developments

In the second half of 2016, we signed a Cooperation Framework Agreement with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and BJMTR to conduct joint preliminary studies on the integrated development of selected existing station and depot sites along BJL4 and the Daxing Line. Studies have commenced with a focus on an above depot development. We have also signed a Memorandum of Understanding with BIIC in January 2017 to extend the strategic co-operation to other, predominantly rail-related, property developments projects in Beijing in addition to investment, construction and operation of other railway projects.

Property Rental and Management Businesses in the Mainland of China

Our shopping mall in Beijing, Ginza Mall, was 99% occupied as at 31 December 2016. We also manage self-developed and third party properties in the Mainland of China which, as at 31 December 2016, covered a GFA of 520,000 square metres, increased by 290,000 square metres from the end of 2015.

European Railway Businesses

United Kingdom

London Overground

Our 50% owned associate London Overground Rail Operations Limited ("LOROL") has been very successful in operating the London Overground network for nine years. With the concession ending and our bid for the new concession being unsuccessful, the management of the network was handed over to a new operator in November 2016. Prior to the handover, we were honoured that LOROL was presented with the prestigious "Passenger Operator of the Year" award at the UK National Rail Awards.

TfL Rail / Elizabeth Line

Having commenced the Crossrail concession in 2015, MTR Corporation (Crossrail) Limited ("MTRXR") operates under the "TfL Rail" brand-name, providing services devolved from the previous Greater Anglia franchise covering 14 stations. It will be renamed the "Elizabeth Line" when the tunnel section through central London is completed and becomes operational, which is targeted to be in late 2018. When the fully integrated line is in service in 2019, it will serve 40 stations with a route length of 118 km. MTRXR has continued to deliver improved operational performance over the course of 2016.

Sweden

Stockholm Metro

The operational performance of Stockholm metro in 2016 was good with punctuality of all lines remaining above contractual targets and customer satisfaction at a record high. Ridership for the year was estimated at 349 million and average weekday patronage at 1.23 million.

MTR Tech

On 15 February 2016, MTR acquired the remaining 50% shareholding in Tunnelbanan Teknik Stockholm AB ("TBT") from our partner, Mantena AS, following which TBT was renamed as MTR Tech AB. The acquisition has brought rolling stock maintenance for the Stockholm metro fully under MTR management.

MTR Express

The MTR Express service that runs between Stockholm and Gothenburg also had a very high level of operational performance with punctuality consistently above market performance. Passenger numbers have continued to increase and customer satisfaction remains at a high level. Detailed plans are in place to continue to improve passenger numbers in 2017. Overall in 2016, MTR Express was rated as the best rail operator in Sweden by an independent survey.

Stockholm commuter rail (Stockholms pendeltåg)

In December 2015, we were awarded the concession to operate the Stockholms pendeltåg for ten years, with an option to extend for four more years. This concession includes the maintenance of rolling stock undertaken by Emtrain AB, a 50% owned associate with EuroMaint Rail AB. The Stockholms pendeltåg serves the greater Stockholm area, with 53 stations and a total route length of 241 km. Our wholly-owned subsidiary MTR Pendeltågen AB began operating the service in December 2016 and performance to date has been satisfactory.

Business Developments

In the U.K., we have partnered with FirstGroup in a bid for the South Western Rail franchise, as a minority 30% shareholder. The tender was submitted in September 2016 and the result is due in April 2017. We have also pre-qualified to bid for the Wales and Borders rail franchise. The Welsh Government has invited qualified bidders to enter the Competitive Dialogue phase of the process in the first half of 2017, with the formal tender expected in the second half of 2017.

In Sweden, we have submitted a bid to tender for the Skåne county commuter rail ("Pågatåg") concession in December 2016. The result is expected to be announced by the second half of 2017.

Australian Railway Businesses

Melbourne's Metropolitan Rail Service

In Melbourne, our 60% owned subsidiary MTM, which operates the Melbourne metro network, achieved steady performance exceeding franchise requirements. This concession expires in November 2017 and MTM's good operational performance has qualified it to negotiate an extension of the franchise directly with the Government of Victoria. MTM submitted its proposal on 23 December 2016 for an extension for an additional seven years (plus three years option) and the result should be known in the first half of 2017.

Sydney Metro Northwest

In Sydney, a consortium of which MTR is a member is responsible for the design, construction, financing as well as the future operation and maintenance of the Sydney Metro Northwest ("SMNW") PPP project. When completed, it will be the country's first fully automated rapid transit system. Service commencement is expected in the first half of 2019.

Business Developments

Sydney Metro City and Southwest ("SMCSW") is a 30-km extension of SMNW. Construction of the early works is planned to start in 2017 and the line is expected to open in 2024. MTR is exploring potential participation in the SMCSW project.

Mainland of China and International Railway Businesses at a Glance

	MTR Corporation Shareholding	Business Model	Commencement of Franchise / Expected Date of Commencement of Operation	Franchise / Concession Period *(years)*	Number of Stations	Route Length *(km)*
Projects In Operation						
Mainland of China						
Beijing Metro Line 4 ("BJL4")	49%	Public-Private-Partnership ("PPP")	Sep 2009	30	24	28.2
Daxing Line of BJL4	49%	Operations and Maintenance ("O&M") Concession	Dec 2010	10	11	21.8
Beijing Metro Line 14 ("BJL14")	49%	PPP	Phase 1 West Section: May 2013 Phase 2 East Section: Dec 2014 Phase 3 Middle Section: Dec 2015	30 [Note 11]	Phase 1 West Section: 7 Phase 2 East [Note 1] Section: 12 Phase 3 Middle [Note 1] Section: 11	Phase 1 West Section: 12.4 Phase 2 East Section: 14.8 Phase 3 Middle Section: 16.6
Beijing Metro Line 16 ("BJL16")	49%	O&M Concession	Phase 1 : Dec 2016	Until full line [Note 2] opens	Phase 1 : 10 [Note 2]	Phase 1 : 19.6
Shenzhen Metro Longhua Line	100%	Build-Operate- [Note 3] Transfer	Phase 1: Jul 2010 Phase 2: Jun 2011	30	Phase 1: 5 Phase 2: 10	Phase 1: 4.5 Phase 2: 16
Hangzhou Metro Line 1 ("HZL1")	49%	PPP	Nov 2012	25	31	48
HZL1 Extension	49%	O&M Concession	Nov 2015	End together with HZL1 concession	3	5.7
Europe						
TfL Rail/Elizabeth Line, United Kingdom	100%	O&M Concession	May 2015	8	40 (28) [Note 4]	118
Stockholm Metro, Sweden	100%	O&M [Note 5] Concession	Nov 2009	14 [Note 6]	100	110
MTR Express, Sweden	100%	Open Access Operation	Mar 2015 [Note 7]	N/A [Note 8]	5 [Note 9]	455
Stockholm commuter rail (Stockholms pendeltåg), Sweden	100%	O&M [Note 10] Concession	Dec 2016	10	53	241
Australia						
Melbourne's Metropolitan Rail Service	60%	O&M Concession	Nov 2009	8	218	390
Projects In Progress						
BJL14, Mainland of China	49%	PPP	Full Line: After 2018	30 [Note 11]	Full Line: 37	Full Line: 47.3
BJL16, Mainland of China	49%	PPP	Full Line: After 2018	30 [Note 12]	Full Line: 29	Full Line: 49.8
Sydney Metro Northwest, Australia	Mixed	PPP (Operations, Trains & Systems)	2019 [Note 13]	15	13 [Note 14]	36 [Note 14]

Notes:

1 *BJL14 Phase 2 East Section has 12 stations, 11 opened (one is currently bypassed). BJL14 Phase 3 Middle Section has 11 stations, nine opened (two are currently bypassed).*

2 *The O&M concession of BJL16 Phase 1 will run until full line opens, now has ten stations and nine opened (one is currently bypassed).*

3 *Shenzhen Metro Longhua Line Phase 1 assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Limited took over the operation of Phase 1 in July 2010.*

4 *MTR Crossrail will manage 28 out of the total 40 stations in the Elizabeth Line.*

5 *Rolling stock maintenance is provided by our subsidiary MTR Tech AB.*

6 *In September 2015, the eight-year operating concession of Stockholm Metro was extended for another six years (from 2017 to 2023) to a total of 14 years by Stockholm authority.*

7 *MTR Express initial service commenced on 21 March 2015 with full schedule started in August 2015.*

8 *The train paths to operate this service are subject to an annual renewal procedure.*

9 *MTR Express is not responsible for the management of these stations.*

10 *Rolling stock maintenance is provided by Emtrain AB, a 50:50 associate jointly owned by MTR and EuroMaint Rail AB.*

11 *BJL14 PPP concession started on 31 December 2015.*

12 *BJL16 PPP concession will start after full line opens.*

13 *Subject to arrangement of the government of New South Wales, Australia.*

14 *Sydney Metro Northwest has eight new stations and five retrofitted stations, and a 13-km existing line extended with a 23-km new line construction.*

PROFIT AND LOSS

CASH FLOW

STATEMENT OF
FINANCIAL POSITION

FINANCING CAPACITY

FINANCING ACTIVITIES

Financial Review

Profit and Loss

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

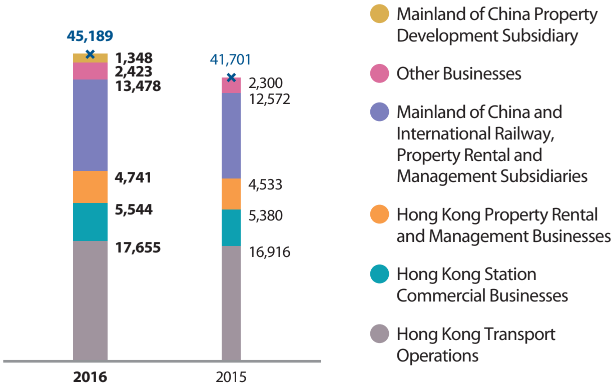
In 2016, the Group recorded reasonable profits from our recurrent businesses and modest profits from our property development businesses.

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

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

Total Revenue

Total Revenue by Business
(HK$ million)



In 2016, the Group recorded revenue growth in all business segments. Total revenue increased by 8.4% to HK$45,189 million, reflecting mainly the contributions from Tiara, railway subsidiaries outside of Hong Kong, as well as the adjustment in fares under the FAM, net of fare concessions.

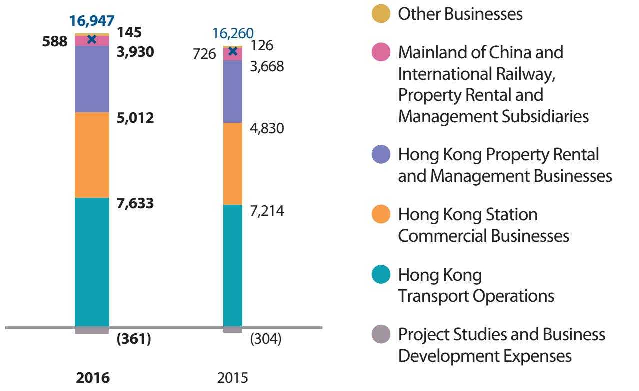
Underlying Business Profit and Net Profit Attributable to Shareholders of the Company

HK$ million		2016		2015	2016 vs 2015 Increase/(Decrease)	
Recurrent Businesses						
EBITDA		**16,947**		16,260	687	4.2%
Depreciation and Amortisation		**(4,127)**		(3,849)	278	7.2%
Variable Annual Payment		**(1,787)**		(1,649)	138	8.4%
EBIT		**11,033**		10,762	271	2.5%
Interest and Finance Charges		**(702)**		(616)	86	14.0%
Share of Profit or Loss of Associates		**537**		361	176	48.8%
Income Tax		**(1,858)**		(1,798)	60	3.3%
Non-controlling Interests		**(94)**		(144)	(50)	(34.7%)
Recurrent Business Profit		**8,916**		8,565	351	4.1%
Property Development Businesses						
Post-tax Property Development Profit						
– Hong Kong Property Development	**267**		2,416		(2,149)	(88.9%)
– Mainland of China Property Development	**263**		(87)		350	N/A
Post-tax Property Development Profit		**530**		2,329	(1,799)	(77.2%)
Underlying Business Profit		**9,446**		10,894	(1,448)	(13.3%)
Investment Property Revaluation		**808**		2,100	(1,292)	(61.5%)
Net Profit Attributable to Shareholders of the Company		**10,254**		12,994	(2,740)	(21.1%)
Earnings per Share (in HK$)		**HK$1.74**		HK$2.22	(HK$0.48)	(21.6%)
Earnings per Share on Underlying Business Profit (in HK$)		**HK$1.61**		HK$1.87	(HK$0.26)	(13.9%)
Total EBITDA Margin(in %)		**38.3%**		38.7%	(0.4%) pt.	
Total EBITDA Margin (excluding Mainland of China and International Subsidiaries) (in %)		**53.9%**		53.3%	0.6% pt.	
Total EBIT Margin^ (in %)		**25.2%**		25.5%	(0.3%) pt.	
Total EBIT Margin (excluding Mainland of China and International Subsidiaries)^ (in %)		**34.8%**		34.8%	– pt.	
Return on Average Equity Attributable to Shareholders of the Company Arising from Underlying Businesses (in %)		**5.9%**		6.5%	(0.6%) pt.	

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

Recurrent Business EBITDA

Recurrent Business EBITDA by Business
(HK$ million)



Recurrent Business Profit

Recurrent business profit grew by 4.1% to HK$8,916 million, mainly due to increase in share of profit from associates of Mainland of China and international railway, higher EBIT of Hong Kong Property Rental and Management Businesses and Hong Kong Station Commercial Businesses, partly offset by decrease in EBIT of subsidiaries of Mainland of China and International Railway, Property Rental and Management Businesses. Further details of the divisional performance are set out in the ensuing paragraphs.

Post-tax Property Development Profit

Post-tax property development profit in 2016 was HK$530 million, mainly derived from Tiara in Shenzhen and sundry income sources in Hong Kong. This was HK$1,799 million lower than 2015 when substantial profit was recognised from Hemera.

Dividend

In line with the Company's progressive ordinary dividend policy, the Board has proposed a final ordinary dividend of HK$0.82 per share (with a scrip dividend option offered), giving a full year ordinary dividend of HK$1.07 per share, higher than the HK$1.06 per share in 2015.

Recurrent Businesses

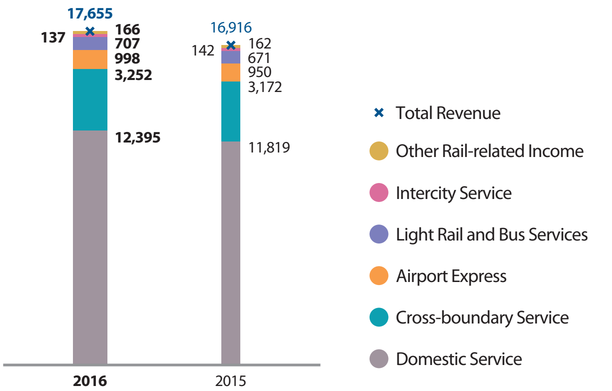
Hong Kong Transport Operations

HK$ million	2016	2015	2016 vs 2015 Increase/(Decrease)	
Total Revenue	**17,655**	16,916	739	4.4%
Total Expenses	**(10,022)**	(9,702)	320	3.3%
EBITDA	**7,633**	7,214	419	5.8%
EBIT*	**2,572**	2,493	79	3.2%
EBITDA Margin (in %)	***43.2%***	*42.6%*	*0.6%*	*pt.*
EBIT Margin (in %)*	***14.6%***	*14.7%*	*(0.1%)*	*pt.*

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

Total Revenue

(HK$ million)



Total revenue increased mainly due to the adjustment in fares under the FAM, net of concessions. Average fares for the Domestic Service increased by 4.3%, Cross-boundary Service by 3.4%, Light Rail by 4.3% and Bus Service by 3.7%. Average fares for Airport Express and Intercity services, which are not subject to FAM, increased by 2.4% and 5.3% respectively. Total patronage of all our rail and bus passenger services increased by 0.5% to 1,948.8 million, partially explained by the opening of two new lines in the second half. Total expenses increased mainly owing to increased train trips and staff salaries. Depreciation and amortisation charges increased by 7.0% to HK$3,780 million, mainly due to new asset additions in the Hong Kong railway network. Variable annual payment to KCRC increased by 7.9% to HK$1,281 million as the incremental fare revenue was charged at the top progressive rate of 35%. As a result, EBIT increased by 3.2% to HK$2,572 million and EBIT margin decreased by 0.1 percentage point to 14.6%.

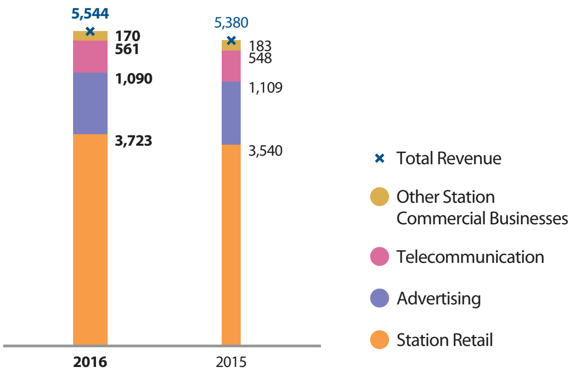
Hong Kong Station Commercial Businesses

HK$ million	2016	2015	2016 vs 2015 Increase/(Decrease)	
Total Revenue	**5,544**	5,380	164	3.0%
Total Expenses	**(532)**	(550)	(18)	(3.3%)
EBITDA	**5,012**	4,830	182	3.8%
EBIT*	**4,362**	4,230	132	3.1%
EBITDA Margin (in %)	***90.4%***	*89.8%*	*0.6%*	*pt.*
EBIT Margin (in %)*	***78.7%***	*78.6%*	*0.1%*	*pt.*

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

Total Revenue

(HK$ million)



Total revenue increased by 3.0% mainly due to higher station retail revenue, as rents increased resulting from trade mix refinements, positive rental reversions in station shops and increases in base rents in accordance with lease contracts of Duty Free Shops at Lo Wu and Hung Hom stations. In addition, telecommunication revenue increased due to incremental revenue from mobile data capacity enhancement. The increases were partly offset by mild decreases in revenue from advertising and other station commercial businesses. Total expenses decreased due to lower agency fees relating to advertising business. Variable annual payment to KCRC increased by 9.6% to HK$502 million owing to a higher level of revenue subject to variable annual payment. As a result, EBIT increased by 3.1% to HK$4,362 million and EBIT margin increased by 0.1 percentage point to 78.7%.

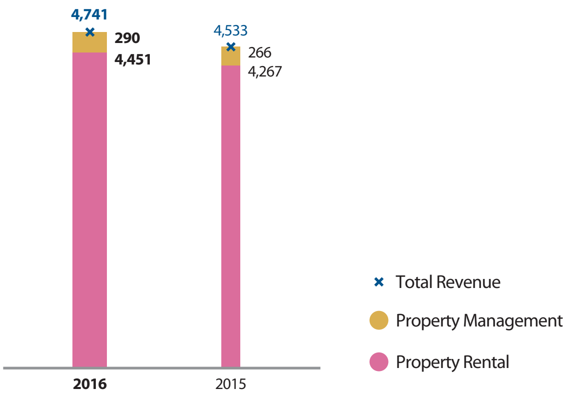
Hong Kong Property Rental and Management Businesses

HK$ million	2016	2015	2016 vs 2015 Increase/(Decrease)	
Total Revenue	**4,741**	4,533	208	4.6%
Total Expenses	**(811)**	(865)	(54)	(6.2%)
EBITDA	**3,930**	3,668	262	7.1%
EBIT*	**3,912**	3,650	262	7.2%
EBITDA Margin (in %)	***82.9%***	*80.9%*	*2.0%*	*pts.*
EBIT Margin (in %)*	***82.5%***	*80.5%*	*2.0%*	*pts.*

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

Total Revenue

(HK$ million)



Property rental income increased due to the favourable rental reversion at an average of 3.4% in 2016 in our shopping malls. Our shopping malls and the Company's 18 floors in Two International Finance Centre remained close to 100% let as at 31 December 2016. Property management income increased due to higher expenditure in managed properties and the full 12-month impact of new residential units taken up in 2015. Total expenses decreased from 2015 when a one-off provision was made. As a result, EBIT increased by 7.2% to HK$3,912 million and EBIT margin increased by 2.0 percentage points to 82.5%.

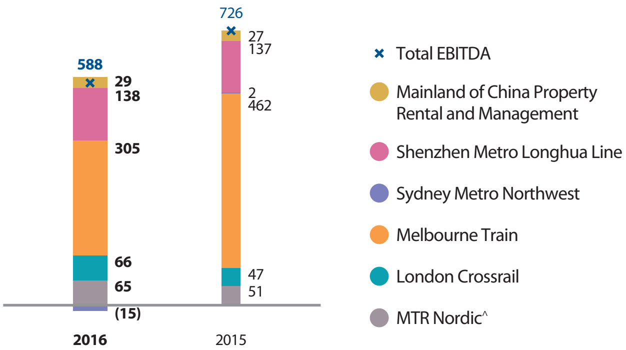
Mainland of China and International Railway, Property Rental and Management Subsidiaries

HK$ million	2016	2015	2016 vs 2015 Increase/(Decrease)	
Total Revenue	**13,478**	12,572	906	7.2%
Total Expenses	**(12,890)**	(11,846)	1,044	8.8%
EBITDA	**588**	726	(138)	(19.0%)
EBIT#	**468**	633	(165)	(26.1%)
EBITDA Margin (in %)	***4.4%***	*5.8%*	*(1.4%)*	*pts.*
EBIT# Margin (in %)	***3.5%***	*5.0%*	*(1.5%)*	*pts.*

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

EBITDA

(HK$ million)



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

Total revenue increased by 7.2%, total expenses by 8.8%, and total EBITDA decreased by 19.0%, mainly due to refranchising costs, lower contribution from maintenance and overhaul activities and lower profit from project activities of Melbourne Train of MTM in Australia. In Sweden, the higher EBITDA of Nordic Group was mainly due to acquisition of the remaining 50% shares of Tunnelbannan Teknik Stockholm in February 2016, which became our subsidiary and renamed as MTR Tech AB, partly offset by mobilisation and operating costs incurred by MTR Pendeltågen AB. In the United Kingdom, the higher EBITDA of London Crossrail of MTRXR was due to its full 12-month contributions in 2016 since the franchise commencement in May 2015. In Mainland of China, EBITDA of Shenzhen Metro Longhua Line maintained at a level similar to 2015. Total depreciation and amortisation charges increased by 29.0% to HK$120 million mainly due to the full 12-month operations of MTR Express and MTRXR. As a result, EBIT decreased by 26.1% to HK$468 million and EBIT margin decreased by 1.5 percentage points to 3.5%.

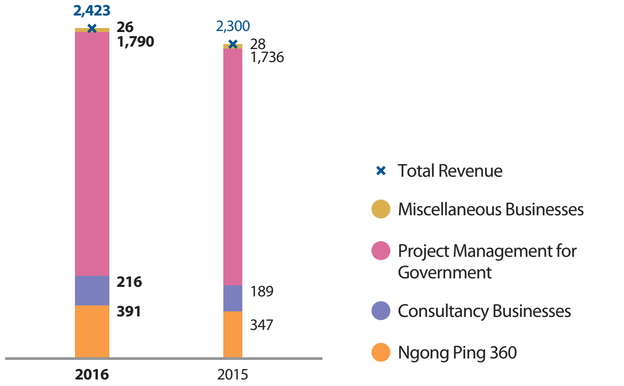
Other Businesses

HK$ million	2016	2015	2016 vs 2015 Increase/(Decrease)	
Total Revenue	**2,423**	2,300	123	5.3%
Total Expenses	**(2,278)**	(2,174)	104	4.8%
EBITDA	**145**	126	19	15.1%
EBIT*	**80**	60	20	33.3%
EBITDA Margin (in%)	***6.0%***	*5.5%*	*0.5%*	*pt.*
EBIT Margin (in%)*	***3.3%***	*2.6%*	*0.7%*	*pt.*

* *EBIT represents EBITDA net of depreciation and amortisation*

Total Revenue

(HK$ million)



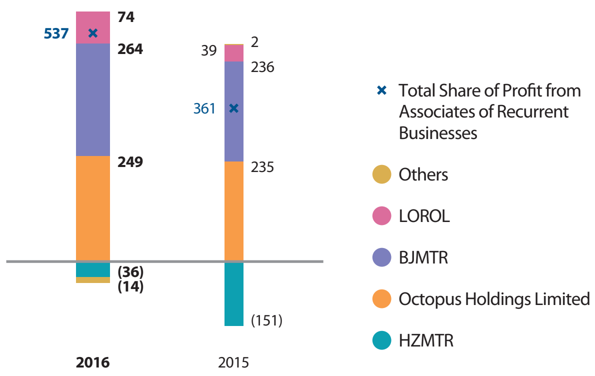
Income from project management services to Government is predominately from entrustment works on the Express Rail Link and Shatin to Central Link. Such income increased by 3.1% to HK$1,790 million. Income from the entrustment works is booked on a cost recovery basis. Revenue from Ngong Ping 360 increased due to the fare rise effective from 1 January 2016 and increase in visitor numbers brought about by 7.5 more operating days in 2016. Total expenses increased in line with the revenue growth. EBIT increased by 33.3% to HK$80 million and EBIT margin increased by 0.7 percentage point to 3.3%.

Depreciation and Amortisation

Depreciation and amortisation increased mainly due to new asset additions in our Hong Kong railway network.

Share of Profit from Associates of Recurrent Businesses

(HK$ million)



Share of profit from associates of recurrent businesses increased primarily due to improvement in the result of HZMTR, which benefited from HZL1 patronage growth, as well as higher share of profits from BJMTR, mainly resulting from a full 12-month profit contribution from BJL14 concession.

Property Development Businesses

Post-tax Profit from Hong Kong Property Development

Post-tax profit from Hong Kong Property Development in 2016 was mainly derived from sundry income sources such as the sharing in kind of the kindergarten at Hemera and sales of inventory units. This was HK$2,149 million lower than 2015 when substantial property development profit was recognised from Hemera.

Post-tax Profit from Mainland of China Property Development

Post-tax profit from Mainland of China Property Development in 2016 was derived from profit recognition of the first batch of units handed over at Tiara. In 2015, Tiara recorded operating loss of HK$140 million, being mainly sales and marketing expenses.

Statement of Financial Position

HK$ million	At 31 December 2016	At 31 December 2015	2016 vs 2015 Increase/(Decrease)	
Fixed Assets	**201,942**	175,719	26,223	14.9%
Railway Construction in Progress	**–**	19,064	(19,064)	(100.0%)
Property Development in Progress	**17,484**	17,983	(499)	(2.8%)
Interests in Associates	**7,015**	5,912	1,103	18.7%
Debtors, Deposits and Payment in Advance	**4,073**	5,135	(1,062)	(20.7%)
Cash, Bank Balances and Deposits	**20,290**	12,318	7,972	64.7%
Other Assets	**6,536**	4,972	1,564	31.5%
Total Assets	**257,340**	241,103	16,237	6.7%
Total Loans and Other Obligations	**(39,939)**	(20,811)	19,128	91.9%
Creditors and Accrued Charges	**(30,896)**	(22,860)	8,036	35.2%
Amounts Due to Related Parties	**(11,783)**	(1,858)	9,925	534.2%
Obligations Under Service Concession	**(10,507)**	(10,564)	(57)	(0.5%)
Deferred Tax Liabilities	**(12,125)**	(11,209)	916	8.2%
Other Liabilities	**(2,534)**	(3,630)	(1,096)	(30.2%)
Total Liabilities	**(107,784)**	(70,932)	36,852	52.0%
Net Assets	**149,556**	170,171	(20,615)	(12.1%)
Represented by:				
Total Equity Attributable to Shareholders of the Company	**149,461**	170,055	(20,594)	(12.1%)
Non-controlling Interests	**95**	116	(21)	(18.1%)
Total Equity	**149,556**	170,171	(20,615)	(12.1%)

Fixed Assets and Railway Construction in Progress

Net increase in fixed assets and railway construction in progress was due to capitalisation of further construction costs of the South Island Line and Kwun Tong Line Extension, as well as renewal and upgrade works for our existing Hong Kong railway network. Upon the opening of the South Island Line and Kwun Tong Line Extension, the construction costs under railway construction in progress were transferred to fixed assets.

Debtors, Deposits and Payment in Advance

Debtors, deposits and payment in advance decreased mainly due to receipts of surplus proceeds from Hemera in Hong Kong.

Cash, Bank Balances and Deposits

Cash, bank balances and deposits increased mainly due to cash inflow from operating activities, proceeds of drawdown of part of the HK$25 billion syndicated loan and from the US$600 million Green Bond issuance, cash receipts in respect of Hong Kong and Mainland of China property developments, partly offset by dividend payments and capital expenditure.

Total Loans and Other Obligations

Total loans and other obligations increased mainly due to the drawdown of part of the HK$25 billion syndicated loan and the issuance of US$600 million Green Bond.

Creditors and Accrued Charges

Creditors and accrued charges increased mainly due to the accrual for the second tranche of special dividend under the XRL Agreement for independent shareholders, sales proceeds received in advance from Tiara and deposit received from the property developer in relation to Ho Man Tin Station Package One.

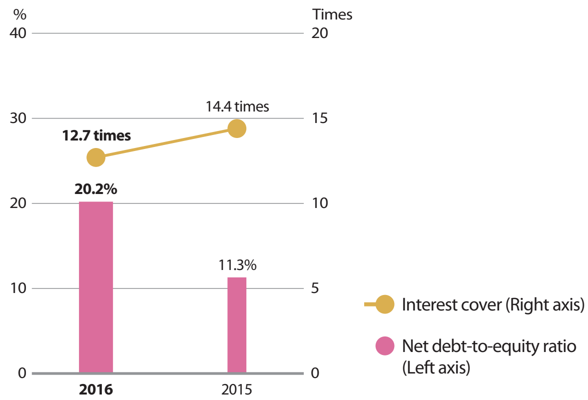
Amounts Due to Related Parties

Amounts due to related parties increased mainly due to the accrual for the second tranche of special dividend under the XRL Agreement to the Government.

Total Equity

The decrease in total equity of HK$20,615 million was mainly due to the accounting for the HK$25,902 million special dividend paid and payable under the XRL Agreement.

Debt Servicing Capability

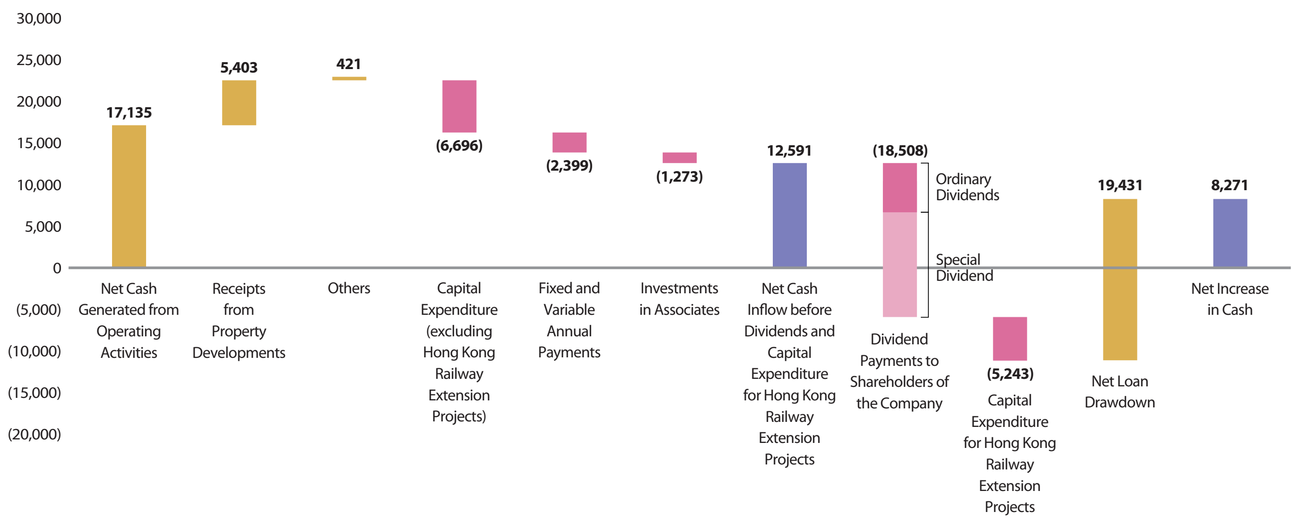


Cash Flow

HK$ million	2016	2015
Net Cash Generated From Operating Activities	**17,135**	14,941
Receipt from Hong Kong Property Development	**2,177**	2,707
Receipt from Shenzhen Longhua Depot Property Development	**3,226**	5,527
Other Receipts	**1,160**	940
Net Cash Receipts	**23,698**	24,115
Capital Expenditure	**(11,939)**	(21,670)
Fixed Annual Payment	**(750)**	(750)
Variable Annual Payment	**(1,649)**	(1,472)
Net Interest Payment	**(519)**	(577)
Investments in Associates	**(1,273)**	(61)
Other Payments	**(112)**	(241)
Dividends Paid to Shareholders of the Company	**(18,508)**	(5,748)
Dividends Paid to Holders of Non-controlling Interests	**(108)**	(157)
Total Cash Outflow	**(34,858)**	(30,676)
Net Cash Outflow before Financing	**(11,160)**	(6,561)
Net Loan Drawdown	**19,431**	154
Increase/(Decrease) in Cash	**8,271**	(6,407)
Cash, Bank Balances and Deposits as at 1 January	**12,318**	18,893
Increase/(Decrease) in Cash	**8,271**	(6,407)
Effect of Exchange Rate Changes	**(299)**	(168)
Cash, Bank Balances and Deposits as at 31 December	**20,290**	12,318

Cash Flow for the Year Ended 31 December 2016

(HK$ million)



Investments in Associates

Investments in associates in 2016 mainly related to equity contribution made to BJMTR to support our investment in BJL14.

Dividend Payments to Shareholders of the Company

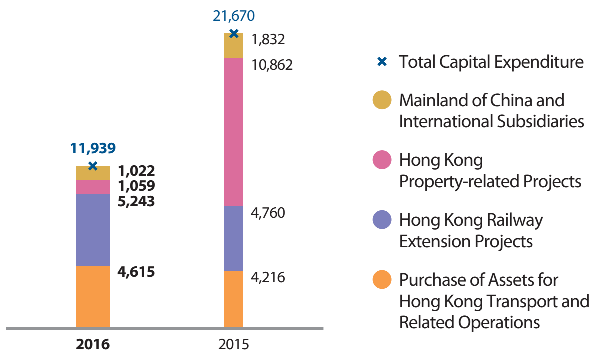
Dividend payments to shareholders of the Company in 2016 included an amount of HK$12.9 billion being the first tranche of special dividend paid under the XRL Agreement.

Net Loan Drawdown

Net loan drawdown in 2016 mainly related to the drawdown of part of the HK$25 billion syndicated loan, as well as the US$600 million Green Bond issuance.

Capital Expenditure

(HK$ million)



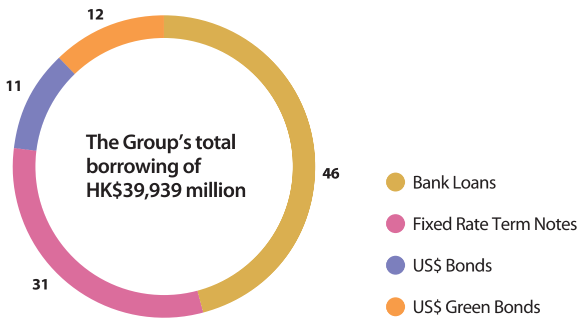
Financing Activities

Sources of Borrowing

Our strategy is to continually diversify funding sources and to maintain ready access to both loan and debt capital markets

(As at 31 December 2016)

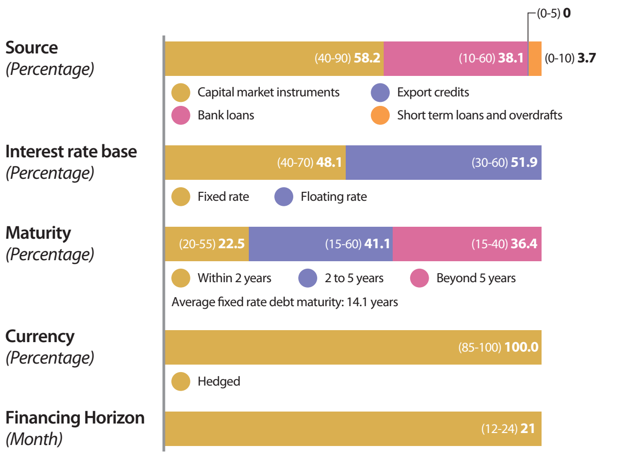
(Percentage)



Preferred Financing Model and Debt Profile

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

(Preferred Financing Model) vs. **Actual debt profile** *As at 31 December 2016*



Despite continuing strengthening of the U.S. economy and warning from the U.S. Federal Reserve on additional rate hikes, long-term interest rates declined for much of 2016, accentuated by global economic and political uncertainties, including the shock decision by the U.K. to exit the E.U.. In the circumstances, the 10-year US Treasury yield declined to an all-time low of 1.36% p.a. in July.

Against the backdrop of an expected Fed rate hike that materialised in December, Treasuries tumbled after the U.S. presidential election on fear that the tax cut and infrastructure investment plans proposed by the then President-elect would significantly increase federal government debt and inflation. This sent treasury yields surging with the 10-year US Treasury yield ending the year much higher at 2.44% p.a..

The Company took advantage of the attractive market window before the significant rise in long-term interest rates after the U.S. election to expand its fixed rate debt portfolio and extend duration, resulting in the amount of net fixed rate debt increasing from HK$9,477 million at the end of 2015 to HK$17,692 million at the end of 2016 with average maturity extended from 12.0 years to 14.1 years.

Amongst its various fixed rate debt issues was the Group's debut US$600 million 10-year Green Bond issued in November. Launched at US$500 million in October based on the Group's newly established Green Bond Framework, which is aligned with the Green Bond Principles of International Capital Market Association, the issue met with strong interest from institutional investors from across Asia and Europe, many of whom dedicated green bond investors. This resulted in an order book in excess of US$1.4 billion, allowing the deal to be upsized to US$600 million and priced at 80 basis points, at the tight end of the indicated price range, over the benchmark 10-year US Treasury yield of 1.737% p.a. for an overall yield of 2.537% p.a..

The Green Bond has allowed the Company to tap into a new and fast expanding base of green bond investors as an additional funding source and to use the funds to finance its various environmentally friendly service and projects as envisaged in Rail Gen 2.0 whilst at the same time playing a role in helping Hong Kong to develop as a regional green finance hub.

The Bond was awarded "Best Green Bond" deal in the "FinanaceAsia Achievement Awards 2016" and is currently included in a number of green bond indices, including Barclays MSCI Green Bond Index, BofA Merrill Lynch Green Bond Index, Solactive Green Bond Index and S&P Green Bond Index.

In addition to the Green Bond, the Company's other fixed rate debt issuances include a number of HK and US dollar long-term fixed rate notes. Totalling about HK$3 billion, these notes were issued through private placement with maturities ranging from 15 to 35 years at attractive fixed interest rates, which helped further extend and diversify debt maturity profile.

Another major funding exercise completed during the year was a HK$25 billion syndicated loan facility signed in June with 21 major banks from across Asia, Australia, the Middle East, Europe and North America. Launched at HK$15 billion but increased to HK$25 billion on the back of substantial over-subscription, the facility comprises a HK$12.5 billion 3-year term loan and a HK$12.5 billion 5-year revolving credit facility. All-in pricing of the 3-year term loan was the lowest in the HK dollar loan market since the 2008 Global Financial Crisis and that of the 5-year revolving facility was also the lowest amongst the outstanding 5-year facilities then. Usage of proceeds of the facility is for general corporate purposes.

Cost of Borrowing

The Group's consolidated gross debt position increased from HK$20,811 million at year-end 2015 to HK$39,939 million at year-end 2016. The weighted average borrowing cost of the Group decreased to 2.9% p.a. from 3.5% p.a. due to a combination of a higher proportion of floating rate debt in the portfolio as well as lower floating interest rates and average fixed rate borrowing cost.

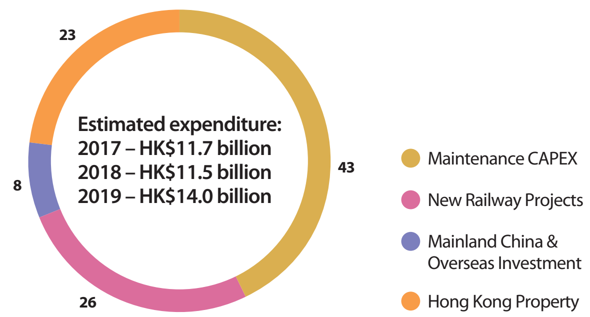
Financing Capacity

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

Capital expenditure for Hong Kong railway projects comprises investment in and expenditure relating to the new ownership projects of the South Island Line (East) and the Kwun Tong Line Extension, as well as outlays for maintaining and upgrading existing rail lines. Capital expenditure for concession projects of the Express Rail Link (for project cost of up to HK$84.42 billion) and the Shatin to Central Link ("SCL") are generally funded by the Government and therefore not included in the Group's capital expenditure programme, although for SCL the Company will share certain costs for the rolling stock and signalling systems attributable to the East Rail and Ma On Shan lines.

Capital Expenditure and Investment (2017 – 2019)

Total spending for the next three years from 2017 to 2019 is estimated at HK$37.2 billion
(Percentage)



Capital expenditure for Hong Kong property investment and development is comprised mainly of costs associated with work for property development, fitting-out and the renovation of shopping centres, and payments of development costs for certain property development projects. Expenditure for Mainland of China and overseas investment consists primarily of equity contribution to Beijing Metro Line 16 project and the Sydney Metro Northwest project.

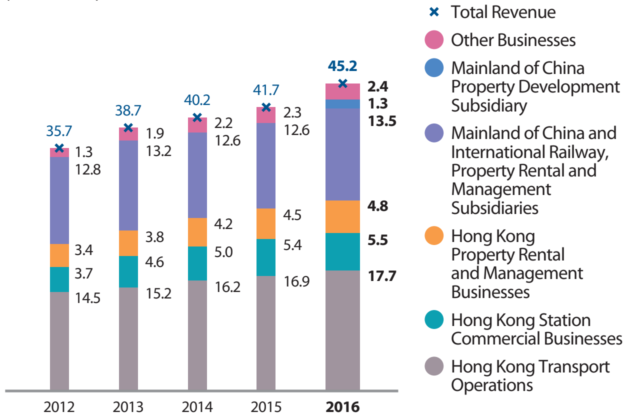
The Group believes that based on its available cash balance and unused committed banking facilities, as well as its ready access to both the loan and debt capital markets, it will have sufficient financing capacity to fund the above capital expenditure projects and the special dividend of approximately HK$13 billion to be paid in 2017.

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

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

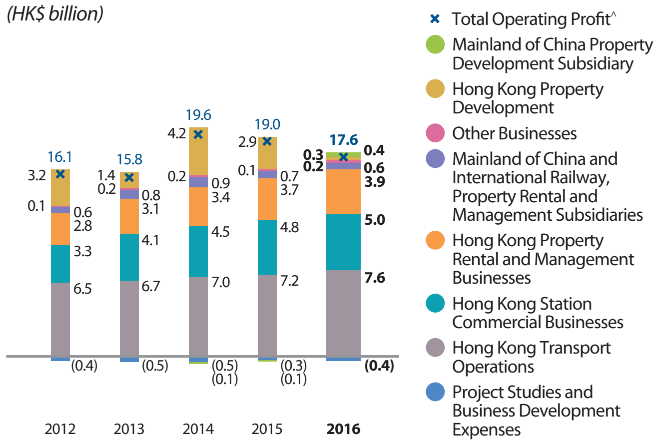
Total Revenue

(HK$ billion)



Operating Profit^ Contributions

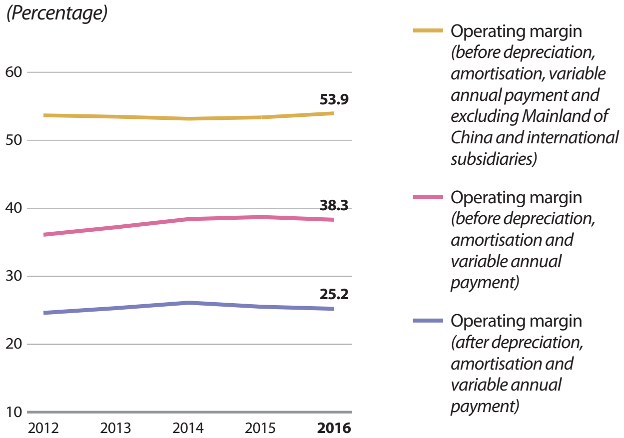
(HK$ billion)



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

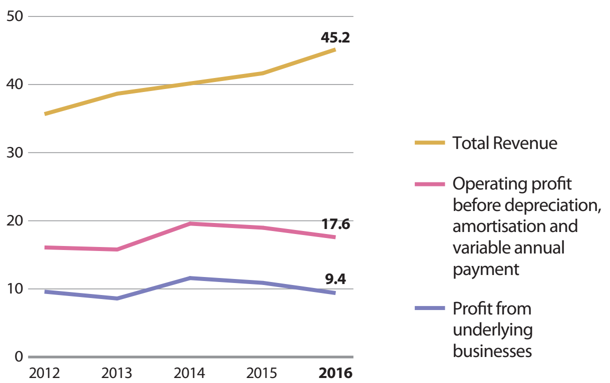
Operating Margin

(Percentage)



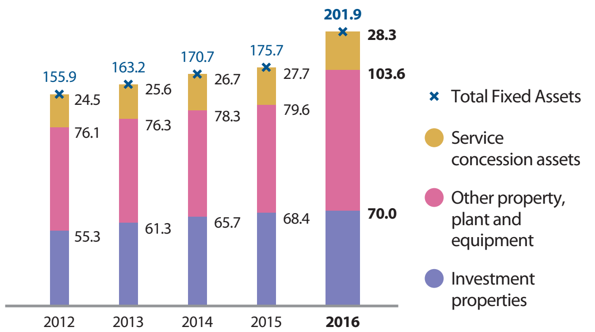
Net Results from Underlying Businesses

(HK$ billion)



Fixed Assets Growth

(HK$ billion)



Ten-Year Statistics

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007#
Financial										
Consolidated Profit and Loss Account *(in HK$ million)*										
Total revenue	**45,189**	41,701	40,156	38,707	35,739	33,423	29,518	18,797	17,628	10,690
Operating profit before depreciation, amortisation and variable annual payment	**17,624**	19,011	19,639	15,795	16,133	17,058	14,951	13,069	14,009	14,229
Depreciation and amortisation	**4,127**	3,849	3,485	3,372	3,208	3,206	3,120	2,992	2,944	2,752
Interest and finance charges	**612**	599	545	732	879	921	1,237	1,504	1,998	1,316
Investment property revaluation gain/(loss)	**808**	2,100	4,035	4,425	3,757	5,088	4,074	2,798	(146)	8,011
Profit for the year	**10,348**	13,138	15,797	13,208	13,514	15,688	12,844	10,101	8,035	16,584
Profit attributable to shareholders of the Company arising from underlying businesses	**9,446**	10,894	11,571	8,600	9,618	10,468	8,657	7,303	8,185	8,571
Ordinary dividend proposed and declared	**6,317**	6,207	6,116	5,335	4,575	4,396	3,405	2,977	2,715	2,522
Earnings per share *(in HK$)*	**1.74**	2.22	2.69	2.25	2.31	2.69	2.21	1.77	1.43	2.98
Consolidated Statement of Financial Position *(in HK$ million)*										
Total assets	**257,340**	241,103	227,152	215,823	206,687	197,684	181,660	176,492	159,345	155,668
Loans, other obligations and bank overdrafts	**39,939**	20,811	20,507	24,511	23,577	23,168	21,057	23,868	31,289	34,050
Obligations under service concession	**10,507**	10,564	10,614	10,658	10,690	10,724	10,749	10,625	10,656	10,685
Deferred income	**721**	743	765	623	488	403	605	167	156	515
Total equity attributable to shareholders of the Company	**149,461**	170,055	163,325	152,557	142,904	131,907	121,914	110,479	101,431	94,889
Financial Ratios										
Operating margin *(in %)*	**38.3**	38.7	38.4	37.2	36.1	36.3	37.0	50.6	53.0	55.4
Operating margin (excluding Mainland of China and international subsidiaries) *(in %)*	**53.9**	53.3	53.1	53.4	53.6	55.6	55.1	53.8	53.2	55.9
Net debt-to-equity ratio *(in %)*	**20.2**	11.3	7.6	11.8	11.0	11.6	12.3	24.9	40.6	46.5
Interest cover *(times)*	**12.7**	14.4	15.2	11.5	13.0	14.5	10.5	7.1	6.0	9.0
Employees										
Hong Kong										
Corporate management and support departments	**1,837**	1,792	1,756	1,676	1,600	1,486	1,362	1,319	1,235	1,530
Station commercial businesses	**192**	182	170	158	148	144	144	137	125	138
Operations	**11,349**	10,891	10,404	10,033	9,460	9,244	9,026	8,789	8,708	8,937
Projects	**2,615**	2,684	2,764	2,804	2,495	2,109	1,794	1,365	995	942
Property and other businesses	**1,416**	1,384	1,350	1,305	1,273	1,282	1,291	1,242	1,170	1,141
Mainland of China and international businesses	**230**	194	180	182	224	179	212	239	197	135
Outside of Hong Kong										
Offshore employees	**9,866**	8,157	7,530	7,078	6,955	6,851	6,672	7,059	1,646	1,311
Total	**27,505**	25,284	24,154	23,236	22,155	21,295	20,501	20,150	14,076	14,134

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007#
Hong Kong Transport Operations										
Revenue car-km operated *(thousand)*										
Domestic and Cross-boundary services	**287,828**	284,487	273,771	269,141	260,890	254,407	253,067	247,930	245,856	128,041
Airport Express	**23,276**	23,242	23,232	23,216	23,134	19,603	19,833	19,643	19,891	19,956
Light Rail	**11,152**	11,034	10,728	10,554	10,453	10,166	9,586	8,950	8,984	755
Total number of passengers *(thousand)*										
Domestic Service	**1,586,522**	1,577,457	1,547,757	1,474,659	1,431,040	1,366,587	1,298,714	1,218,796	1,205,448	915,755
Cross-boundary Service	**113,274**	114,241	113,049	111,362	109,707	103,881	99,954	94,016	93,401	8,243
Airport Express	**16,133**	15,725	14,881	13,665	12,695	11,799	11,145	9,869	10,601	10,175
Light Rail	**178,709**	176,149	174,199	171,652	167,210	161,289	154,522	143,489	137,730	11,100
Bus	**50,413**	50,537	50,404	47,738	45,962	43,956	40,883	37,522	34,736	2,757
Intercity	**3,739**	4,080	4,348	4,324	4,028	3,787	3,244	2,921	3,220	285
Average number of passengers *(thousand)*										
Domestic Service – weekday average	**4,608**	4,577	4,490	4,297	4,148	3,968	3,770	3,544	3,514	2,662§
Cross-boundary Service – daily average	**309**	313	310	305	300	285	274	258	255	–@
Airport Express – daily average	**44**	43	41	37	35	32	31	27	29	28
Light Rail – weekday average	**500**	493	487	482	466	451	433	402	385	–@
Bus – weekday average	**144**	145	144	137	131	126	118	107	99	–@
Intercity – daily average	**10**	11	12	12	11	10	9	8	9	–@
Average passenger km travelled										
Domestic and Cross-boundary services	**10.9**	11.0	11.0	11.0	10.9	10.9	10.9	10.7	10.4	7.9
Airport Express	**28.4**	28.4	28.6	29.0	29.0	29.4	29.4	29.5	29.4	29.5
Light Rail	**2.7**	2.7	2.7	2.8	2.8	2.8	2.8	2.9	3.0	3.0
Bus	**4.5**	4.5	4.5	4.5	4.5	4.5	4.5	4.6	4.6	4.6
Average car occupancy *(number of passengers)*										
Domestic and Cross-boundary services	**64**	65	67	65	65	63	60	57	55	58
Airport Express	**20**	19	18	17	16	18	17	15	16	15
Light Rail	**44**	44	45	45	45	45	45	46	46	45
Proportion of franchised public transport boardings *(%)*	**48.4**	48.5	48.1	46.9	46.4	45.4	44.3	42.6	42.0	26.7
HK$ per car-km operated (Hong Kong Transport Operations)										
Total revenue	**53.0**	51.3	51.0	48.4	47.6	45.9	43.2	40.8	40.9	47.9
Operating costs	**27.7**	27.2	26.8	24.9	24.2	23.1	21.5	21.5	21.2	21.6
Operating profit	**25.3**	24.1	24.2	23.5	23.4	22.8	21.7	19.3	19.7	26.3
HK$ per passenger carried (Hong Kong Transport Operations)										
Total revenue	**9.06**	8.73	8.52	8.31	8.20	7.99	7.86	7.74	7.83	7.55
Operating costs	**4.73**	4.63	4.47	4.27	4.18	4.02	3.91	4.08	4.07	3.40
Operating profit	**4.33**	4.10	4.05	4.04	4.02	3.97	3.95	3.66	3.76	4.15
Safety Performance										
Domestic Service, Cross-boundary Service and Airport Express										
Number of reportable events ^	**1,133**	1,246	1,327	1,408	1,761	1,769	1,592	1,539	1,514	989
Reportable events per million passengers carried ^	**0.66**	0.73	0.79	0.88	1.13	1.19	1.13	1.16	1.16	1.05
Number of staff and contractors' staff accidents Δ	**60**	64	57	67	58	44	46	60	42	26
Light Rail										
Number of reportable events ^	**191**	157	122	118	151	164	165	146	136	6
Reportable events per million passengers carried ^	**1.07**	0.89	0.70	0.69	0.90	1.02	1.07	1.02	0.99	0.54
Number of staff and contractors' staff accidents Δ	**8**	6	4	4	2	7	5	11	5	0

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

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

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

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

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

Investor Relations

Investor and MTR Corporation

MTR has been active in the international capital markets for more than 30 years. Our corporate governance and disclosure are recognised as leading examples of investor relations practice in Asia. We believe that shareholder value benefits from clearly communicating our strategies, business development and future outlook. We therefore maintain regular dialogue with our investors.

General Meeting for the XRL Agreement and XRL Arrangements

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

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

Communicating with Institutional Investors

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

Management makes every effort to ensure that investors have a thorough understanding of our business, so we participate regularly in investor conferences and roadshows. During 2016, about 370 meetings were held with institutional investors and research analysts in Hong Kong and overseas.

Access to Information

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

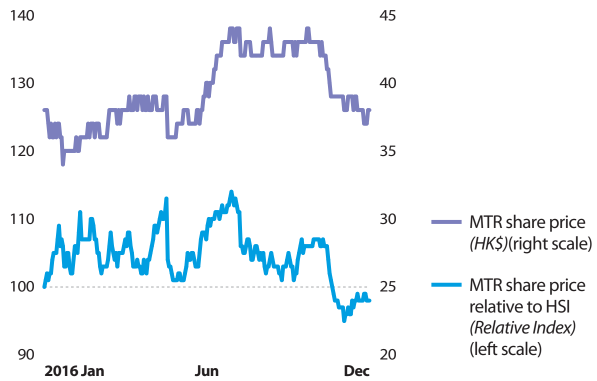
In addition to the shareholder services offered by Computershare, our dedicated hotline answered over 36,000 enquiries from individual shareholders in 2016.

Listing, Index and Recognition

MTR Corporation Limited's shares have been listed on the Stock Exchange of Hong Kong since 2000, and have been included as one of the Hang Seng Index constituent stocks since 2001. Our shares are no longer traded in the United States through an American Depositary Receipt Level 1 Programme sponsored by JPMorgan Chase Bank, N.A. as the programme was terminated on 13 February 2017.

For the 28^{th} consecutive year, our Annual Report achieved recognition in the "Hong Kong Management Association 2016 Best Annual Report Awards", with the 2015 report winning the "Bronze Award" under the "General Category" in the 2016 "Best Annual Report Awards Competition". The report also won two awards in the 2016 "International Annual Reports Awards" organised by MerComm, Inc. in New York.

Share Price Performance



Financial Calendar 2017

Announcement of 2016 annual results	7 March
Annual General Meeting	17 May
Last day to register for 2016 final dividend	22 May
Book closure period	23 May to 26 May
2016 final dividend payment date	On or about 12 July
Announcement of 2017 interim results	August
2017 interim dividend payment date	October
Financial year end	31 December

Dividend Information

Dividend per Share

	(in HK$)
2015 Total Ordinary Dividend	1.06
2016 Interim Ordinary Dividend	0.25
2016 Final Ordinary Dividend	0.82
First Tranche of Special Dividend (paid on 13 July 2016)	2.20
Second Tranche of Special Dividend (to be paid with 2016 Final Dividend)	2.20

Dividend Policy

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

Shareholdings as at 31 December 2016

Ordinary Shares

Shares outstanding	5,905,290,065 shares
Hong Kong SAR Government Shareholding	4,434,552,207 shares (75.09%)
Free float	1,470,737,858 shares (24.91%)

Market Capitalisation

as at 31 December 2016	HK$222,629 million

Stock Codes

Ordinary Shares

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

Contacts

Shareholder Services

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

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

Telephone: (852) 2862 8628
Facsimile: (852) 2529 6087

Shareholder Enquiries

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

Our enquiry hotline is operational during normal office hours:
Telephone: (852) 2881 8888.

Investor Relations

For enquiries from institutional investors and securities analysts, please contact:
Investor Relations Department, MTR Corporation Limited,
MTR Headquarters Building, Telford Plaza, Kowloon Bay,
Kowloon, Hong Kong

Email: investor@mtr.com.hk

Annual Report 2016

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

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

If you are not a shareholder, please write to:

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

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

Principal Place of Business and Registered Office

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

Telephone: (852) 2993 2111
Facsimile: (852) 2798 8822

GOVERNANCE & POLICIES

OPERATE AS BUSINESS

CONTRIBUTE TO SOCIETY

RECOGNITION

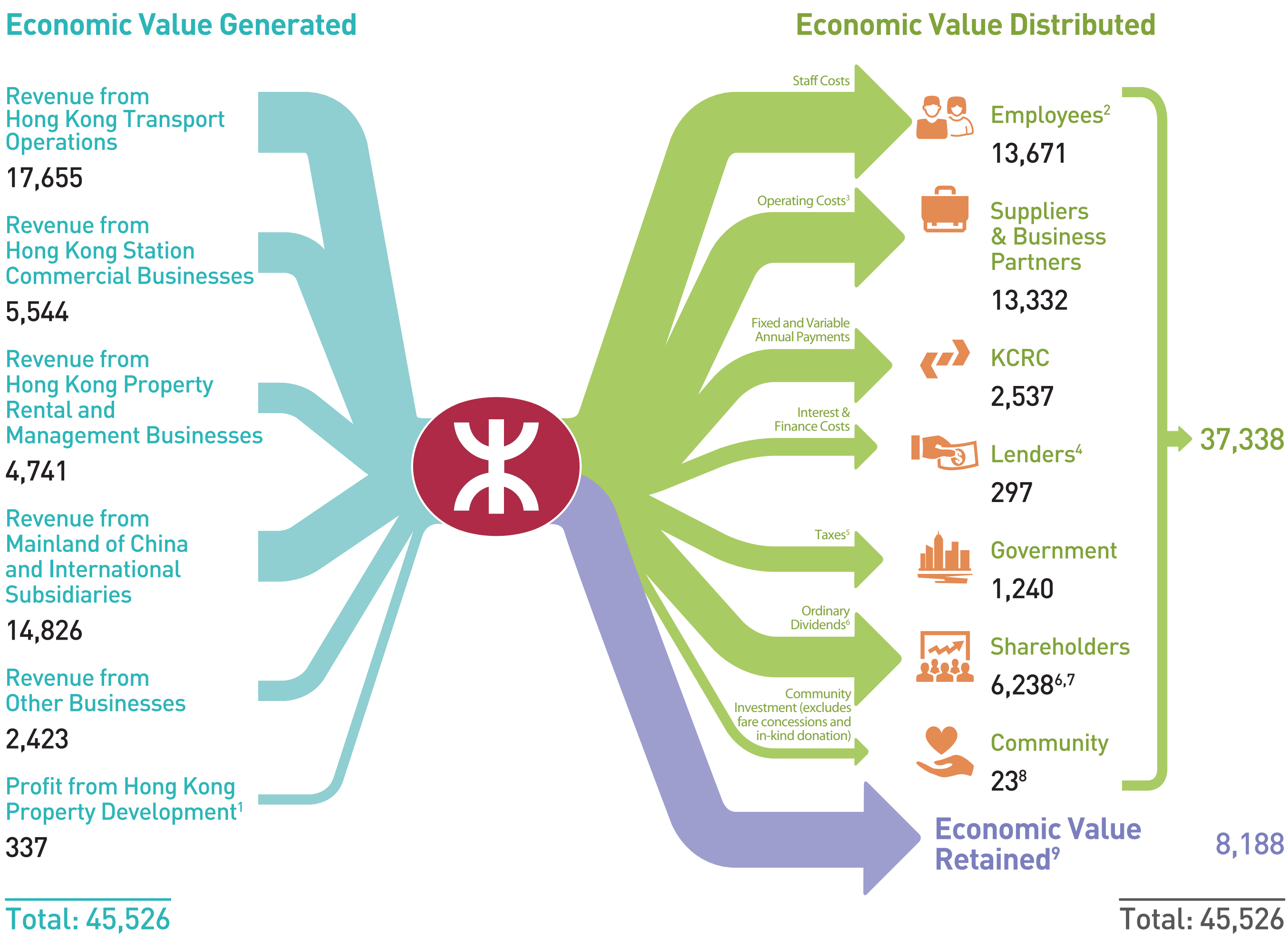
Corporate Responsibility

MTR's aim is to grow sustainably while contributing to the development of communities we serve. To achieve this, we aim to meet the needs of today in a way that also takes future needs into account.

Our contribution is beyond the profit we generate for our shareholders as illustrated in the Value Added and Distribution Statement below. We create economic value through the transport, property and other services provided to customers. Revenue generated from these services are in turn distributed to stakeholders – suppliers, employees, capital providers, shareholders, Government and the community at large.

For the past 17 years, we have provided a detailed account of our approach and performances in the annual Sustainability Report, which is aligned with the disclosure recommendations of the Hong Kong Stock Exchange Environmental, Social and Governance Reporting Guide.

Value Added And Distribution Statement In 2016 (HK$ million)



Notes:

1. *Before taking into account staff costs of HK$26 million.*
2. *Excludes staff costs capitalised for asset creation of HK$1,385 million.*
3. *For simplicity reason, operating costs include interest income and share of profit or loss of associates, netted with profit attributable to other non-controlling interests.*
4. *Excludes interest expenses capitalised for asset creation of HK$632 million.*
5. *Represents current income tax but excludes deferred tax for the year.*
6. *Represents ordinary dividends payout during the year.*
7. *Includes ordinary dividends paid to the Financial Secretary Incorporated of the HKSAR Government of HK$4,701 million, but excludes the payment of the first tranche of special dividend under the XRL Agreement of HK$12.9 billion.*
8. *Includes donations, sponsorships and other community engagement contributions, but excludes ongoing fare concessions and promotions of HK$2,536 million and in-kind donations of HK$22 million.*
9. *Economic value retained for reinvestment to generate future economic values. This represents underlying business profit attributable to shareholders of the Company (before depreciation, amortisation and deferred tax) for the year retained, after the amount distributed to our stakeholders, but before payment of the first tranche of special dividend under the XRL Agreement of HK$12.9 billion.*

Governance and Policies

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

We follow clear policies and management directives under the Corporation General Instructions, and the Corporate Responsibility Policy and Corporate Sustainability Policy. The Board's Corporate Responsibility Committee provides guidance and reports to the Board of Directors on these issues.

We have been applying a Supplier Code of Practice since 2008. This provides a basic, compulsory behavioural framework for ethical standards, human and labour rights, and supply chain management. Full compliance with the code is a requirement of all procurement contracts. Suppliers are also responsible for ensuring that their own suppliers comply with the code. We are now updating the code to incorporate our Green Procurement Policy, which encourages sustainability practices among our suppliers. The revised code will also reference the new ISO Guidance on Sustainable Procurement when this is published in mid-2017.

How We Operate as a Business

Safety

Providing passengers with a safe and reliable service is at the very heart of our operations. Our Safety First culture covers customers, staff, contractors and anyone else who legitimately enters our facilities. We invest heavily in maintenance to ensure our assets contribute to better safety. We also carry out initiatives to address safety issues. Our efforts to ensure continuous improvement in safety led to a 9.1% reduction in reportable events on the Hong Kong heavy rail network in 2016 compared with 2015.

Escalator safety remains a key concern, especially with children and senior citizens. We continued to roll out many initiatives in 2016 to tackle this issue, often in conjunction with centres for the elderly, schools and other organisations. Safety messages were reinforced through public announcements, posters, videos and exhibitions as well as Escalator Safety Promotional Booths in stations. Up to the end of 2016, a total of 36 designated escalators in various stations had been installed with yellow brush skirt guards to deter passengers from standing too close to the step edge. The number of reportable events involving escalators on the Hong Kong heavy rail network fell by 11.6% in 2016.

Environment and Natural Resources

Our aim is to become one of the most resource-efficient and ecologically sustainable railways and property service providers in the world. An electrically-powered mass railway is regarded as the most environmentally sustainable way to transport millions of people in large cities. Therefore, our biggest contribution to the environment comes from avoiding pollution. The environmental benefits of rail transport are well established – we help to reduce roadside emission and road congestion, and make better use of limited land resources because many people travel by rail. Our new lines in Hong Kong are enhancing this contribution by adding to the number of journeys that can be made by train. In 2016 we issued our first Green Bond, bringing together our financial and environmental strategies as a low carbon business. Accessing finance in this way allows us to tap into a new investor base while providing cost-effective financing to invest in expansion and enhancement of our environmentally friendly services.

More broadly, our Climate Change Statement and Corporate Biodiversity Policy commit us to managing environmental issues. The independently audited ISO 14001 environmental management system certification process


鐵路人 鐵路心
MTR
港鐵義工隊
MTR Volunteers
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連繫社區

fosters accountability among employees and partners. We are also responding to climate change, guided by the latest recommendations from leading scientists, such as reviewing our design standard and preparing response procedures during extreme weather events.

Our approach to environmental issues begins with Environmental Impact Assessments we make before starting major construction and operations activities. We also implement comprehensive environmental management and monitoring plans for impacts relating to noise, air and water quality, waste, energy use, and biodiversity.

Improving energy efficiency is an important goal and we continue to find ways to reduce our energy consumption. Our target is to achieve a 21% reduction from 2008 levels by 2020 in the amount of electricity used for each passenger-kilometre in our heavy rail network. By the end of 2016, we had achieved a reduction of 16.1%. MTR is now investing in a large-scale chiller replacement programme that will improve energy efficiency by installing more advanced and environmentally friendly equipment at stations and depots.

Our People

The dedication and commitment of our staff is at the heart of our success. To nurture talents and help them to reach their full potential, we provide many training and development opportunities. This also ensures that we have a professional workforce that can serve our customers and meet our future manpower needs as a company. Further details are set out in the section headed "Human Resources".

Our Customers

On average, 5.59 million passengers use MTR in Hong Kong each weekday and our train services have a big impact on the daily lives of many people in our city. We constantly try to understand the needs of our customers and improve the services we provide for them. Further details are set out in the section headed "Hong Kong Transport Operations".

How We Contribute to Society

Each year we run many different activities to contribute to society, drawing on the goodwill of our employees and our own assets. We mainly target young people and local communities.

Youth

MTR has worked with young people for many years to enable them to achieve their full potential. Our "Youth Connect" programme leverages our strengths to empower young people in creating a bright future for themselves and their communities.

To understand young people's needs and aspirations better, we have launched the MTR-CUHK Youth Quality of Life Index Survey since 2013. In addition, we have been seeking feedback from young people on early stage initiatives and exchange ideas with MTR management through our think tank, the Youth Forum. Through the Forum, young people contributed to the development of the name and logo of "Rail Gen 2.0". Their ideas have also improved how we communicate, such as using humour to promote safety in our "Ride with Manners" campaign. Youth Forum members benefit from professional development opportunities we create for them.

Two major initiatives under Youth Connect are our " 'Train' for Life's Journeys" and " 'Friend' for Life's Journeys" programmes. Around 100 students took part in the " 'Train' for Life's Journeys" ten-day summer programme in 2016, while 135 students completed the six-month mentorship programme " 'Friend' for Life's Journeys" in the 2015-16 school year. We also continue to offer internships to tertiary-level students through our Customer Service and Tourist Ambassadors Internship Programme. In 2016, 200 students benefitted from these opportunities.

Our Pathways to Employment programme was launched at the end of 2015. Through an open innovation process, we encouraged young people, non-governmental organisations and other stakeholders to use their creative and critical thinking skills to develop solutions to inspire young people. In September 2016 we announced the funding of five projects in partnership with non-governmental organisations and social enterprises that aims to cultivate innovation, entrepreneurial and leadership skills as well as interest in Science, Technology, Engineering and Mathematics ("STEM") subjects amongst young people. These projects were chosen with public input.

Supporting Our Communities

In 2016, the Corporation launched "Community Connect", a new identity for outreach and community initiatives that provide caring service which reflects our commitment to the communities that we serve and live in. This identity comprises three main areas, namely Community Outreach, Art and Culture and Green and Healthy Living.

Community Outreach

At the heart of our "Community Connect" programme is our "More Time Reaching Community" scheme. A total of 263 community projects involving more than 6,200 volunteers were initiated and organised by our staff and retirees during the year, delivering care and assistance to thousands of people in the community. In addition, during 2016 around HK$13.5 million was donated to charitable and other organisations. There was a special donation of HK$2 million to the families of the two brave fire fighters who died battling the Ngau Tau Kok blaze in Hong Kong in June 2016. For the arson incident in February 2017, MTR and our staff have contributed HK$2 million towards the public donation campaign staged by the Tung Wah Group of Hospitals to assist those injured and hospitalised.

MTR also provided free advertising space to around 50 non-profit organisations to support their work, and a number of retail shops along the West Rail Line were available for lease by the social enterprises of non-governmental organisations at concessionary rates.

Art and Culture

Our Art in MTR programme enriches the MTR travelling environment through high quality works of art. A diverse range of activities was held in 2016 with over 60 events in stations across Hong Kong. The number of permanent artworks by local and international artists increased to 72 across 45 stations during the year.

Green and Healthy Living

MTR Hong Kong Race Walking 2016, which took place on 23 October, was the main event organised under our Green and Healthy Living programme. It raised more than HK$1 million for the Hospital Authority's Health InfoWorld, to support its work on enhancing disease management skills and promoting healthy living.

Recognition for Corporate Responsibility

We continued to receive global recognition for corporate responsibility in 2016.

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

RECRUITMENT & RETENTION

MOTIVATION & ENGAGEMENT

LEARNING & DEVELOPMENT

WORK IMPROVEMENT

Human Resources

People are our most valuable asset and we are committed to inspiring, engaging and developing our employees.

In recognition of our commitment to people, MTR was named among the "Best Companies to Work for in Asia 2016" by HR Asia Magazine, one of the leading publications for human resources professionals. We were also honoured as the first runner-up of the "Most Attractive Employers in Hong Kong" organised by the Randstad Group, an international Human Resources consultant firm.

The Company together with its subsidiaries, employed 17,639 people in Hong Kong and 9,866 people outside of Hong Kong as at 31 December 2016. Our associates employed an additional 10,216 people in Hong Kong and worldwide.

Recruitment and Retention

Active manpower resourcing activities including Recruitment Days and Community Recruitment were carried out during 2016 in support of our current needs and future business growth. A total of 1,793 people were hired during the year and staff turnover remained low, at 3.5% in Hong Kong.

To meet our long-term succession and manpower needs, 30 high calibre graduates were recruited into the Company's various graduate development programmes in 2016. To groom more youngsters to fill our technical and maintenance positions in future, a record 184 apprentices and technician associates were recruited. In addition, we launched two new schemes namely a one-year Junior Tradesman Associate Training Programme in collaboration with the Youth Employment and Training Programme under the Labour Department and a four-year Craft Apprentice Training Scheme organised by the Vocational Training Council.

We continue to support Hong Kong's Talent-wise Employment Charter by offering summer internships to local university students with disabilities or special education needs. We also offered 170 summer intern placements to students in Degree, Associate Degree or Higher Diploma courses during 2016 in support of the Company's initiatives on youth development and engagement.

In the Mainland of China, the rapid expansion of the metro industry has led to keen competition for people with railway expertise. In response to this challenge, we collaborated closely with local universities and vocational schools on resourcing and put in place a robust staff retention strategy.

To attract, retain and motivate employees, we offer competitive pay and benefits including short and long-term incentive schemes, as well as broad career development opportunities. Through a robust performance management system, a performance based pay review mechanism and various motivational schemes, we reward and recognise employees for their performance and contributions.

We continue to identify and develop talents at different levels through our Corporate Leadership Pipeline. Cross-division and cross-boundary job rotations are offered to help talents broaden their horizons and enrich their experience.

Staff Motivation and Engagement

We carried out various initiatives and programmes during the year to motivate and engage employees. The first global Staff Engagement Survey was launched in November 2016, covering employees in Hong Kong, the Mainland of China and our international business hubs. The overall response rate was very high at over 94%. Based on employees' feedback in the survey, follow up actions will be initiated for continuous improvement.

Our well-established Staff Consultation Mechanism provides an effective communication channel between management and staff. It comprises a Staff Consultative Council and over 40 Joint Consultative Committees with a total of over 900 elected staff representatives. In addition, more than 8,600 two-way communication sessions under the "Enhanced Staff Communication Programme" were conducted in 2016. Forums, management communication sessions and luncheons with the executives were also organised to strengthen the communication across the organisation.

To share corporate updates and stories among employees worldwide, we have enhanced our communication platform - MTRconnects. The view rate reached over 898,000 by 31 December 2016, with more than 18,700 unique visitors, which shows the tremendous increases of 59% and 40% respectively over the previous year.

A Culture of Continuous Learning and Development

We offer comprehensive training and development programmes covering customer services, operational and managerial skills, as well as personal improvement, to our staff to unleash their full potential. During 2016, we ran 7,059 training courses, providing an average of 7.1 training days for each employee in Hong Kong. To further promote our self-learning culture, a one-stop platform "Mobile Learning Hub" was provided to facilitate staff learning anytime, anywhere.

Our efforts in training and development were recognised in several local and international awards in 2016. We partnered with Sports Federation & Olympic Committee of Hong Kong, China to conduct the Life Skills Training Programme for Retired Athletes, which won three honours in the "Award for Excellence in Training and Development" organised by the Hong Kong Management Association. We also received an "Excellence in Practice Award" from the Association for Talent Development in the US.

Driving Work Improvement

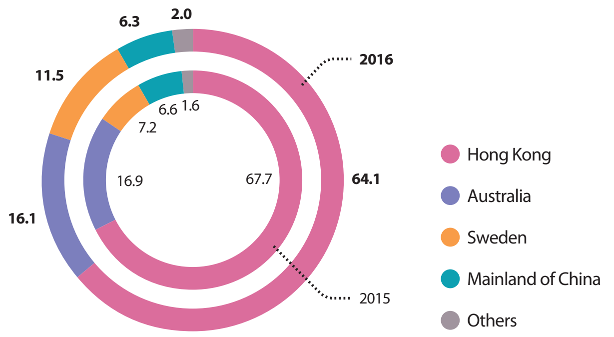
The Work Improvement Team ("WIT") programme continues to encourage collective innovation, process improvement and staff engagement. Training classes were provided to team members covering the use of problem solving and innovation tools, while cross-border experience sharing sessions were conducted during the year. The Corporate WIT Annual Presentation Ceremony was held in June 2016, with an attendance of around 700 people, including delegates from our business hubs in Shenzhen, Beijing, Hangzhou, Stockholm and Melbourne.

The Staff Suggestion Scheme is another effective channel to encourage continuous improvement in the workplace. New awards were introduced to motivate staff to submit innovative ideas.

We are always on the look-out for new ideas and in November 2016 we sponsored "HackTrain HK". This was the first railway hackathon event in Asia, and 40 individuals participated in teams, brainstorming innovative ideas to improve our services. By supporting these events we can extend MTR's culture of continuous improvement.

Staff Distribution by Geographical Location

(Percentage)



Staff Productivity – Earnings Per Employee*

*Hong Kong businesses excluding property development

(HK$ million)

MTR Academy

The Company continues to make progress on the establishment of the MTR Academy ("the Academy") in Hong Kong. In November 2016, we proudly celebrated the official opening of the Academy and its Hong Kong campus, which is situated in renovated space in the MTR Hung Hom Building. As our wholly owned subsidiary, the Academy aims to become a globally recognised railway management and engineering centre that offers high quality programmes to extend our rail expertise from Hong Kong to "Belt and Road" countries.

Local Community

The Academy successfully attained accreditation for its first signature programme "Advanced Diploma in Railway Engineering" in time for its opening. It is the first step in an integrated endeavour to nurture young railway talents in Hong Kong. The Company received an overwhelming number of applications from the public, and the first cohort of students commenced study on the programme in January 2017. Further accredited programmes are in the pipeline, with the aim of facilitating increased knowledge and career development for railway professionals at different levels.

The provision of stand-alone short courses will be used as another way of reaching out to the local community. Professionals will share their experience and exchange best practices through short courses on topical issues, offering a platform for discussion and dissemination. Bite-sized Railway Introductory sessions will also be offered to satisfy the general public's curiosity about railway operations and technology. The Academy's short courses have aroused considerable interest from the local community and railway enthusiasts alike.

Global Railway Industry

Building on MTR's track record of providing consultancy services and training for railway companies and authorities, as well as leading the industry with its best practices and operational excellence around the world, the Academy will offer signature training programmes for railway executives and management globally.

Three Corporate Programmes have been developed for delivery in the second quarter of 2017. The weeklong programmes will cover a range of topics that are relevant to railway company executives and professionals in the areas of planning, reliability, operations and maintenance management. The programmes will be facilitated by MTR's experienced senior managers and operators in the respective areas. These Corporate Programmes are now open for enrolment worldwide, and are expected to reinforce the Academy's position as a recognised international learning hub for railway operation and management.

Collaborations

To ensure timely growth and high quality education and training provisions, as well as geographical penetration around the world, it is important for the company to have partnerships with local and overseas institutions. These collaborations take the form of joint programme development and/or delivery; co-organising short courses; staff and student visits; and research and development.

The Academy has good working relationships with a number of local and overseas institutions, and the negotiation of formal collaborations agreements is ongoing. We now have official partnerships with Hong Kong Polytechnic University, Vocational Training Council, Hong Kong College of Technology and Hong Kong Wen Wei Management College, and this list is expected to grow in the coming months.

Rail Transit Excellence Community

The Academy is also keen to cultivate a collegial community for mutual benefit within the railway industry. The Rail Transit Excellence Community ("RTEC") is a platform to enable knowledge sharing and mutual learning among railway operators, particularly those in "Belt and Road" countries, in quest for continuous improvement. The Academy acts as the convenor of the RTEC and members are able to work together to generate solutions to emerging challenges and risks in rail transit. The Community is a valuable resource for both the operations and strategic development of its members.

The RTEC will organise regular roundtable meetings for members to discuss and exchange views on topical issues of common interest. The meetings will also include workshops and technical visits, through which members will be kept abreast of the latest developments in the world of rail transit. Members will also be given access to the Case Centre, a repository of good practices and lessons learnt, which is administered by the Academy.

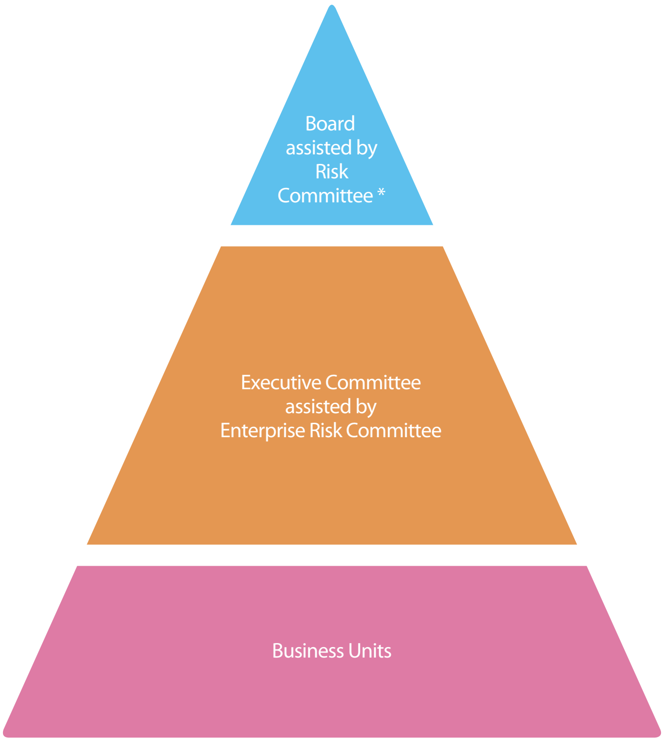
Risk Management

System Features

Business units across the Company embrace the Company's Enterprise Risk Management ("ERM") framework that underpins their day-to-day business activities. The framework provides a simple and effective management process to:

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

The Company's risks are rigorously identified, assessed and managed. Each risk is evaluated on the basis of the likelihood of the identified risk and the consequence of the risk event, taking into consideration the control measures in place. A risk matrix is used to determine risk ratings (E1 – E4), with E1 being a very high risk and E4 being a low risk. The risk ratings reflect the required management attention and risk treatment effort, and take into account the Company's risk appetite. The highest category of risks, "E1", is subject to Board, Risk Committee and Executive Committee oversight.



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

- Executive Committee is overall accountable for ERM framework implementation and improvement
- Enterprise Risk Committee
  - Chaired by Legal and European Business Director
  - Comprises representatives from key business functions
  - Steers framework implementation and improvement
  - Reviews Company's top risks and key emerging risks
  - Reports to Executive Committee and Risk Committee quarterly, and to Board six-monthly

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

* *See the Risk Committee Report (pages 152-153 of this Annual Report) for duties and work performed by the Committee in 2016*

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

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

Management Process for Significant Risks

The Company takes proactive measures to identify, evaluate and manage significant risks arising from its recurrent and growth businesses and from the constantly changing business environment. Risk management strategies are developed for different areas including but not limited to construction, operations, finance, treasury, safety and insurance.

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

Identify Risk*

- Existing businesses
- Changing external environment
- New projects or business ventures
- New and emerging issues or trends which may pose significant risks
- List of running issues and risk drivers for brainstorming
- Change in laws and regulations

Evaluate Risk

- Evaluate risk by estimating likelihood and consequence of the risk event
- Determine risk rating using the risk matrix (E1-E4)

Treat Risk*

- Take into account risk appetite
- Avoid risks where no appetite and possible to do so
- Mitigate – review controls in place to evaluate adequacy and effectiveness and ensure owners in place to implement
- Transfer – take out insurance to transfer risks where cost effective and efficient
- Accept once mitigated to an appropriate level

Report and Monitor Risk

- Capture risks in risk registers
- Periodic ERM reports to
  - Enterprise Risk Committee
  - Executive Committee
  - Risk Committee
  - Board

* *Areas below are not exhaustive*

Significant risks currently being managed by the Company include:

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

Major railway service incidents	
Key Challenges	• In 2016, heavy rail and light rail experienced eight incidents within the Company's control (due to isolated system issues) which resulted in service disruptions of 31 minutes or more, the same as in 2015
Key Controls	• Investigations / technical studies conducted on individual incidents to identify opportunities for continuous improvement

System crowdedness	
Key Challenges	• Increase in passenger numbers by 31% since the merger with Kowloon-Canton Railway Corporation ("KCRC") in 2007
Key Controls	• Enhanced crowd management plans in place • Signalling systems being upgraded to allow more frequent train services to be run in the longer term

Workforce transition	
Key Challenges	• Stream of staff reaching retirement age in coming years after MTR train service has been in operation since 1979 • Manpower shortages in several job types
Key Controls	• Proactive manpower sourcing and succession planning • Skills and competency enhancement

System and staff safety	
Key Challenges	• Heavy Rail – escalator incidents remain the major contributor for passenger injuries on Heavy Rail • Light Rail – operations sharing the same right of way with other road users
Key Controls	• Continue with escalator safety campaign • More prominent signage or traffic signals at Light Rail road junctions in collaboration with Government

Asset upgrade and replacement	
Key Challenges	• The "Rail Gen 2.0" programme is delivering a number of major concurrent projects, including the signalling system replacement and the introduction of new trains, to transform the current operating railway
Key Controls	• A Works Management Office has been established to oversee the integrated management of the combined risk of these works

Process of System Effectiveness Review

On behalf of the Executive Committee, the ERC evaluates the effectiveness of the ERM system at least annually. The Legal and European Business Director, who chairs the ERC, presented the ERM system effectiveness review results for the year ended 31 December 2016 to the Executive Committee, which confirmed the review results, on 9 February 2017, and to the Risk Committee on 22 February 2017.

For the year ended 31 December 2016, the Risk Committee, with delegated authority from the Board, evaluated the effectiveness and adequacy of the Company's ERM system and concluded that it was effective and adequate, based on a number of review areas.

Factors considered during the review

- Areas suggested in the Corporate Governance Code for the Board's annual review of the risk management system
- Annual internal certification of risk management effectiveness by Department Heads and Heads of Subsidiaries / Associates
- Follow-up actions in light of the results of the 2015 ERM system effectiveness review
- Risk management of Subsidiaries and Associates
- Benchmarking / roundtable / peer group ideas exchange
- Results of the external review on the ERM system conducted in 2016 and the improvements identified
- Risk management training and promotion activities held in 2016

Conclusion

ERM system was effective and adequate for the year ended 31 December 2016

Continuous Process Improvement

Key improvements in the ERM system implemented within 2016 include:

- Quarterly ERM Newsletters published to promote risk management over the year
- Risk management knowledge sharing platform and support resources promoted at corporate and divisional levels
- Annual review of risk management system effectiveness of subsidiaries established, and extended to cover operating associates in Mainland China and overseas
- Computer-based training programme (English and Chinese) rolled out for general staff and supervisors on corporate ERM policy, risk management principles and staff behaviours conducive to a proactive risk management culture
- Risk Awareness Week event held for the third year to promote risk awareness across all levels of the organization, including half-day risk management workshops attended by 120 supervisors / managers

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

- Sharing by external risk experts during the annual Risk Awareness Week
- Sharing and learning of best practice through the ninth UK ERM Roundtable and the eighth HK ERM Roundtable meetings
- Cross-learning among risk managers from different business units, including subsidiaries and associates in the Mainland of China and overseas, through the in-house "Audit & Risk Forum" held in Hong Kong in June 2016 and periodic teleconference meetings

Corporate Governance Report

Corporate Governance Practices

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

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

Corporate Governance Code Compliance

During the year ended 31 December 2016, the Company has complied with the Code.

Corporate Governance Initiatives in 2016

Cancellation of Re-issue Mandate

At the Company's 2016 Annual General Meeting (the "2016 AGM"), the Board made a conscious decision not to seek for shareholders' approval for the re-issue mandate (i.e. the extended mandate of Directors to issue or deal with shares in the Company bought back by the Company pursuant to the repurchase mandate) after having taken into account feedback from the Company's shareholders and best practices advocated in the market, notwithstanding that it was permitted under the Listing Rules.

Additional Assurance from Internal Audit on the Review of Continuing Connected Transactions

In accordance with Guidance Letter GL 73-14 issued by the Stock Exchange and taking into account the Stock Exchange's recommendation issued in January 2016, the Company's Internal Audit Department ("IAD") has reviewed the Company's continuing connected transactions for the year ended 31 December 2016 and the related internal control procedures. IAD found that the internal control procedures put in place by the Company were adequate and effective and reported the same to the Audit Committee of the Company to assist the Company's Independent Non-executive Directors ("INEDs") in their annual review and confirmation of the continuing connected transactions in 2016.

Handling of Inside Information

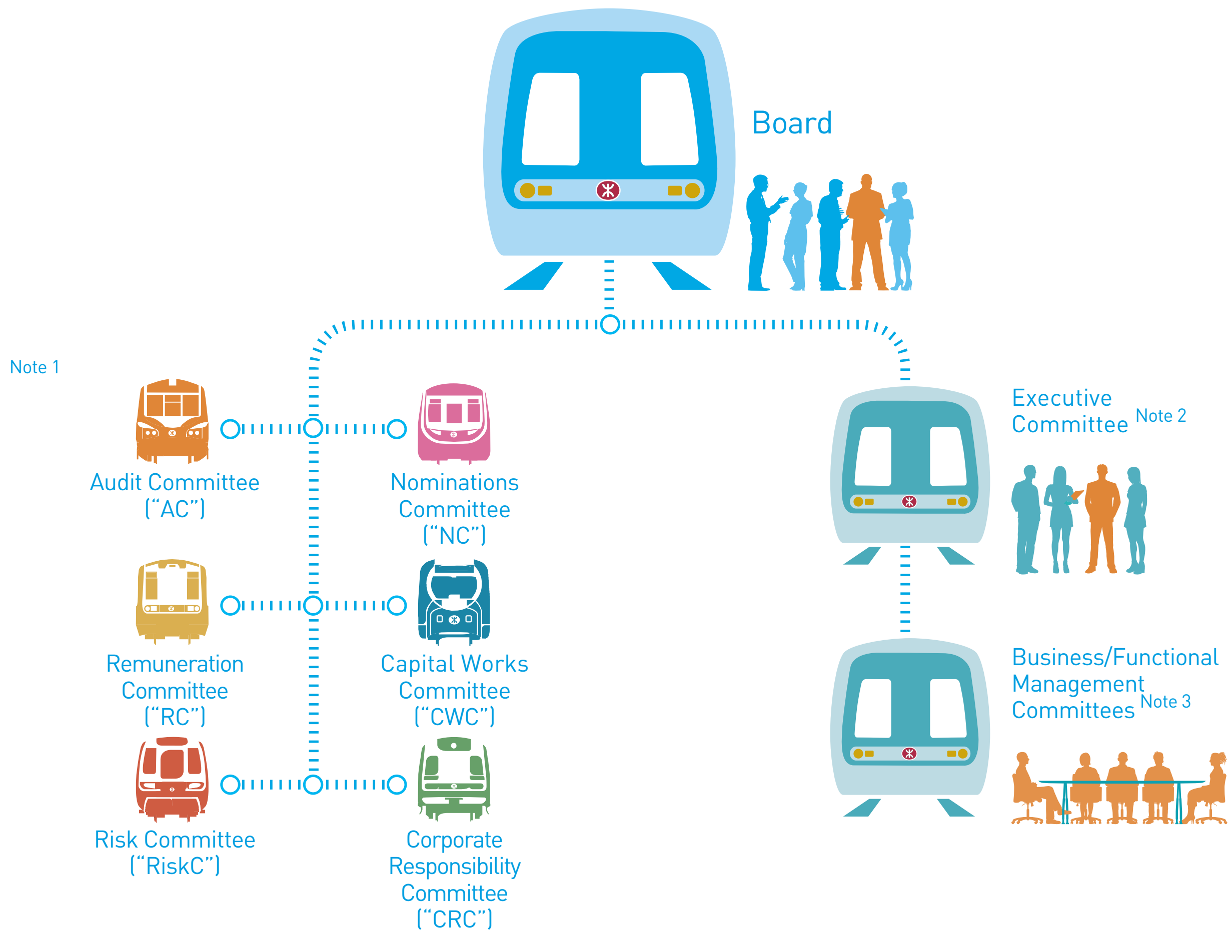
To further enhance the awareness and recognition of relevant staff of the importance of properly handling Inside Information (which term shall bear the same meaning as in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")), the Company has issued a new Corporation General Instruction (the "CGI") to all staff to strengthen and reinforce the directions issued by the Company previously, and has launched a new computer-based training programme ("CBT"), which is mandatory for all managers who are likely to be in possession of the Company's Inside Information because of their positions in the Company. Further details are set out on page 144 of this Annual Report.

The Board of Directors

Overall Management

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

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



Notes:

1 *All Board Committees are provided with sufficient resources to discharge their duties and can seek independent professional advice (as and when required) at the Company's expense, to perform their responsibilities. The Terms of Reference of each Committee are available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange.*

2 *The Executive Committee is delegated by the Board to handle day-to-day management of the Company's business pursuant to the Company's Articles of Association and the Protocol; and is chaired by the Chief Executive Officer ("CEO") (who is supported by the 11 other Members of the Executive Directorate).*

3 *Key Business/Functional Management Committees are listed out on pages 142 to 143 of this Report.*

Members of the Board and the Executive Directorate Attendance of Meetings and Training in 2016

	Board Meetings Attendance			Board Committees Meetings Attendance Memberships						General Meetings Attendance		Training		
	RM	SM	PM	AC	NC	RC	CWC	RiskC	CRC	GM	AGM	IndP	BB/V	Others
Number of Meetings	8	6	3	4	1	6	5	4	2	1	1	–	–	–
Members of the Board														
Non-executive Directors														
Professor Frederick Ma Si-hang (Chairman) (since 1 January 2016) (Note 1)	8/8	6/6	3/3		1/1 M	6/6 M			2/2 C	1/1	1/1	N/A	√	√
Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury) (Note 2)	7/8	1/6	2/3		0/1 M	3/6 M				0/1	0/1	N/A	√	√
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung) (Note 3)	8/8	1/6	3/3		1/1 M	6/6 M				0/1	0/1	N/A	√	√
Permanent Secretary for Development (Works) (Hon Chi-keung) (Note 4)	4/8	2/6	1/3				2/5 M	2/4 M		0/1	0/1	N/A	√	√
Commissioner for Transport (Ingrid Yeung Ho Poi-yan) (Note 5)	8/8	4/6	3/3	4/4 M				4/4 M		0/1	0/1	N/A	√	√
Independent Non-executive Directors														
Pamela Chan Wong Shui	8/8	6/6	3/3		1/1 M				2/2 M	1/1	1/1	N/A	√	√
Dr Dorothy Chan Yuen Tak-fai (Note 6)	7/8	4/6	2/3			6/6 C	4/5 M			0/1	1/1	N/A	√	√
Vincent Cheng Hoi-chuen (Note 7)	4/8	2/6	2/3			4/6 M			1/2 M	0/1	0/1	N/A	√	√
Anthony Chow Wing-kin (since 18 May 2016) (Note 8)	5/5	2/3	1/1			2/2 M	2/3 M					√	√	√
Dr Eddy Fong Ching	8/8	5/6	3/3	4/4 C	0/1 M					1/1	1/1	N/A	√	√
James Kwan Yuk-choi	7/8	4/6	3/3				4/5 M	4/4 M		1/1	1/1	N/A	√	√
Lau Ping-cheung, Kaizer (Note 9)	8/8	5/6	3/3				5/5 M		2/2 M	1/1	0/1	N/A	√	√
Lucia Li Li Ka-lai (Note 10)	8/8	5/6	3/3	4/4 M				4/4 M		1/1	1/1	N/A	√	√
Alasdair George Morrison (Note 11)	8/8	6/6	3/3	4/4 M				4/4 C		1/1	1/1	N/A	√	√
Ng Leung-sing	5/8	4/6	1/3		1/1 M			3/4 M		1/1	0/1	N/A	√	√
Abraham Shek Lai-him (Note 12)	7/8	6/6	1/3		1/1 C		4/5 M			1/1	1/1	N/A	√	√
Benjamin Tang Kwok-bun (Note 13)	8/8	2/6	3/3			5/6 M		1/4 M		1/1	1/1	N/A	√	√
Dr Allan Wong Chi-yun (Note 14)	6/8	5/6	3/3	3/4 M			5/5 C			1/1	1/1	N/A	√	√
Edward Ho Sing-tin (up to 18 May 2016) (Note 15)	3/3	3/3	2/2			3/4	2/2			1/1	0/1	N/A	√	√
Executive Director														
Lincoln Leong Kwok-kuen (CEO) (Note 16)	8/8	6/6	2/3						1/2 M	1/1	1/1	N/A	√	√
Members of the Executive Directorate & the Executive Committee														
Lincoln Leong Kwok-kuen (Note 16)	8/8	6/6	2/3						1/2 M	1/1	1/1	N/A	√	√
Dr Jacob Kam Chak-pui										1/1	1/1	N/A	√	√
Margaret Cheng Wai-ching (Since 1 June 2016) (Note 17)									0/1 M			√	√	√
Morris Cheung Siu-wa										1/1	1/1	N/A	√	√
Dr Peter Ronald Ewen (Since 22 February 2016) (Note 18)											1/1	√	√	√
Herbert Hui Leung-wah (Since 2 July 2016) (Note 19)												√	√	√
Adi Lau Tin-shing (Since 1 May 2016) (Note 20)											1/1	√	√	√
Gillian Elizabeth Meller										1/1	1/1	N/A	√	√
Linda So Ka-pik (Note 21)									2/2 M	1/1	1/1	N/A	√	√
David Tang Chi-fai										1/1	1/1	N/A	√	√
Dr Philco Wong Nai-keung										1/1	1/1	N/A	√	√
Jeny Yeung Mei-chun										1/1	1/1	N/A	√	√
Stephen Law Cheuk-kin (Up to 1 July 2016) (Note 22)										1/1	1/1	N/A	√	√

Remarks:

Board Meetings
RM – Regular Meeting **SM** – Special Meeting
PM – Private Meeting

Board Committees Membership
C – Chairman of the committee M – Member of the committee

General Meetings
GM – General Meeting held on 1 February 2016
AGM – Annual General Meeting held on 18 May 2016

Training
IndP – Induction Programme – For newly appointed Members of the Board and the Executive Directorate in 2016
BB/V – Board Briefings/Visits – Briefings on the Company's Businesses/Site Visits
Others – Regulatory/legal updates and other materials pertinent to directors' duties and responsibilities

Notes:

1 *Professor Frederick Ma Si-hang was appointed as the Non-executive Chairman of the Company, a member and the chairman of the Corporate Responsibility Committee and a member of each of the Nominations Committee and the Remuneration Committee, all with effect from 1 January 2016.*
2 *The alternate directors of Professor Chan Ka-keung, Ceajer, acting on his behalf, attended one Regular Meeting, three Special Meetings, one Private Meeting, three Remuneration Committee meetings and the 2016 AGM. The alternate director of Professor Chan did not attend the first session of the Special Meeting held on 20 April 2016 in relation to the early review of the Fare Adjustment Mechanism to avoid any actual or perceived conflict of interest. Professor Chan (and his alternate directors) did not attend the Special Meetings held on 25 January and 26 May 2016, and the General Meeting held on 1 February 2016 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.*
3 *The alternate directors of Professor Anthony Cheung Bing-leung, acting on his behalf, attended three Special Meetings. The alternate director of Professor Cheung did not attend the first session of the Special Meeting held on 20 April 2016 in relation to the early review of the Fare Adjustment Mechanism to avoid any actual or perceived conflict of interest. Professor Cheung (and his alternate directors) did not attend the Special Meetings held on 25 January and 26 May 2016, and the General Meeting held on 1 February 2016 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.*
4 *The alternate director of Mr Hon Chi-keung, acting on his behalf, attended two Regular Meetings, two Special Meetings, one Private Meeting, two Risk Committee meetings and two Capital Works Committee meetings. The alternate director of Mr Hon did not attend the first session of the Special Meeting held on 20 April 2016 in relation to the early review of the Fare Adjustment Mechanism to avoid any actual or perceived conflict of interest. Mr Hon (and his alternate directors) did not attend the Special Meetings held on 25 January and 26 May 2016, and the General Meeting held on 1 February 2016 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.*
5 *Mrs Ingrid Yeung Ho Poi-yan attended one Regular Meeting and one Special Meeting by teleconference. Mrs Yeung did not attend (i) the first session of the Special Meeting held on 20 April 2016 in relation to the early review of the Fare Adjustment Mechanism; and (ii) the Special Meetings held on 25 January and 26 May 2016, and the General Meeting held on 1 February 2016 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.*
6 *Dr Dorothy Chan Yuen Tak-fai attended one Regular Meeting and one Special Meeting by teleconference.*
7 *Mr Vincent Cheng Hoi-chuen attended one Remuneration Committee meeting by teleconference.*
8 *Mr Anthony Chow Wing-kin was elected as a new Board Member and became an INED and a member of each of the Capital Works Committee and the Remuneration Committee, all with effect from the conclusion of the 2016 AGM held on 18 May 2016. His attendance rate was based on the number of meetings held since his appointment.*
9 *Mr Lau Ping-cheung, Kaizer attended one Regular Meeting by teleconference.*
10 *Ms Lucia Li Li Ka-lai attended one Regular Meeting by teleconference.*
11 *Mr Alasdair George Morrison attended two Regular Meetings, one Special Meeting, one Private Meeting and one Audit Committee meeting by teleconference.*
12 *Mr Abraham Shek Lai-him attended two Regular Meetings, one Special Meeting and one Capital Works Committee meeting by teleconference.*
13 *Mr Benjamin Tang Kwok-bun was appointed as a member of the Remuneration Committee with effect from 1 January 2016.*
14 *Dr Allan Wong Chi-yun attended one Special Meeting by teleconference. Dr Wong was appointed as the Chairman of the Capital Works Committee with effect from the conclusion of the 2016 AGM held on 18 May 2016.*
15 *Mr Edward Ho Sing-tin retired as an INED of the Company; and ceased to be a member and the chairman of the Capital Works Committee and a member of the Remuneration Committee, all with effect from the conclusion of the 2016 AGM held on 18 May 2016. His attendance rate was based on the number of meetings held during his tenure.*
16 *Mr Lincoln Leong Kwok-kuen attended one Special Meeting by teleconference. Mr Leong was not invited to attend one Private Meeting which was held by the Chairman with non-executive Directors only.*
17 *Ms Margaret Cheng Wai-ching was appointed as the Company's Human Resources Director, a member of the Executive Directorate of the Company and a member of the Corporate Responsibility Committee, all with effect from 1 June 2016.*
18 *Dr Peter Ronald Ewen was appointed as the Company's Engineering Director and a member of the Executive Directorate of the Company with effect from 22 February 2016.*
19 *Mr Herbert Hui Leung-wah was appointed as the Company's Finance Director and a member of the Executive Directorate of the Company with effect from 2 July 2016.*
20 *Mr Adi Lau Tin-shing was appointed as the Company's Operations Director and a member of the Executive Directorate of the Company with effect from 1 May 2016.*
21 *Ms Linda So Ka-pik attended one Corporate Responsibility Committee meeting by teleconference. Ms So was appointed as a member of the Corporate Responsibility Committee with effect from 1 January 2016.*
22 *Mr Stephen Law Cheuk-kin ceased to be the Company's Finance Director and a member of the Executive Directorate of the Company upon expiry of his service contract with the Company with effect from 2 July 2016.*

Composition of The Board

The Company currently has 18 Non-executive Directors ("NEDs") of which 13 are INEDs. The CEO is the only Executive Director on the Board.

A list of Members of the Board and the Executive Directorate and their roles and functions is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange. Biographical details of each of the Members of the Board and the Executive Directorate are set out on pages 160 to 175 of this Annual Report.

The size of the Board has been reviewed by the Nominations Committee and is considered appropriate to address incremental demands, such as:

- The continued expansion of the Company's Mainland of China and international businesses;
- The need for more INEDs to maintain a good balance in the composition of the Board and to broaden the spectrum of available skills; and
- The increased responsibilities of Board Members as a result of the establishment of more Board Committees.

Government, through The Financial Secretary Incorporated, holds approximately 75.09% of the issued shares of the Company as at 31 December 2016, and is a substantial shareholder of the Company. The Chief Executive of the HKSAR, in the exercise of his right under Section 8 of the MTR Ordinance, has appointed three persons as "additional directors" of the Company (the "Additional Directors"). They are:

- The office of the Secretary for Transport and Housing ("S for T&H", currently held by Professor Anthony Cheung Bing-leung);
- The office of the Permanent Secretary for Development (Works) ("PS for D (Works)", currently held by Mr Hon Chi-keung); and
- The office of the Commissioner for Transport ("C for T", currently held by Mrs Ingrid Yeung Ho Poi-yan).

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

Another NED, Professor Chan Ka-keung, Ceajer, is Secretary for Financial Services & the Treasury ("S for FS&T").

The number of INEDs currently comprises more than two-thirds of the Company's Board and well exceeds the Listing Rules requirement to have independent non-executive directors representing at least one-third of a board.

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

Chairman and CEO

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

The non-executive Chairman is responsible for:

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

The CEO is:

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

Board Committees

The Board Committee memberships and attendance record of each Member of the Board in 2016 is set out on pages 131 to 132 of this Annual Report.

Audit Committee

Details of the Audit Committee, including its duties and work performed during the year are set out in the Audit Committee Report (pages 149 to 151) of this Annual Report.

Risk Committee

Details of the Risk Committee, including its duties and work performed during the year are set out in the Risk Committee Report (pages 152 to 153) of this Annual Report.

Capital Works Committee

Details of the Capital Works Committee, including its duties and work performed during the year are set out in the Capital Works Committee Report (page 154) of this Annual Report.

Remuneration Committee

Details of the Remuneration Committee, including its duties and work performed during the year are set out in the Remuneration Report (pages 155 to 159) of this Annual Report.

Nominations Committee

Principal responsibilities:

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

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

- Achievement of objectives pursuant to the BD Policy and effectiveness of the BD Policy;
- The size, structure, and composition of the Board and the List;
- Appointment of a new Board Member by shareholders at the 2016 AGM;
- Re-election/election of Members of the Board retiring at the 2016 AGM;
- Annual assessment of independence of each INED of the Company; and
- Nomination of Mr Herbert Hui Leung-wah as Finance Director.

Corporate Responsibility Committee

Principal responsibilities:

- Overseeing the Company's stakeholder engagement and external communication strategies;
- Recommending the Corporate Responsibility Policy to the Board for approval;
- Monitoring and overseeing the implementation of the Company's Corporate Responsibility Policy and related initiatives;
- Identifying emerging corporate responsibility issues arising from external trends;

- Reviewing the Company's annual Sustainability Report and recommending approval by the Board;
- Reviewing the Company's environmental and social performance; and
- Providing updates to the Board on matters falling within the Committee's remit as required.

Please also refer to the "Corporate Responsibility" section (pages 114 to 119) of this Annual Report.

Work performed during the year:

- Reviewed and endorsed the updated Corporate Responsibility Policy;
- Reviewed (i) the overall approach and initiatives in place to support the aging population; (ii) initiatives that mitigate the Company's impact on the environment; and (iii) progress made on the Company's youth and community initiatives;
- Reviewed and recommended the 2015 Sustainability Report to the Board for its approval;
- Reviewed the Company's overall communications strategy; and
- Reviewed the publicity campaign on the Company's "Art in Station" programme.

Company Secretary

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

- Providing access to advice and services for Members of the Board;
- Ensuring the correct Board procedures are followed;
- Advising the Board on all corporate governance matters;
- Arranging for Members of the Board/Alternate Directors, upon their appointment, to receive a comprehensive, formal and tailored induction programme on key areas of business operations and practices of the Company, as well as the general and specific duties of directors under general law (common law and legislation) and the Listing Rules;
- Recommending Members of the Board, their Alternate Directors and Members of the Executive Directorate to attend relevant seminars and courses; and
- Arranging for training on relevant new or amended legislation or other regulations to be provided at Board meetings.

In 2016, Ms Meller undertook over 15 hours of professional training to update her skills and knowledge.

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

A person may be appointed as a Member of the Board at any time either by:

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

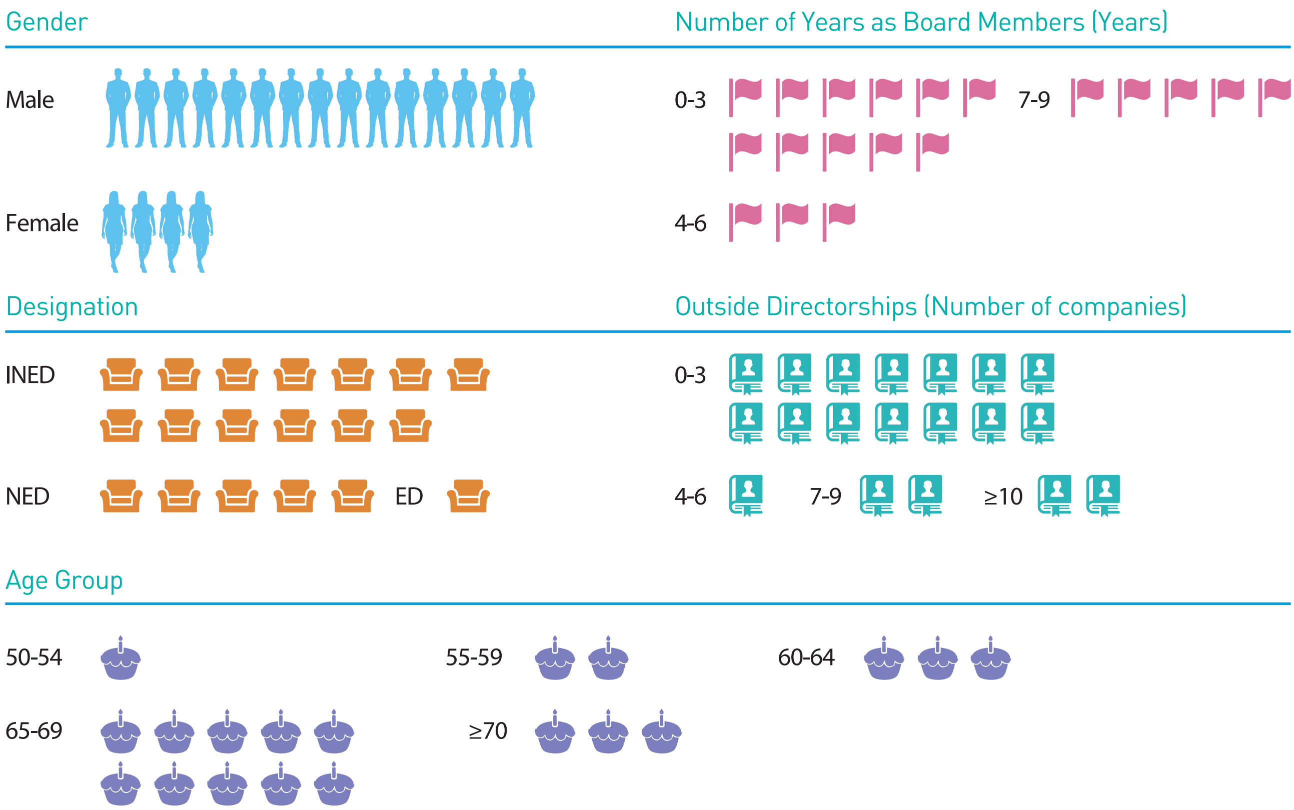
Members of the Board who are appointed by the Board must retire at the first annual general meeting after their appointment and are eligible for election at that annual general meeting.

Excluding the Additional Directors, other Members of the Board (including Professor Chan Ka-keung, Ceajer, S for FS&T) are required to retire by rotation. At each annual general meeting of the Company, Board Members who were last elected or re-elected at the annual general meeting which was held in the third calendar year prior to the annual general meeting in question, are those who will retire by rotation.

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

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

Board Diversity



The Company has posted its BD Policy on the Company's website (www.mtr.com.hk). The BD Policy sets out a clear objective and provides that the Company should endeavour to ensure that its Board Members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. While the Company is conscious of maintaining an appropriate proportion of female Members on the Board, all appointments are ultimately made on a merit basis taking into account available and suitable candidates.

As mentioned above, the Nominations Committee reviews the BD Policy annually, and the Board also reviews the BD Policy on a regular basis to ensure its continued effectiveness.

The BD Policy was taken into account by the Nominations Committee in considering the nomination of Mr Anthony Chow Wing-kin as a new INED for appointment in May 2016. The Committee formed the view that the appointment of Mr Chow, who has been a practising solicitor in Hong Kong for over 30 years, would add to the spectrum of skills, experience and diversity of perspectives in the Board, thereby enhancing the diversity and effectiveness of the Board.

Statutory Confirmations

For the year ended 31 December 2016, the Company has received confirmation from each INED about his/her independence under the Listing Rules. As part of its duties set out in its Terms of Reference, the Nominations Committee has reviewed these confirmations and assessed the independence of the INEDs, and continues to consider each of them to be independent.

In respect of Mr Abraham Shek Lai-him, who has been a member of the Board since December 2007, the Nominations Committee (with Mr Shek abstaining from the discussion due to the fact that he is an interested party) carefully assessed his independence against the relevant independence assessment requirements in the Listing Rules, and formed the view that Mr Shek, notwithstanding he has been an INED of the Company for over nine years, remains independent. Details of the factors considered by the Committee are set out in the 2017 annual general meeting Circular which was sent to Shareholders together with this Annual Report and is available on the websites of the Company (www.mtr.com.hk) and the Stock Exchange.

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

Regarding disclosure of the number and nature of offices held by Members of the Board in public companies or organisations and other significant commitments, as well as their identity and the time involved (the "Commitments"), to the Company, all Members of the Board have disclosed their Commitments to the Company in a timely manner.

In light of the above, the Chairman held a Private Meeting (without the presence of the CEO and other Members of the Executive Directorate) in December 2016 to review the contribution required from a director to perform his/her responsibilities to the Company, and whether he/she is spending sufficient time in performing them. The review also assessed the performance of the Board as a whole and concluded that all Board Members have made a positive contribution to the Board and the Company.

The Company provides each Board Member with a "Declaration of Other Directorships, Major Appointments and Interests" (the "Declaration") for review before each regular Board meeting to facilitate them in declaring any possible conflict of interest at the meetings. The Declaration of each Alternate Director is sent to him/her for update on a quarterly basis. In addition, each Member of the Board and each Alternate Director is required to confirm his/her other directorships, major appointments and interests to the Company twice a year.

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

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code"). After having made specific enquiry, the Company confirms that Members of the Board and the Executive Directorate have complied throughout the year with the Model Code. Senior managers, other nominated managers and staff who, because of their office in the Company, are likely to be in possession of Inside Information, have also been requested to comply with the provisions of the Model Code.

Directors' Insurance

As permitted under the Articles of Association, it has been the practice of the Company to arrange Directors' and Officers' ("D&O") Liability Insurance for which Members of the Board and officers of the Company do not have to bear any excess. To ensure sufficient cover is provided, the Company undertakes an annual review of the Company's D&O insurance policy in light of recent trends in the insurance market and other relevant factors. The review benchmarks the amount of cover against other similar companies and considers whether separate cover will be required for Members of the Executive Directorate or Members of the Board. The conclusion of the review in year 2016 was that the level of cover was adequate and, given this, together with the indemnity provided by the Company to Members of the Board, the broad policy wording and the financial strength of the insurance panel, no additional cover was required.

Corporate Governance Functions Review

In March 2016, the Board conducted an annual review of its Corporate Governance duties in accordance with its Terms of Reference on Corporate Governance Functions, and considered that the Company's:

- policies and practices on corporate governance embracing the Company and its subsidiaries and associates under the internal control system and enterprise risk management mechanism;
- training and continuous professional development of Members of the Board and senior management;
- policies and practices on compliance with legal and regulatory requirements; and
- Code of Conduct and Directors' Manual

are adequate and appropriate for the Company in light of its current corporate strategy. They will be kept under review in light of the changing legal and regulatory environment and any changes to the Company's business.

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

Board Proceedings

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

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

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

At regular Board meetings, Members of the Executive Directorate together with senior managers report to the Board on their respective areas of business.

The CEO Executive Summary, provided to the Board on a monthly basis, covers the overall strategies, principal issues and key events of the Company. In 2016, the Summary was enhanced to provide Members of the Board with a look ahead to key issues or events in the following three to six months. This Summary, together with the discussions at Board meetings, ensures that Members of the Board have a general understanding of the Company's business and provides up-to-date information to enable them to make informed decisions for the benefit of the Company.

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

Material Interests and Voting

All Members of the Board and the Executive Directorate are required to comply with their common law duty to act in the best interests of the Company and have particular regard to the interest of the Company's shareholders as a whole. Amongst others, all of them are required to declare the nature and extent of their interests, if any, in any contract, transaction, arrangement or other proposal to be considered by the Board at Board meetings.

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

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

There are a number of contractual arrangements that have been entered into between the Company and Government (and its related entities), some of which are continuing in nature. As Government is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The sections headed "Connected Transactions" and "Continuing Connected Transactions" (pages 187 to 206) of this Annual Report explain how, in accordance with the Listing Rules, these transactions are treated.

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

Board and Board Committee Meetings

The Board held 17 meetings in 2016 (including eight Regular Meetings, six Special Meetings and three Private Meetings), well exceeding the requirement of the Code which requires every listed issuer to hold board meetings at least four times a year.

In November 2016, the Board held its first overseas meeting in Melbourne and also took the opportunity to understand the Company's investments and future investment opportunities in Melbourne and Sydney.

Regular Meetings

At each of these Regular Meetings, the Board reviewed, discussed and, where appropriate, approved matters relating to the Company's different businesses and financial performance. In addition, other key matters discussed at Board meetings held in 2016 included:

- Corporate Strategy
  - Rail Gen 2.0;
- Corporate Governance matters, including
  - Receipt of Directors' Manual updates on an annual basis;
  - Review of the structure, size and composition of the Board on an annual basis;
  - Review of corporate governance functions on an annual basis;
  - Review of risk management and internal control systems effectiveness on an annual basis;
  - Receipt of the proceedings of various Board Committee meetings and MTR Academy Council meetings;
  - Approval of Sustainability Report 2015;
  - Receipt of Corporate Safety Governance Annual Report 2015;
  - Review of Enterprise Risk Management Reports;
  - Receipt of presentation on Engineering Division functions; and
  - Approval of changes in the composition of Board Committees;
- 2016 AGM
  - Recommendation for the election/re-election of retiring Members of the Board; and
  - Recommendation for the nomination of a new Board Member;
- Projects
  - Receipt of railway projects' updates; and
  - Approval of contract awards relating to railway projects;
- Operations
  - Receipt of annual train service performance and customer feedback 2015;
  - Receipt of updates on signalling replacement projects; and
  - Approval of the purchase of additional new trains for the East West Line of the Shatin to Central Link project;
- Receipt of updates on Mainland China and International Businesses;
- Approval of Property development tender awards in Hong Kong;
- Approval of establishment of the MTR Academy;
- Human Resources
  - 2016 Annual Pay Review; and
  - Review of share incentive scheme and other personnel matters;
- Commercial and Marketing
  - Approval of MTR fare revision and proposed fares for the Kwun Tong Line Extension and South Island Line (East); and
  - Approval of tender for Duty Free Shops at cross-border stations and on- board trains;
- Financial
  - Approval of 2015 Annual Report and Accounts;
  - Approval of 2016 Interim Report and Accounts;
  - Approval of Ngong Ping 360 Limited 2015 annual results;
  - Receipt of Octopus Business Performance Review;
  - Approval of debt issuance programme – Issuance of Green Bond; and
  - Approval of 2017 Budget and Longer Term Forecast.

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

Special Meetings

A number of matters were covered in the Special Meetings, including the Express Rail Link project, the MTR Academy, the proposed early review of the Fare Adjustment Mechanism, proposed investment projects in the Mainland of China and the Tender award of Ho Man Tin Station Package One Property Development.

Private Meetings

At the Private Meetings, the Board discussed the performance of Members of the Executive Directorate and changes to the organizational structure of the Executive Directorate.

The Chairman held a Private Meeting (without the presence of the CEO and other Members of Executive Directorate) in December 2016 to review the contribution required from a director to perform his/her responsibilities to the Company, and whether he/she is spending sufficient time in performing them. The review also assessed the performance of the Board as a whole and concluded that all Board Members have made positive contribution to the Board and the Company.

The attendance record of each Member of the Board (and each Member of the Executive Directorate) during the year is set out on pages 131 to 132 of this Annual Report.

Board Committee Meeting

A Board Committee meeting, with a quorum of two, was held on 11 March 2016 to consider the final dividend for the year ended 31 December 2015 and the 2015 Annual Report and Accounts and recommend the same for shareholders' approval at the 2016 AGM, and approve the Preliminary Announcement of Results.

Induction Programme and Other Training

Induction Programme

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

A tailor-made training programme covering the roles of a director from the strategic, planning and management perspective, as well as the essence of corporate governance and the trends in these areas, was therefore arranged for Mr Anthony Chow Wing-kin (an INED), three Alternate Directors (Mr Andrew Lai Chi-wah, Ms Macella Lee Sui-chun, and Mr Vincent Mak Shing-cheung), Ms Margaret Cheng Wai-ching (Human Resources Director), Dr Peter Ronald Ewen (Engineering Director), Mr Herbert Hui Leung-wah (Finance Director) and Mr Adi Lau Tin-shing (Operations Director), all of whom were appointed in 2016.

A Familiarization Programme to understand key areas of the Company's business operations was also provided.

All Members of the Board, Alternate Directors and Members of the Executive Directorate are also given a Directors' Manual on their appointment which sets out, amongst other things, directors' duties, and the Terms of Reference of the Board on its Corporate Governance Functions and of its Board Committees. The Directors' Manual is updated from time to time to reflect developments in those areas. The latest update to the Directors' Manual was approved on 17 January 2017.

Training and Continuous Professional Development

Members of the Board and the Executive Directorate

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

Board Visit in Australia

Board Visits

In addition to the Board visits arranged in the first half of 2016 which were disclosed in the Company's Interim Report 2016 on page 35, two more site visits were arranged in the second half of the year.

In July 2016, certain Members of the Board and the Executive Directorate visited PopCorn and LOHAS Park at Tseung Kwan O, to gain a first-hand understanding of the shopping mall operation at Popcorn and the latest property development progress at LOHAS Park. They also visited the Tseung Kwan O depot to understand more about the operations of the depot on site.

In November 2016, Members of the Board and the Executive Directorate visited Melbourne and Sydney, Australia and the Board held its first overseas meeting in Melbourne. The visit offered an invaluable opportunity for Board Members to see how the expertise and experience contributed by the Company over the years is helping both Melbourne and Sydney to develop their metro networks to serve their local communities and foster growth and development. The opportunity of talking to partners and stakeholders of the Company in these places enabled Members of the Board to learn more about the Company's business and to better understand both the challenges and future opportunities for the Company's growth in Australia.

Training

The Company's external legal advisor briefed Members of the Board and the Executive Directorate on topics covered in the annual update to the Directors' Manual at the 12 January 2016 Board Meeting.

A few Members of the Board, an Alternate Director and Members of the Executive Directorate attended the "Directors' Master Class" organised by the Company's external legal advisor in October 2016, in which crisis management – dealing with a major cyber-attack, a refresher on handling Inside Information and directors' duties were covered.

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

Each Member of the Board and the Executive Directorate has also provided to the Company a record of the training he/she has received during the year and their training records for the year are set out on pages 131 to 132 of this Annual Report.

Senior Executives

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

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

To support the enhancement of the business acumen of the Senior Executives, professors from business schools of renowned universities are engaged to share cutting-edge research and insights on contemporary management and business topics. For learning from other leading businesses in Hong Kong, the programme has established a "Leaders Forum", inviting senior executives from leading companies in different industries to share their success stories, management practices, personal wisdom and insights in the Company's in-house seminars. Senior Executives have actively participated in various training activities.

Accountability

Members of the Board are responsible for the consolidated accounts of the Group. The consolidated accounts are prepared on a going concern basis and give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of the Group's consolidated financial performance and consolidated cash flows for the year then ended. In preparing the consolidated accounts for the year ended 31 December 2016, the Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the consolidated accounts for the year ended 31 December 2016, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the external auditor of the Company ("External Auditor") are set out on pages 146 to 147 of this Annual Report.

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

Risk Management and Internal Control Systems

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

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

Systems Overview

The Executive Committee is responsible for:

- Implementing the Board's policies on risk management and internal controls;
- Identification and evaluation of the risks faced by the Company for consideration by the Board;
- Designing, operating and monitoring a suitable internal control system and an ERM system and implementing the policies adopted by the Board; and
- Providing assurance to the Board that it has done so, together with a confirmation that these systems are effective and adequate.

In addition, all employees have responsibility for internal controls and risk management within their areas of accountability.

Business/Functional Management Committees

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

- Operations Executive Management Committee
- Property Executive Management Committee
- Project Control Group
- Investment Committee
- European Business Management Committee
- Australian and International Consultancy Business Management Committee

- Mainland China Business Management Committee
- Information Technology Executive Management Committee
- Financial Planning Committee
- Corporate Safety Management Committee
- Enterprise Risk Committee
- Executive Tender Panel/Tender Board
- Corporate Responsibility Steering Committee
- Corporate Information Security Management Committee
- Cost Control Committee (Projects)
- Executive Cost Control Committee (Projects)

Internal Audit

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

- Carrying out analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Company;
- Recommending improvements to existing management controls and resources utilisation; and
- Performing special reviews, investigations, and consulting and advisory services related to corporate governance and controls as commissioned by management or the Audit Committee of the Company.

The Head of Internal Audit reports directly to the CEO and the Audit Committee. The IAD has unrestricted access to information that allows it to review all aspects of the Company's risk management, control and governance processes. On a regular basis, it conducts audits on financial, operational and compliance controls, and the risk management functions of the Company and its subsidiaries. Relevant members of the management team are responsible for ensuring that control deficiencies highlighted in internal audits are rectified within a reasonable period. The IAD produces an annual internal audit plan for the Audit Committee's approval. The audits are selected based on a risk assessment to ensure that business activities with higher risk are covered. On a half-yearly basis, the Head of Internal Audit reports to the Audit Committee his opinion on the adequacy and effectiveness of the Company's internal control system.

ERM system

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

More details of the features of the ERM system, the process used to identify, evaluate and manage significant risks, the significant risks being managed, and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section (pages 125 to 128) of this Annual Report.

Board Oversight

The Board, assisted by the Risk Committee and the Audit Committee, oversees the Company's ERM system and internal control system respectively on an ongoing basis, and reviews the effectiveness of the systems at least annually. The duties of and work performed in 2016 by the Risk Committee and Audit Committee respectively are set out in the "Risk Committee Report" (pages 152 to 153) and "Audit Committee Report" (pages 149 to 151) of this Annual Report.

Control Activities and Processes

Compliance with Statutes and Regulations

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

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

All Department Heads, including General Managers/Project Managers for overseas subsidiaries/projects, are responsible for ensuring compliance with the statutes and regulations applicable to their own functional units. With necessary legal support, they are required to:

- Identify any new or updated statutes;
- Assess their impact on the Company's operations;

- Review at least once a year that the relevant statutes/regulations have been complied with; and
- Report any potential and actual significant non-compliances to the respective Divisional Directors and the Executive Committee.

Issues relating to compliance with statutes and regulations, including potential and actual non-compliances, and the status of rectification and actions taken to prevent recurrence are reported annually to the Executive Committee and Audit Committee.

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

Whistle-blowing Policy

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

Inside Information Policy

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

- A new CGI issued in 2016 in place of the previous guidelines to reinforce:
  - (i) the internal processes for identifying, assessing and escalating potential Inside Information to the Executive Committee and the Board;
  - (ii) the responsibilities of officers in preserving the confidentiality of Inside Information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and
  - (iii) the process of disclosure of Inside Information;
- Training to Members of the Board and the Executive Directorate, Executive Managers, Department Heads and managers who are classified as Model Code Managers as they are likely to be in possession of Inside Information because of their positions in the Company. On-going training sessions on the latest developments/requirements of the SFO are arranged as appropriate;
- Regular reminders to the Company's officers on the continuing obligations of the Company under the SFO with a copy of the new CGI and the web link of the CBT; and
- The Company's Code of Conduct, which makes specific reference to the SFO.

To support the effective implementation of the system mentioned above, in 2016, the Company launched a CBT for all Members of the Executive Directorate, Executive Managers, Department Heads and Model Code Managers. The CBT will be re-run periodically to provide training for new Model Code Managers as well to refresh the training for the other in-scope audience.

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

Evaluation of the Effectiveness of the Risk Management System

The Company has surpassed the relevant best practices in the Code by completing the effectiveness review of the ERM system for the Company and its subsidiaries, and extending the review to the Company's associates operating in Mainland China and overseas. For the year ended 31 December 2016, the Risk Committee, with delegated authority from the Board, evaluated the effectiveness of the ERM system of the Company and concluded that it was effective. The details are set out in the "Process of System Effectiveness Review" of the Risk Management section (page 128) of this Annual Report.

Evaluation of the Effectiveness of the Internal Control System

For the year ended 31 December 2016, the Audit Committee, with delegated authority from the Board, evaluated the effectiveness of internal control system of the Company and its subsidiaries based on the following:

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

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

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

For the year ended 31 December 2016, the annual assessment performed by Finance Division and IAD concluded that there were adequate resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions.

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

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

Board's Annual Review

The Board has, through the Risk Committee and the Audit Committee, overseen the Company's risk management and internal control systems on an ongoing basis. The Board has conducted its annual review of the Company's and its subsidiaries' risk management and internal control systems for the year ended 31 December 2016, and considers that such systems are effective and adequate. There were no significant control failings, weaknesses or significant areas of concern identified during the year.

The Board has conducted a review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions for the year ended 31 December 2016, and considers the above resource components to be adequate.

Crisis Management

To uphold the reputation of being one of the world's leading railway operators and in order to help ensure that the Company will respond to and recover from crises in an organised and highly effective manner, including timely communication with principal stakeholders such as Government departments and shareholders, the Company has since 1995 an established mechanism to activate the formation of the Crisis Management Team in the event of a crisis. The Crisis Management Team comprises relevant Members of the Executive Directorate and Executive Managers, and its operation is governed by a Crisis Management Plan which, among other things, sets out the duties of respective members. The Crisis Management Plan is kept in line with world-class standards and up-to-date through regular reviews. The operation of the Crisis Management Team is aided by an information system to keep track of the latest crisis situation, issues and strategic actions and to disseminate crisis related information. The Crisis Management Team conducts regular exercises to validate the crisis management organisation and arrangements and to provide practices for members. An exercise for the Crisis Management Team was conducted in August 2016. Two exercises for the shadow team of the Crisis Management Team were conducted in December 2016.

Governance of Subsidiaries and Associates

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

During the year, the Company undertook a review of the Governance Framework to refine the management governance requirements and enhance the implementation process, promoting increased collaboration of the corresponding functions at the Company on the one hand and the subsidiaries and associates on the other hand.

Pursuant to the Governance Framework, the Company exercises its control and oversight through formulation of a governance structure that is tailored for individual subsidiaries and associates through adoption of management practices and policies that are appropriate to the business nature and local situation, taking into account the management governance requirements of the Company. The governance structures of the subsidiaries and associates, as a result, will ensure adequate internal controls, consultation with and notifications to the Company on important matters, and complemented by regular reporting and assurance. Compliance with relevant management practices and governance structure is reported by subsidiaries and associates with significant operations on an annual basis.

Business Ethics

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

The Code is reviewed and updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements. Education programmes are in place to raise staff awareness. Staff members are also encouraged to report existing or perceived violations or malpractices. Proper procedures have already been put in place pursuant to the whistle-blowing policy of the Company, under which staff members can raise their concerns in a safe environment and in complete confidence if they have genuine suspicions about wrongdoings.

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

In addition, the Code of Conduct serves as a guideline to establish a comparable ethical culture in our subsidiaries and associates in Hong Kong, the Mainland of China and overseas.

External Auditor

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

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

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of KPMG nationally or internationally) are set out in note 9D to the accounts on page 231 of this Annual Report.

For maintaining integrity and objectivity as the External Auditor of the Company, KPMG implements policies and procedures to comply with professional ethics and independence policies and requirements applicable to the work it performs. In addition, KPMG requires its audit partner serving the Group to rotate off the audit engagement with the Group at least once every seven years in accordance with the Hong Kong Institute of Certified Public Accountants/International Federation of Accountants Code of Ethics.

Communication with Shareholders

Annual General Meeting (the "AGM")

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

The 2016 AGM was held on 18 May 2016 at Rotunda 3 (6/F), Kowloonbay International Trade & Exhibition Centre, Kowloon Bay, Hong Kong. To facilitate the Company's shareholders who did not attend the AGM, the whole proceedings were webcast and posted on the Company's website (www.mtr.com.hk) in the same evening.

The 2017 AGM has been scheduled on 17 May 2017 and it is planned to continue providing simultaneous interpretation to facilitate smooth and direct communication between the shareholders of the Company and the Company's Directors and management.

Resolutions passed at the 2016 AGM

The Chairman proposed separate resolutions for each substantially separate issue at the 2016 AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the 2016 AGM under Article 71 of the Articles of Association to call a poll on all resolutions conducted by electronic means.

A total of nine resolutions were passed at the 2016 AGM (with resolution no. 3 comprising three separate resolutions), each supported by over 93% of the votes cast at the 2016 AGM. The full text of the resolutions is set out in the 2016 AGM Circular (which comprised Notice of the 2016 AGM) to the Company's shareholders dated 14 April 2016. For the benefit of those shareholders who did not attend the 2016 AGM, below is a succinct summary of the resolutions passed:

(1) Adoption of the audited Statement of Accounts and the Reports of the Directors and the Auditors of the Company for the year ended 31 December 2015;

(2) Declaration of a final dividend of HK$0.81 per share for the year ended 31 December 2015;

(3) (a) Re-election of Mr Vincent Cheng Hoi-chuen as a Member of the Board of Directors of the Company;

(b) Election of Mr Lau Ping-cheung, Kaizer as a Member of the Board of Directors of the Company; and

(c) Election of Dr Allan Wong Chi-yun as a Member of the Board of Directors of the Company;

(4) Election of Mr Anthony Chow Wing-kin as a new Member of the Board of Directors of the Company;

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

(6) Grant of a general mandate to the Board of Directors to allot, issue, grant, distribute and otherwise deal with additional shares in the Company, not exceeding ten per cent. of the aggregate number of shares in issue at the date of this resolution*; and

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

* *(The full text of the resolution is set out in the Notice of the 2016 AGM.)*

The poll results were posted on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange on the same day after the AGM.

General Meeting

The Company convened a general meeting on 1 February 2016 (the "General Meeting") at Rotunda 3 (6/F), Kowloonbay International Trade & Exhibition Centre, Kowloon Bay, Hong Kong for the purpose of obtaining the approval of the Company's independent shareholders in passing an ordinary resolution (the "Ordinary Resolution") in relation to the Express Rail Link project.

The details of the Ordinary Resolution (as set out in the Company's circular dated 7 January 2016) and the poll result of the General Meeting were posted on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange on the same day of the General Meeting.

Calling General Meetings

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

If shareholders want to call a general meeting of the Company, those shareholders may request the Directors of the Company to do so, provided that the Company has received such requests from shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings. Any such request must state the general nature of the business to be dealt with, and may include the text of a resolution that may properly be moved and is intended to be moved at the general meeting. The requests may consist of several documents in like form; and the request may be sent to the Company in hard copy form or in electronic form; and must be authenticated by the person or persons making it. The Directors of the Company are required to call the general meeting within 21 days after the date on which the Company receives such requests, and the general meeting must be held on a date not more than 28 days after the date of the notice convening the general meeting. If the requests identify a resolution that may properly be moved and is intended to be moved at the general meeting, the notice of the general meeting must include notice of the resolution. The business that may be dealt with at the general meeting includes a resolution of which notice has been accordingly included in the notice of the general meeting. If the resolution is to be proposed as a special resolution, the Directors of the Company are to be regarded as not having duly called the meeting unless the notice of the general meeting includes the text of the resolution and specifies the intention to propose the resolution as a special resolution.

If, within 21 days after the date on which the Company receives the required requests, the Directors of the Company do not proceed duly to call a general meeting, the shareholders who requested the general meeting, or any of them representing more than one-half of the total voting rights of all of them, may themselves call a general meeting, provided that the general meeting must be called for a date not more than 3 months after the date on which the Company receives the required requests.

Procedures for Shareholders Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting according to the Companies Ordinance and the Articles of Association.

As regards proposing a person for election as a director, please refer to the "Appointment Procedure for Members of the Board of the Company" which is available on the website of the Company (www.mtr.com.hk).

Enquiries from Shareholders

The Company has a Shareholders' Communication Policy (available on the website of the Company (www.mtr.com.hk)) to provide shareholders with information about the Company to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner.

The Company's Shareholders Communication Policy has set out, amongst other things, a channel for shareholders' access to the Board and management by writing to the Company Secretary of the Company.

Please also refer to the Investor Relations section (pages 112 to 113) of this Annual Report on other means of communication with shareholders.

Constitutional Document

The Company's Articles of Association (in both English and Chinese) is available on both the websites of the Company (www.mtr.com.hk) and the Stock Exchange. During the year ended 31 December 2016, there was no change to the Articles of Association.

For and on behalf of the Board

Gillian Elizabeth Meller
Company Secretary
Hong Kong, 7 March 2017

Audit Committee Report

As at the date of this Report, the Audit Committee of the Company (referred to as the "Committee" in this Report) consists of five Non-executive Directors, four of whom are Independent Non-executive Directors of the Company ("INEDs"). Details of the Committee's membership and Members' attendance records during 2016 are set out on pages 131 to 132 of this Annual Report. None of the Committee Members is a partner or former partner of KPMG, the Company's external auditor.

The Finance Director (the "FD"), the Head of Internal Audit (the "Head of IA") and representatives of the external auditor attend all meetings of the Committee. At the discretion of the Committee, others may also be invited to attend meetings. The Committee meets regularly, and the external auditor or the FD may request a meeting if they consider it necessary. The Committee, upon request, also considers and, if thinks fit, approves the appointment of the Company's external auditor for undertaking non-audit work.

Duties of the Committee

Under the Committee's Terms of Reference (available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange), the duties of the Committee primarily comprise the following aspects:

Oversight of the relationship with the Company's external auditor

- Discussing with the external auditor the nature and scope of audit and reporting obligations before the audit commences;
- Pre-approving any non-audit services and ensuring that the external auditor's provision of non-audit services does not impair its independence or objectivity; and
- Recommending to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of such engagement.

Review of the financial information of the Company

- Monitoring the integrity of financial statements, interim and annual reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public;
- Liaising with the Board and the Executive Directorate in dealing with the Company's financial information. The chairman of the Committee further meets on an ad hoc basis with the Head of IA, representatives of the external auditor, and Management, as and when required; and
- Discussing any matters that the Head of IA or external auditor may wish to raise, either privately or together with Members of the Executive Directorate and any other person.

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

- Assisting the Board in overseeing the Company's financial controls and internal control systems on an ongoing basis through reviewing, at least annually, the effectiveness of the Company's financial controls and internal control systems; with a report to the Board that such a review has been carried out. These controls and systems allow the Board to monitor the Company's overall financial position and to protect its assets;
- Overseeing Management's review of the adequacy of the resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;
- Reviewing and approving the annual Internal Audit Plan which includes audits on the efficiency of chosen activities or operations of the Company;
- Reviewing periodic reports from the Head of IA and the follow-up of major action plans recommended, and putting forward recommendations to the Board, where appropriate; and

- Reviewing the annual assessment conducted by the Head of IA on the adequacy of the resources, qualifications and experience of staff of the Company's internal audit function, and its training programmes and budget.

Further details of the above are set out in the "Risk Management and Internal Control Systems" section of the Corporate Governance Report on pages 142 to 145 of this Annual Report.

Reporting to the Board

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom by a report to the Board after each Committee meeting.

The minutes of Committee meetings are prepared by the secretary of the meetings with details of the matters considered by the Committee Members and decisions reached, including any concerns raised by the Committee Members, dissenting views expressed, and suggestions for enhancing the governance and internal control aspects of the Company. The draft minutes are circulated to Committee Members for comments within a reasonable time after each meeting. The Committee formally adopts the draft minutes at the next subsequent meeting, after taking into account any comments that the Committee Members may have on the draft minutes. Minutes of the Committee meetings are open for inspection by Committee Members at the Company's registered office.

In January each year, the secretary of the meetings pre-agrees key agenda items for the year with the chairman of the Committee who makes a final determination on the agenda for the regular Committee meetings. A total of four meetings have been scheduled to be held on a quarterly basis in February, May, August and November 2017.

Work Performed by the Committee in 2016

In 2016, the Committee held four meetings. Representatives of the external auditor, the FD and the Head of IA attended all four meetings for reporting and answering questions about their work. The Committee devoted its attention to the review of the Company's annual and interim results announcement/accounts at the February and August meetings respectively, allowing more time to review and discuss the Company's internal control, internal audit and other activities at the May and November meetings.

At the February and August meetings, the Committee invited the Managing Director – Operations and Mainland Business, the Operations Director, the Commercial Director, the Projects Director, the Property Director, and the Legal and European Business Director (or their representatives) to join the financial presentation by the FD.

The major work performed by the Committee in 2016 included:

Financial

- Review of the draft 2015 Annual Report and Accounts and 2016 Interim Report and Accounts, in particular, the financial impact of the Express Rail Link and the Company's other new railway projects in progress, and the relevant disclosure notes in the said Accounts and recommendation of the same for the Board's approval;
- Review of and recommendation for presentation to the Remuneration Committee of the paper headed "2015 payout under "2008 Variable Incentive Scheme" - confirmation of the financial figures"; and
- Preview of 2016 interim and annual accounting and financial reporting issues.

Internal Audit

- Review of Internal Audit Department's Reports;
- Review of Risk Management and Internal Control Systems Effectiveness for 2015 (focused on the internal control system, as the risk management system effectiveness was separately reviewed by the Risk Committee of the Company);
- Review of Whistle-blowing Reports;
- Review of the Report on Evaluation of Effectiveness of Internal Audit Department for 2015;
- Review of Internal Audit Charter Update;
- Review of past and future audit approaches on the Company's railway projects;
- Review of Internal Audit Department's report on IT audits performed;
- Review of internal audit assessment on Mainland China and International Business;
- Approval of the 2017 Internal Audit Plan; and
- Holding of private sessions with the Head of IA without the presence of Management.

External Auditor

- Review of KPMG's Audit Plan;
- Review of summary of KPMG services to MTR and fees received;
- Pre-approval of audit and non-audit services provided by KPMG;
- Review of salient features of 2015 Annual Accounts and 2016 Interim Accounts prepared by KPMG;
- Discussion of the proposed format of the 2016 Auditor's Report (under the new requirements);
- Review of KPMG's fee proposal for the 2016 audit; and
- Holding of private sessions with representatives of KPMG without the presence of Management.

Others

- Review of the 2015 report on the outstanding litigation/potential litigation, compliance with statutes and regulations, Operating Agreement and Rail Merger Related Agreements, and implementation of Corporate Governance Framework in the Company's subsidiaries/associates;
- Review of a strategy update by the Treasury Department; and
- Review of the Audit/Risk/Governance Committee Minutes of MTR's subsidiaries.

Re-appointment of External Auditor

The Committee was satisfied with KPMG's work, its independence and objectivity, and therefore recommended the re-appointment of KPMG (which has indicated its willingness to continue in office) as the Group's external auditor for 2017 for approval by the Company's Shareholders at the 2017 Annual General Meeting.

Dr Eddy Fong Ching
Audit Committee Chairman
Hong Kong, 7 March 2017

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

Risk Committee Report

As at the date of this Report, the Risk Committee of the Company (referred to as the "Committee" in this report) consists of seven non-executive Directors, five of whom are Independent Non-executive Directors of the Company ("INEDs"). Details of the Committee's members and their attendance records during 2016 are set out on pages 131 to 132 of this Annual Report.

Duties of the Committee

The Committee's Terms of Reference are available on the respective websites of the Company (www.mtr.com.hk) and The Stock Exchange of Hong Kong Limited.

The principal duties of the Committee include reviewing the Company's Enterprise Risk Management ("ERM") framework, guidelines, policy and procedures for risk assessment and risk management; reviewing the Company's top risks and key emerging risks and the controls in place to mitigate such risks; monitoring the Company's risk profile; conducting "deep dive" reviews on selected key risk areas; reviewing the effectiveness of the ERM function; and reviewing the Company's crisis management arrangements.

The Committee assists the Board in overseeing the Company's ERM system on an ongoing basis. The Committee reviews the effectiveness of the Company's ERM system annually, and reports to the Board in relation to such review. More details of the features of the ERM system and process, the significant risks being managed, and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section on pages 125 to 128 of this Annual Report. Each year, the Committee agrees on a list of reviews and presentations in respect of selected key risk areas to be considered for that year, taking into account the ongoing activities of the Company at the material time; and invites relevant management to present on the subjects and conduct interactive discussions. The list of matters to be considered is updated as required to include any topical subjects or risks that may emerge during the year. The Committee provides observations and, where applicable, recommendations to management, based on their reviews and discussions.

The secretary of the meetings draws up agendas for each meeting in consultation with the chairman of the Committee, making reference to the list of reviews and presentations determined by the Committee, as well as topical matters at the relevant time.

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom by a report to the Board after each Committee meeting.

The minutes of the Committee meetings are prepared by the secretary of the meetings with details of the matters considered by the Committee Members, including recommendations and any observations raised by the Committee Members. Draft minutes are circulated to the Committee Members before adoption. The Committee formally adopts the draft minutes at its next subsequent meeting, after taking into account any comments that the Committee Members may have on the draft minutes.

A total of four meetings have been scheduled to be held on a quarterly basis in 2017.

Work Performed by the Committee in 2016

In 2016, the Committee held four meetings. During the year, the Committee reviewed the Company's ERM annual report and the effectiveness of the Company's ERM system for the year ended 31 December 2015. A review of the Company's ERM annual report and ERM system effectiveness for the year ended 31 December 2016 was conducted by the Committee on 22 February 2017.

The Committee reviewed the Company's risk profile, top risks and key emerging risks at each of its meetings. At its first meeting, the Committee agreed on a list of "deep dive" reviews and presentations on selected key risk areas for the year, which reviews and presentations took place as planned. Relevant Members of the Executive Directorate and managers were invited to present on the "deep dive" reviews or presentations to the Committee, with comments and recommendations provided by the Committee for appropriate action by management.

The Committee, in particular, reviewed the Company's approach to handling risks as part of its business operations, with findings submitted to the Board which have, in turn, been endorsed.

The Legal and European Business Director, the General Manager – Governance & Risk Management and the Senior Manager – Enterprise Risk, representing the ERM function, attended all four meetings in 2016 to report and answer questions on ERM related matters.

The major work performed by the Committee in 2016 included:

- MTR subsidiaries / associates cyber security update (including railway operating systems)
- Control measures for suicides / attempted suicides in the operating railway
- Extreme weather affecting railway performance
- Signalling replacement project risks update
- Risks and mitigation measures for Ngong Ping 360 rope replacement work
- Near capacity operations at Admiralty station after South Island Line (East) opening
- Challenges of increasing ageing population on railway operation
- Attraction / retention of talents and millennial behaviours
- Governance measures on property development with partner developers
- Engineering Division organisation and demarcation of responsibilities
- Social media challenges
- Big data, digitalisation and technology in Operations Division
- Major global rail accidents summary overview

Alasdair George Morrison
Risk Committee Chairman
Hong Kong, 7 March 2017

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

Capital Works Committee Report

As at the date of this Report, the Capital Works Committee of the Company (referred to as the "Committee" in this report) consists of seven non-executive Directors, six of whom are Independent Non-executive Directors of the Company ("INEDs"). Details of the Committee's members and their attendance records during 2016 are set out on pages 131 to 132 of this Annual Report.

Duties of the Committee

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

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

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

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom by a report to the Board after each Committee meeting.

The minutes of the Committee meetings are prepared by the secretary of the meetings with details of the matters considered by the Committee Members, including recommendations and any observations raised by the Committee Members. Draft minutes are circulated to the Committee Members before adoption. The Committee formally adopts the draft minutes at its next subsequent meeting, after taking into account any comments that the Committee Members may have on the draft minutes.

Work Performed by the Committee in 2016

In 2016, the Committee held five meetings at which the following key matters were reviewed and considered:

- reports on the progress and cost status of the Company's capital projects under construction including the Express Rail Link, Shatin to Central Link, South Island Line (East) and Kwun Tong Line Extension
- a streamlined programme for the Mainland Customs, Immigration and Quarantine ("MCIQ") facilities in the West Kowloon Terminus of the Express Rail Link project to mitigate the impact due to delay in the commencement of construction of the MCIQ
- half-yearly reports on projects-related audits conducted by the Company's Internal Audit Department and half-yearly reports on the construction programme and cost status of all the awarded development projects of the Company's Property Division in Hong Kong
- demarcation of responsibilities of the Engineering Division with the Projects Division and Operations Division within the Company

The Projects Director and the General Manager – Procurement & Contracts (Projects) attended all five Committee meetings in 2016 to report and answer questions on progress of projects and cost related matters. Other Executives and senior managers were also invited to attend Committee meetings when required.

Dr Allan Wong Chi-yun
Capital Works Committee Chairman
Hong Kong, 7 March 2017

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

Remuneration Report

Introduction

The Remuneration Committee has been delegated the authority to consider and recommend to the Board the Company's remuneration policy and the remuneration packages of the non-executive Directors, as well as to review and determine the remuneration packages for the Chief Executive Officer and other Members of the Executive Directorate.

Throughout the year, the Committee met regularly to discuss and approve remuneration issues pertaining to the Company's variable incentive scheme, long-term incentive scheme, and also the remuneration packages of the Chief Executive Officer and other Members of the Executive Directorate in the light of the Company's remuneration policy, and to consider and make recommendations to the Board on the remuneration packages of the non-executive Directors. In determining the remuneration of the Chief Executive Officer, the Committee consults with the Chairman and in the case of other Members of the Executive Directorate, the Committee consults with both the Chairman and the Chief Executive Officer in respect of their recommendations.

Currently, the Committee has seven non-executive Directors, four of whom are independent non-executive Directors. The Chairman of the Remuneration Committee is an independent non-executive Director. As necessary and with the agreement of the Chairman, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues. No individual Director or any of his associates is involved in deciding his own remuneration.

The principal responsibilities of the Remuneration Committee include:

- Formulating a remuneration policy and practices that facilitate the employment of top quality personnel;
- Recommending to the Board the remuneration of the non-executive Directors;
- Determining, with delegated responsibility, the remuneration packages of Members of the Executive Directorate; and
- Reviewing and approving performance-based remuneration of Members of the Executive Directorate by reference to the Board's corporate goals and objectives.

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

This Remuneration Report has been reviewed and authorised by the Remuneration Committee of the Company.

Remuneration policy

It is the Company's policy to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. To achieve this, the Company has taken into consideration a number of relevant factors such as salaries paid by comparable companies, job responsibilities, duties and scope, employment conditions elsewhere in the Company and its subsidiaries, market practices, financial and non-financial performance, and desirability of performance-based remuneration.

The Company is committed to effective corporate governance and employing and motivating top quality personnel. The Company also recognises the importance of a formal and transparent remuneration policy covering its Board and Executive Directorate.

Remuneration for Non-Executive Directors

The Remuneration Committee makes recommendations to the Board from time to time on the remuneration of the Members of the Board who are non-executive Directors. The remuneration of non-executive Directors is in the form of annual director's fees.

To ensure that non-executive Directors are appropriately remunerated for their time and responsibilities devoted to the Company, the Committee undertakes periodic reviews and considers the following factors as they put forward recommendations to the Board:

- Fees paid by comparable companies;
- Time commitment;
- Responsibilities of the non-executive Directors; and
- Employment conditions elsewhere in the Company.

Details of remuneration for non-executive Directors are set out in note 10 to the accounts.

In 2016, the Company appointed an independent consultant to review the remuneration of non-executive Directors to ensure the competitiveness and appropriateness of their remuneration, which has not been adjusted since 2007. Based on the findings and the consultant's recommendations, the Remuneration Committee recommended for approval by the Board in January 2017 a new non-executive Director remuneration framework to be implemented in 2017 as set out below.

Non-executive Director Fee (effective 1 January 2017)	(HK$)
Board	
– Chairman	1,500,000
– Other Member	300,000
Audit Committee and Capital Works Committee	
– Chairman	150,000
– Other Member	90,000
Risk Committee, Remuneration Committee, Nominations Committee, and Corporate Responsibility Committee	
– Chairman	110,000
– Other Member	60,000

Remuneration for Employees

The Company's remuneration structure for its employees, including the Chief Executive Officer and other Members of the Executive Directorate, comprises:

- Fixed compensation – base salary, allowances and benefits-in-kind (e.g. medical);
- Variable incentives – discretionary award; performance-based payment and other business-specific cash incentive plans;
- Long-term incentives – e.g. restricted shares and performance shares; and
- Retirement schemes.

The specifics of these components are described below.

Fixed Compensation

Base salary and allowances are set and reviewed annually. The annual review process takes into consideration the Company's remuneration policy, competitive market positioning, market practice, as well as the Company's and individuals' performance. Benefits-in-kind are reviewed as and when appropriate taking into consideration market practices.

Variable Incentives

The Chief Executive Officer, other Members of the Executive Directorate and selected management of the Company are eligible to receive an annual cash incentive under the Company's Variable Incentive Scheme, the rules of which are regularly reviewed by the Remuneration Committee.

Under the current scheme rules, the payouts are based on the performance of the Company and individual performance. The Company's performance is measured by both financial and non-financial factors including:

- Return on fixed assets;
- Rolling three-year operating profit;
- Fulfillment of the Customer Service Pledges; and
- Fulfillment of Performance Requirements in relation to "Train Service Delivery", "Passenger Journeys on Time" and "Train Punctuality" as defined in Schedule 2, Part 1 of the Operating Agreement.

Payouts will be automatically reduced if the Company does not achieve any one or more of the Performance Requirements. They will also be adjusted subject to the Company's achievement of all the Customer Service Pledges.

Following the end of each year, the Company engages an independent expert to conduct a review and audit of its performance versus the Performance Requirements and Customer Service Pledges. The results of this audit are shared with the Remuneration Committee to determine if adjustments to the payouts under the scheme are appropriate.

Individual performance ratings are part of the thorough annual performance assessment process that is applied throughout the Company. The performance ratings and assessments reflect the full range of factors over which the individual has accountability, including operational, other non-financial and financial factors. Individual performance ratings for the Members of the Executive Directorate are determined by the Chief Executive Officer, and the performance for the Chief Executive Officer is assessed by the Chairman.

A portion of the target incentive levels under the scheme was originally funded by participants by foregoing their 13th month pay and portions of their fixed allowances. If performance exceeds pre-defined threshold standards, then payouts under the scheme are made annually. Target incentive levels for the Chief Executive Officer and other Members of the Executive Directorate represent approximately 15-30% of total cash compensation.

In addition, the Company operates other business-related incentive schemes to motivate the staff concerned to reach specific business targets of the Company.

Discretionary Awards

In 2016, special discretionary awards were provided to staff, including the Members of the Executive Directorate, with competent or above performance, as a recognition of their contribution to the Company's good performance and achievements in the past year and to motivate staff to strive for continuous business growth.

Long-Term Incentives

During 2016, the Company maintained the 2007 Share Option Scheme and the 2014 Share Incentive Scheme.

(i) 2007 Share Option Scheme

The 2007 Share Option Scheme (the "2007 Scheme") was approved and adopted by shareholders at the Company's Annual General Meeting on 7 June 2007. The 2007 Scheme is intended to provide employees of the Company and its subsidiaries the opportunity to participate in the growth and success of the Company. Under the terms of the 2007 Scheme, no new grant of options could be made after 5:00 p.m. on 6 June 2014. The Scheme includes a provision which specifies that options cannot be exercised under the Scheme unless the Company has satisfied each of the three Key Performance Requirements included in the Operating Agreement in order for any options to be exercised.

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2016 under the 2007 Scheme are set out under the paragraph "Directors' Interests in Shares and Underlying Shares of the Company" of the Report of the Members of the Board.

Details of the 2007 Scheme and options granted to Members of the Executive Directorate and selected employees of the Company under the Schemes are set out in notes 10 & 47 to the accounts.

(ii) 2014 Share Incentive Scheme

On 15 August 2014, the Board approved the adoption of the 2014 Share Incentive Scheme (the "2014 Scheme"), following the expiry of the 2007 Scheme on 6 June 2014. The Scheme took effect on 1 January 2015 for a term of 10 years (unless terminated earlier by the Company).

The purposes of the 2014 Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the 2014 Scheme as award holders in accordance with the rules of the 2014 Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares. Awards under the 2014 Scheme were granted to selected employees of the Company, including Members of the Executive Directorate, in 2016.

Restricted Shares are awarded on the basis of the individual performance of the relevant eligible employee. Performance Shares are awarded which vest subject to the performance of the Company, assessed by reference to such Board-approved performance metric and in respect of such performance period, and any other performance conditions, as determined by the Remuneration Committee from time to time.

In general, the Company will pay to the third party trustee (the "Trustee") monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from shares held as part of the funds of the trust to acquire existing shares from the market. Such shares will be held on trust by the Trustee for the relevant award holder. The Trustee shall not exercise any voting rights in respect of any shares held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested award shares. An award holder shall have no right to any dividend held under the trust.

Details of the 2014 Scheme and shares granted to Members of the Executive Directorate and selected employees of the Company under the 2014 Scheme are set out in notes 10 & 47 to the accounts.

Retirement Schemes

In Hong Kong, the Company operates four retirement schemes under trust, the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund Schemes (the "MTR MPF Scheme" and the "KCRC MPF Scheme") with details as follows:

(a) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted an MPF Exemption by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

(b) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted an MPF Exemption by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

(c) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

(d) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPFSO.

The executive Directors who were hired by the Company before 1 April 1999 are eligible to join the MTR Retirement Scheme. Other executive Directors are eligible to join either the MTR Provident Fund Scheme or the MTR MPF Scheme.

Mr. Lincoln Leong, the Company's Chief Executive Officer effective from 16 March 2015, participates in the MTR Provident Fund Scheme.

For subsidiary companies in Hong Kong, the Mainland of China, United Kingdom, Sweden and Australia, the Group operates retirement schemes established in accordance with, in the case of subsidiaries in Hong Kong, the MPFSO and, in the case of subsidiaries in the Mainland of China and overseas, their respective local laws and regulations.

Work performed by the Remuneration Committee during the year

- Approved the 2015 Remuneration Report as incorporated in the 2015 Annual Report;
- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2015 performance period;
- Reviewed and approved restricted share and/or performance share awards for eligible employees under the 2014 Share Incentive Scheme;
- Conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2016;
- Determined and approved the remuneration packages for the following Members of the Executive Directorate:
    - Dr Jacob Kam Chak-pui as Managing Director – Operations and Mainland Business (from 1 May 2016) ;
    - Mr Adi Lau Tin-shing as Operations Director (from 1 May 2016) ;
    - Mr Herbert Hui Leung-wah as Finance Director Designate (from 1 June 2016) and as Finance Director (from 2 July 2016); and
    - Ms Margaret Cheng Wai-ching as Human Resources Director (from 1 June 2016);
- Reviewed the mechanics for delivering special dividend under 2014 Share Incentive Scheme;
- Reviewed and approved the list of benchmarking companies for the MTR Pay Trend Survey;
- Reviewed and approved the fee arrangements for non-executive Directors; and
- Reviewed the remuneration framework for senior executives.

Remuneration of Non-Executive and Executive Directors

The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 10 to the accounts.

in HK$ million	2016	2015
Fees	**6.7**	7.1
Base salaries, allowances and other benefits-in-kind	**55.7**	41.2
Variable remuneration related to performance	**18.9**	15.4
Retirement scheme contributions	**9.6**	6.0
Total	**90.9**	69.7

Please refer to note 10 to the accounts for information relating to the five highest paid employees of the Company for the year ended 31 December 2016.

Dr Dorothy Chan Yuen Tak-fai
Remuneration Committee Chairman
Hong Kong, 6 March 2017

Board and Executive Directorate

Members of the Board

Chairman: Non-executive Chairman	CEO: Chief Executive Officer	NED: Non-executive Director	INED: Independent Non-executive Director
AC: Member of Audit Committee	NC: Member of Nominations Committee	RC: Member of Remuneration Committee	CWC: Member of Capital Works Committee
RiskC: Member of Risk Committee	CRC: Member of Corporate Responsibility Committee	Chairman of the relevant Board Committee	

Professor Frederick Ma Si-hang

Aged 65

Chairman CRC NC RC

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

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

Professor Ma was an independent non-executive director of Agricultural Bank of China Limited, Aluminum Corporation of China Limited and Hutchison Port Holdings Management Pte. Limited, and a non-executive director of China Mobile Communications Corporation. He was previously the Secretary for Financial Services and the Treasury of the HKSAR Government and a Non-executive Director of the Company from 2002 to 2007. Professor Ma held the position of the Secretary for Commerce and Economic Development of the HKSAR Government from 2007 to July 2008.

He is a member of the International Advisory Council of China Investment Corporation and the Global Advisory Council of the Bank of America.

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

He is also a director of a member of the Company's group.

Lincoln Leong Kwok-kuen

Aged 56

CEO CRC

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

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

Mr Leong is a non-executive director of Mandarin Oriental International Limited, chairman of the Quality Assurance Council of the University Grants Committee, vice-chairman of The Hong Kong Housing Society, and a vice-patron and a member of the Board of Directors of The Community Chest of Hong Kong.

He was an independent non-executive director of Hong Kong Aircraft Engineering Company Limited.

Mr Leong holds a Bachelor of Arts degree (subsequently a Master of Arts degree) from the University of Cambridge. He later qualified as a chartered accountant in England in 1985 and Canada in 1986. Mr Leong is a chartered fellow of The Chartered Institute of Logistics and Transport in Hong Kong.

He is also a director of some of the members of the Company's group.

Pamela Chan Wong Shui

Aged 70

INED NC CRC

Mrs Chan has joined the Board as an Independent Non-executive Director since July 2013.

Mrs Chan is vice-chairman of The Boys' and Girls' Clubs Association of Hong Kong and an independent director of the Travel Industry Council of Hong Kong. She had served on the board of The Community Chest of Hong Kong for many years, and is currently its vice-patron. Mrs Chan is also currently patron of Consumers International.

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

Mrs Chan is a graduate and an Honorary Fellow of The Chinese University of Hong Kong. She holds a Bachelor of Laws degree from Peking University.

Dr Dorothy Chan Yuen Tak-fai

Aged 67

INED RC CWC

Dr Chan has joined the Board as an Independent Non-executive Director since July 2013.

Dr Chan is currently the Deputy Director (Administration and Resources), Head of Centre for Logistics and Transport, and advisor of International College of HKU School of Professional and Continuing Education. She is an independent non-executive director of AMS Public Transport Holdings Limited, the chairperson of the Sustainable Agricultural Development Fund Advisory Committee, a board member of the Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies Limited, an advisor to the Serco Group (HK) Limited and a member of the Board of Governors of the Hong Kong Institute for Public Administration. Dr Chan is also an Honorary Fellow of the Chartered Institute of Logistics and Transport ('CILT') and CILT's Global Advisor for Women in Logistics and Transport.

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

Dr Chan holds a Bachelor of Social Sciences degree, a Master of Social Sciences degree in Public Administration and a Doctor of Philosophy degree from The University of Hong Kong.

She is also a director of a member of the Company's group.

Vincent Cheng Hoi-chuen

Aged 68

INED RC CRC

Mr Cheng has joined the Board as an Independent Non-executive Director since July 2009.

Mr Cheng is an independent non-executive director of CLP Holdings Limited, Great Eagle Holdings Limited, Hui Xian Asset Management Limited, China Minsheng Banking Corp., Ltd., Shanghai Industrial Holdings Limited, Wing Tai Properties Limited, Hutchison Whampoa Limited, and CK Hutchison Holdings Limited.

He was an executive director of HSBC Holdings plc and the Advisor to its Group Chief Executive, and a non-executive director of Swire Properties Limited. In public service, Mr Cheng was vice chairman of the China Banking Association, chairman of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR, a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority and a member of the Advisory Committee on Post-service Employment of Civil Servants. In 2008, Mr Cheng was appointed a member of the National Committee of the 11th Chinese People's Political Consultative Conference (the 'CPPCC') and a senior adviser to the 11th Beijing Municipal Committee of the CPPCC.

He holds a Bachelor of Social Science degree in Economics from The Chinese University of Hong Kong and a Master of Philosophy degree in Economics from The University of Auckland. In 2005, Mr Cheng was conferred the degree of Doctor of Social Science, *honoris causa*, by The Chinese University of Hong Kong and the degree of Doctor of Business Administration, *honoris causa*, by The Open University of Hong Kong. He was also awarded the Gold Bauhinia Star medal in 2005.

Anthony Chow Wing-kin

Aged 66

INED RC CWC

Mr Chow has joined the Board as an Independent Non-executive Director since 18 May 2016.

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

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

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

Dr Eddy Fong Ching

Aged 70

INED AC NC

Dr Fong has joined the Board as an Independent Non-executive Director since January 2015.

He is currently the chairman of the Process Review Panel in relation to the Regulation of Mandatory Provident Fund Intermediaries, and an independent non-executive director of Standard Chartered Bank (Hong Kong) Limited and Standard Chartered Bank (China) Limited.

Dr Fong was the non-executive chairman of the Securities and Futures Commission from 2006 to 2012 and the past chairman of the Council of The Open University of Hong Kong. His other past public duties included director of The Hong Kong Mortgage Corporation Limited, the Mandatory Provident Fund Schemes Authority and the Exchange Fund Investment Limited, a member of The Hong Kong Housing Authority and the Greater Pearl River Delta Business Council, and a council member of The Hong Kong Academy for Performing Arts. Dr Fong was also a senior audit partner with PricewaterhouseCoopers specializing in capital markets work in Hong Kong and the Mainland until his retirement in 2003.

He is a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

Dr Fong holds a Bachelor degree in Social Science from and was awarded an Honorary Doctor of Civil Law by University of Kent in United Kingdom. He was appointed as a Justice of the Peace in 1996 and was awarded Gold Bauhinia Star medal in 2008.

Dr Fong is also a director of a member of the Company's group.

James Kwan Yuk-choi

Aged 65

INED CWC RiskC

Mr Kwan has joined the Board as an Independent Non-executive Director since October 2014.

Mr Kwan is currently an independent non-executive director of Towngas China Company Limited. He was a senior adviser, an executive director and the chief operating officer of The Hong Kong and China Gas Company Limited, and a director of Shenzhen Gas Corporation Limited.

Mr Kwan was the President of The Institution of Gas Engineers (currently known as The Institution of Gas Engineers & Managers) ('IGEM') in the United Kingdom in 2000/2001 and The Hong Kong Institution of Engineers ('HKIE') in 2004/2005. He was also a former member of the Construction Industry Council, the Transport Advisory Committee, the Vocational Training Council, and the Standing Committee on Disciplined Services Salaries and Conditions of Service of the HKSAR Government.

Mr Kwan holds a Bachelor degree of Science in Engineering from The University of Hong Kong, and a Master degree in Business Administration from The Chinese University of Hong Kong. He was awarded an Honorary Fellowship by The Hong Kong University of Science and Technology in 2011 and is a Registered Professional Engineer (Gas), a Chartered Engineer, Honorary Fellow of the HKIE, Fellow of the Institution of Mechanical Engineers, Fellow of the IGEM, Fellow of the Energy Institute and Fellow of the Chartered Institution of Building Services Engineers of the United Kingdom.

Lau Ping-cheung, Kaizer

Aged 65

INED CWC CRC

Mr Lau has joined the Board as an Independent Non-executive Director since August 2015.

He is a chartered surveyor and has substantial experience and involvements in construction, real estate and infrastructure projects both in Hong Kong and Mainland China. He is currently a Project Director at SOCAM Asset Management (HK) Limited of the Shui On group of companies. Mr Lau is an independent non-executive director of Kingboard Laminates Holdings Limited. He is one of the Founders of Hong Kong Coalition of Professional Services and has been the Chairman since June 2012. Mr Lau is a member of the Lantau Development Advisory Committee and the Economic Development Commission. He is also a member of the Chinese People's Political Consultative Conference of Shanghai and a fellow of The Hong Kong Institute of Surveyors.

Mr Lau was a former president of The Hong Kong Institute of Surveyors, a former chairman of the Royal Institution of Chartered Surveyors (HK Branch) and a former member of the HKSAR Legislative Council. He was also a former non-executive director of the Urban Renewal Authority, and a former member of the Long Term Housing Strategy Steering Committee.

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

He is also a director of a member of the Company's group.

**Lucia
Li Li Ka-lai**

Aged 62

INED AC RiskC

Mrs Li has joined the Board as an Independent Non-executive Director since October 2014.

Mrs Li is a retired civil servant. She was Director of Accounting Services of the HKSAR Government from October 2003 to January 2009. Mrs Li has been a member of the Public Service Commission since February 2012, a member of the Communications Authority since April 2012 and a member of a task force formed by the Commissioner for Innovation and Technology to follow up the Director of Audit's Report No. 61 with regard to the Small Entrepreneur Research Assistance Programme since 15 July 2014. She was formerly a board member and treasurer of Chung Ying Theatre Company (HK) Limited.

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

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

Alasdair George Morrison

Aged 68

INED RiskC AC

Mr Morrison has joined the Board as an Independent Non-executive Director since July 2010.

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

He was a Senior Advisor of Citigroup Asia Pacific, a member of the Financial Services Development Council of the HKSAR Government, and a member of the Board of Grosvenor Group Limited in the United Kingdom, the Operations Review Committee of the Independent Commission Against Corruption, and the Hong Kong/European Union Business Cooperation Committee. From 1971 to 2000, he worked for the Jardine Matheson Group, where he was Group Managing Director from 1994 to 2000. Subsequently, Mr Morrison was Chairman of Morgan Stanley Asia, based in Hong Kong, until April 2007, and he was also a member of Morgan Stanley's Management Committee and Chief Executive Officer of Morgan Stanley Asia.

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

Ng Leung-sing

Aged 67

INED NC RiskC

Mr Ng has joined the Board as an Independent Non-executive Director since December 2007.

Mr Ng is vice chairman of Chiyu Banking Corporation, chairman of Bank of China (Hong Kong) Trustees Limited, a director of the BOCHK Charitable Foundation and a director of The Hong Kong Mortgage Corporation Limited. He is also an independent non-executive director of SmarTone Telecommunications Holdings Limited, Nine Dragons Paper (Holdings) Limited and Hanhua Financial Holding Co., Ltd..

Mr Ng was general manager, Bank-wide Operation Department of Bank of China (Hong Kong) Limited, and a member of the Legislative Council of the HKSAR. He is also a Hong Kong Deputy to the 10th, 11th and 12th National People's Congress, People's Republic of China.

Mr Ng holds a diploma in Chinese Law from the Graduate College of the University of East Asia, Macau.

Abraham Shek Lai-him

Aged 71

INED NC CWC

Mr Shek has joined the Board as an Independent Non-executive Director since December 2007.

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

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

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

Benjamin Tang Kwok-bun

Aged 65

INED RC RiskC

Mr Tang has joined the Board as an Independent Non-executive Director since October 2014.

He joined the Hong Kong Civil Service in 1974. From the late 1990s to early 2000s, Mr Tang served as the Government Printer and the Commissioner of Insurance. He was appointed by the Central Government of the People's Republic of China as the Director of Audit of the HKSAR in December 2003. Mr Tang retired from this post in July 2012 and was awarded the Gold Bauhinia Star medal by the Chief Executive of the HKSAR. He was appointed a Commissioner of the Commission of Inquiry Into the Collision of Vessels Near Lamma Island in 2012 and the Commission's report was presented to the Chief Executive in April 2013.

Mr Tang is a member of the Operations Review Committee of the Independent Commission Against Corruption, and a member of Croucher Foundation's and The University of Hong Kong's Audit Committee. He is an independent non-executive director of Principal Insurance Company (Hong Kong) Limited and BE Reinsurance Limited.

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

Dr Allan Wong Chi-yun

Aged 66

Dr Wong has joined the Board as an Independent Non-executive Director since August 2015.

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

Dr Wong holds a Bachelor of Science degree in Electrical Engineering from The University of Hong Kong, a Master of Science degree in Electrical and Computer Engineering from the University of Wisconsin and an Honorary Doctorate of Technology from The Hong Kong Polytechnic University. He was appointed as a Justice of the Peace in 1995, and awarded a member of the Most Excellent Order of the British Empire in 1997. Dr Wong was awarded the Silver Bauhinia Star medal and the Gold Bauhinia Star medal in 2003 and 2008 respectively.

He is also a director of a member of the Company's group.

Professor Chan Ka-keung, Ceajer

Aged 60

Professor Chan has joined the Board as a Non-executive Director since July 2007 after his appointment as the Secretary for Financial Services and the Treasury of the HKSAR Government with effect from 1 July 2007.

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

Before joining the HKSAR Government, he was Dean of Business and Management of The Hong Kong University of Science and Technology from 1 July 2002.

Professor Chan holds a Bachelor's degree in economics from Wesleyan University in the US and an M.B.A. and a Ph.D. in finance from The University of Chicago.

Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)

Aged 64

Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung has joined the Board as a Non-executive Director appointed by the Chief Executive of the HKSAR pursuant to the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) since 1 July 2012.

He is also the Chairman of The Hong Kong Housing Authority, Board Member of Airport Authority Hong Kong and a director of The Hong Kong Mortgage Corporation Limited.

Before joining the HKSAR Government, Professor Cheung held a number of public service positions including non-official member of the Executive Council, Chairman of the Consumer Council, member of The Hong Kong Housing Authority and Chairman of its Subsidised Housing Committee, member of the Greater Pearl River Delta Business Council and member of the Disaster Relief Fund Advisory Committee. He was also the President of The Hong Kong Institute of Education (now The Education University of Hong Kong) and Chair Professor of Public Administration until June 2012. Prior to 2008, Professor Cheung was a Professor at the Department of Public and Social Administration of the City University of Hong Kong, and was a member of the Legislative Council from 1995 to 1997.

He holds a Bachelor degree in Social Sciences from The University of Hong Kong, a Master of Science degree in Public Sector Management from the University of Aston, the United Kingdom and a Doctor of Philosophy degree in Government from the London School of Economics and Political Science of the University of London, the United Kingdom.)

Permanent Secretary for Development (Works) (Hon Chi-keung)

Aged 58

Permanent Secretary for Development (Works) (Hon Chi-keung has joined the Board as a Non-executive Director appointed by the Chief Executive of the HKSAR pursuant to the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) since 7 April 2015.

Mr Hon joined the Hong Kong Government in August 1983 and has been Director of Civil Engineering and Development since January 2011.

He is a fellow of The Hong Kong Institution of Engineers, a fellow of the Chartered Institute of Arbitrators, United Kingdom and a fellow of the Institution of Civil Engineers, United Kingdom.

Mr Hon holds a Bachelor of Science degree in Engineering and a Master degree in Public Administration from The University of Hong Kong.)

Commissioner for Transport (Ingrid Yeung Ho Poi-yan)

Aged 52

Commissioner for Transport (Ingrid Yeung Ho Poi-yan has joined the Board as a Non-executive Director appointed by the Chief Executive of the HKSAR pursuant to the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) since 8 October 2012.

She joined the Hong Kong Government in June 1986 and has served in various bureaux and departments. Before joining the Transport Department, she was the Deputy Secretary for the Civil Service.

As Commissioner for Transport, Mrs Yeung is also a director of several transport-related companies including The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, New World First Bus Services Limited, New Lantao Bus Company (1973) Limited, Citybus Limited, The "Star" Ferry Company, Limited, New Hong Kong Tunnel Company Limited, Western Harbour Tunnel Company Limited, Tate's Cairn Tunnel Company Limited and Route 3 (CPS) Company Limited.

She holds a Bachelor of Arts degree and a Doctor of Philosophy degree from The University of Hong Kong.)

Board and Executive Directorate

From left to right:

Front row: Margaret Cheng Wai-ching, Dr Philco Wong Nai-keung, Lincoln Leong Kwok-kuen, Jeny Yeung Mei-chun, Linda So Ka-pik, Dr Jacob Kam Chak-pui

Back row: Morris Cheung Siu-wa, David Tang Chi-fai, Herbert Hui Leung-wah, Dr Peter Ronald Ewen, Adi Lau Tin-shing, Gillian Elizabeth Meller

Members of the Executive Directorate

Lincoln Leong Kwok-kuen

His biographical details are set out on pages 160 to 161.

Dr Jacob Kam Chak-pui

Managing Director –
Operations and Mainland Business
Aged 55

Dr Kam has been the Managing Director - Operations and Mainland Business since 1 May 2016 and a Member of the Executive Directorate since January 2011. He is responsible for overseeing the Company's transport operations in Hong Kong and its rail and property businesses in the Mainland of China. In addition, Dr Kam is responsible for overseeing railway operations standards and ensuring mutual learning of best practices among all the Company's railway operations globally.

He joined the Company in 1995 and had held various management positions in Operations, Projects and China & International Business Divisions. Dr Kam was the Operations Director between January 2011 and April 2016.

He holds a Bachelor of Science degree in Civil Engineering from the University of Southampton, and a doctoral degree in Mechanical Engineering from the University of London (University College London), both in the United Kingdom. Dr Kam qualified as a chartered engineer in the United Kingdom in 1989.

He is a corporate member of both the Institution of Mechanical Engineers in the United Kingdom and The Hong Kong Institution of Engineers. Dr Kam is also a chartered fellow of The Institution of Occupational Safety and Health in the United Kingdom and of The Chartered Institute of Logistics and Transport in Hong Kong.

He is a member of Vocational Training Council, and is also a director of some of the members of the Company's group.

Margaret Cheng Wai-ching

Human Resources Director
Aged 51

Ms Cheng has been the Human Resources Director and a Member of the Executive Directorate since 1 June 2016. She is responsible for all of the Company's human resources and administration affairs.

Ms Cheng is a seasoned human resources practitioner with rich senior management experience. She took up different human resources roles in Citibank, N.A. between 1993 and 1997, and was with JP Morgan as Vice President, Human Resources between 1997 and 2001. From 2001 to 2013, Ms Cheng was with The Hongkong and Shanghai Banking Corporation Limited ('HSBC') and was Head of Human Resources, Hong Kong and Global Business, Asia Pacific when she left HSBC. Before joining the Company, she was Group Head of Human Resources of the Hong Kong Exchanges and Clearing Limited.

Ms Cheng is currently a vice president of the Executive Council and a fellow member, of the Hong Kong Institute of Human Resource Management, and a council member of The Hong Kong Management Association. She is also serving as the vice chairman of the Cross-Industry Training Advisory Committee for the Human Resource Management sector under the Qualifications Framework, Education Bureau, and a member of the Manpower Development Committee of the Labour and Welfare Bureau and The Standing Committee on Disciplined Services Salaries and Conditions of Service of the HKSAR Government.

Ms Cheng holds a Bachelor of Arts degree in Business Administration from The California State University, the United States of America.

She is also a director of a member of the Company's group.

Morris Cheung Siu-wa

President of MTR Academy
Aged 55

Mr Cheung has been the President of MTR Academy since 1 July 2016 and a Member of the Executive Directorate since July 2012. He is responsible for spearheading and overseeing the development of the MTR Academy, with an objective to develop competent railway professionals and raise the quality of local and regional rail services through offering programmes related to railway management, operations, engineering and customer service, and undertaking rail-related research.

Mr Cheung joined the Company in 1983 as a Graduate Engineer, and has progressed over the years to senior management positions in Operations and Projects Divisions. He was seconded to Ngong Ping 360 Limited as its Managing Director from 2007 to 2009. In July 2009, Mr Cheung was appointed Chief of Operating and in January 2011, he took up the position of Chief of Operations Engineering. Mr Cheung was the Human Resources Director between July 2012 and June 2015 and the European Business Director between June 2015 and June 2016. He has a wide range of management experience and deep knowledge of the Company.

Mr Cheung holds a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering from The University of Hong Kong, a Master of Business Administration degree from the City Polytechnic of Hong Kong (now called City University of Hong Kong) and a Master of Science degree in Financial Analysis from The Hong Kong University of Science and Technology.

He is a fellow of The Hong Kong Institution of Engineers, The Institution of Engineering and Technology and The Chartered Institute of Logistics & Transport in Hong Kong, and the chairman of the Asia Pacific Division of the International Association of Public Transport (UITP).

Mr Cheung is also a director of some of the members of the Company's group.

Dr Peter Ronald Ewen

Engineering Director

Aged 57

Dr Ewen has been the Engineering Director and a Member of the Executive Directorate since 22 February 2016. He is responsible for driving excellence in the Company's engineering functions and strengthening its control and check and balance processes, and overseeing the procurement and contract administration function.

Dr Ewen started his career in the Royal Air Force of the United Kingdom in 1976 and attained the rank of Air Vice-Marshal. He served in different capacities, including Chief of Staff Support, Executive Officer and Chief Engineer (Air). In his last role as Director Air Support, Dr Ewen was responsible for the procurement, in-service support and airworthiness of the fleets of large aircraft of the Royal Air Force, including Strategic and Tactical Airlift, Air-to-Air Refuelling, Maritime Patrol, and Air Intelligence Surveillance Target Acquisition and Reconnaissance capabilities. Before joining the Company, he was a Procurement Advisor for Rail Franchising in the Department for Transport – Rail, United Kingdom and the Head of Air for Airbus Defence and Space, United Kingdom respectively.

Dr Ewen holds a Bachelor of Science (First Class Honours) degree in Engineering Management from the University of Lincoln, United Kingdom and a Doctor of Philosophy degree from International Management Centres Association, United Kingdom. He is a chartered engineer and a fellow of the Royal Aeronautical Society. Dr Ewen was awarded Companion of the Most Honourable Order of the Bath in 2015.

He is also a director of a member of the Company's group.

Herbert Hui Leung-wah

Finance Director

Aged 54

Mr Hui has been the Finance Director and a Member of the Executive Directorate since 2 July 2016. He joined the Company as Finance Director – Designate and a Member of the Executive Committee on 1 June 2016. Mr Hui is responsible for the financial management of all of the Company's affairs, including financial planning and control, budgeting, accounting and reporting, corporate financing, and the treasury function. He also leads the Company's information technology, investor relations as well as materials and stores functions.

Mr Hui is a chartered financial analyst and has extensive corporate finance and investment banking experience. He began his career at Morgan Stanley Asia Limited in 1988. He left in 1990 to pursue a career in corporate finance with Wardley Corporate Finance Limited (later known as Corporate, Investment Banking and Markets Division of The Hongkong and Shanghai Banking Corporation Limited) and was the Chief Operating Officer, Investment Banking, Asia Pacific and Co-Head, Corporate Finance Execution when he left in 2004. Mr Hui was General Manager – Corporate Finance of the Company from 2004 to 2011, and the Chief Financial

Officer of Digital China Holdings Limited from 2011 to 2012. He was the Chief Financial Officer of K. Wah International Holdings Limited before re-joining the Company in 2016.

Mr Hui holds a Bachelor of Science degree in Business Studies (First Class Honours) from the City University Business School, London and a Master of Business Administration degree from The Chinese University of Hong Kong. He has completed the Advanced Management Program in Wharton Business School, University of Pennsylvania.

Mr Hui is also a director of some of the members of the Company's group.

Adi Lau Tin-shing

Operations Director

Aged 57

Mr Lau has been the Operations Director and a Member of the Executive Directorate since 1 May 2016. He is responsible for overseeing the Company's railway operations in Hong Kong.

Mr Lau joined the Company in 1982 and had held various management positions related to the design, construction, operations and maintenance of the Company's railway system in Hong Kong and the Company's rail businesses in the Mainland of China. He took up the position of Chief of Operating in October 2011 and was appointed as the Deputy Director – Operating between August 2013 and April 2016.

Mr Lau holds a Bachelor of Science (Honour) degree in Civil Engineering from The University of Hong Kong and an MBA degree from the University of Michigan in the United States of America.

He is a chartered engineer, a corporate member of the Institution of Civil Engineers in the United Kingdom and a fellow of The Hong Kong Institution of Engineers. Mr Lau is also a chartered fellow of The Chartered Institute of Logistics and Transport in Hong Kong. He is the president of the China Hong Kong Railway Institution and the chairman of the International Association of Public Transport (UITP) Asia Pacific Urban Rail Platform.

Mr Lau is also the chairman of the board of Ngong Ping 360 Limited.

Gillian Elizabeth Meller

Legal and European Business Director

Aged 44

Ms Meller has been the Legal and European Business Director since 1 July 2016 and a Member of the Executive Directorate since September 2011. She is responsible for the provision of commercial legal support and advice to all aspects of the Company's business. Ms Meller is also responsible for managing and overseeing the growth of the Company's European Business, in addition to her responsibility for the strategic management of the Company's insurance programmes and its governance and risk management function. Before assuming her current position, she was the Legal Director & Secretary between September 2011 and June 2016.

Ms Meller joined the Company in August 2004 as Legal Adviser and became Deputy Legal Director in December 2010. Before joining the Company, she was Director of Legal Services for Metronet Rail SSL Limited in London, the United Kingdom, and a solicitor at CMS Cameron McKenna in London, the United Kingdom.

Ms Meller holds a Master of Arts degree in Geography from the University of Oxford and obtained her postgraduate qualifications in law from The College of Law in Guildford, both in the United Kingdom. She is qualified to practise as a solicitor in Hong Kong and England and Wales.

Ms Meller is a member of the Standing Committee on Company Law Reform, a council member of The Hong Kong Institute of Chartered Secretaries ('HKICS') and a fellow of both The Institute of Chartered Secretaries and Administrators and the HKICS.

She is also a director of some of the members of the Company's group.

Linda So Ka-pik

Corporate Affairs Director

Aged 49

Ms So has been the Corporate Affairs Director and a Member of the Executive Directorate since September 2015. She is responsible for overseeing stakeholder engagement, external communications and corporate responsibility.

Ms So has extensive administrative and public relations experience. She worked in the Hong Kong Government from 1989 to 2013 in various policy bureaux and departments including the Eastern District Office, Constitutional Affairs Branch, Transport Branch, Security Bureau and the Office of the Government Chief Information Officer. Ms So also served as the Press Secretary to the Chief Secretary for Administration and the Financial Secretary from 1999 to 2001 and acted as the Spokesman and Coordinator of the HKSAR Government team sent to Thailand in 2004 to assist Hong Kong residents affected by the tsunami. Before she left the Administrative Service, Ms So was the Deputy Secretary of Commerce and Economic Development (Commerce & Industry) from 2009 to 2011. After taking up a contract position as Director of Marketing and Business Development in the Heritage and Museums Division of the Leisure and Cultural Services Department from 2012 to 2013, she took up the role of the Director General of the Federation of Hong Kong Industries.

Ms So holds a Bachelor of Arts degree in Economics (subsequently a Master of Arts degree) from the University of Cambridge.

David Tang Chi-fai

Property Director

Aged 52

Mr Tang has been the Property Director and a Member of the Executive Directorate since October 2011. Mr Tang joined the Company in August 2004 as Contracts & Commercial Manager – China Business and was appointed Deputy Property Director in July 2011. He is responsible for all of the property development projects of the Company in Hong Kong from layout planning, scheme design through to project construction completion, as well as asset and leasing management of investment properties (including shopping malls and offices) and property management of office buildings and residential units. During his service with the Company, he held senior management positions in the Legal and Procurement Division, and the China and International Business Division before he was transferred to Property Division in 2009.

Before joining the Company, Mr Tang was Commercial Manager – Hong Kong & China Region, and Deputy General Manager – Hong Kong & China Region for Acciona, S.A. He had almost 20 years' working experience in contract administration, project management and quantity surveying in the United Kingdom and Hong Kong after starting his career as a Group Trainee of George Wimpey Plc.

Mr Tang holds a Bachelor of Science (Honours) degree in Quantity Surveying from the University of the West of England (formerly Bristol Polytechnic) in the United Kingdom. He is a chartered surveyor and a member of the Royal Institution of Chartered Surveyors and The Hong Kong Institute of Surveyors.

Mr Tang is a non-executive director of the Urban Renewal Authority of the HKSAR Government, and also a director and/or alternate director of some of the members of the Company's group.

Dr Philco Wong Nai-keung

Projects Director

Aged 62

Dr Wong has been the Projects Director and a Member of the Executive Directorate since October 2014. He joined the Company in November 2011 as General Manager – Shatin to Central Link and was appointed as Projects Director – Designate in August 2014. Dr Wong is responsible for overseeing the Company's railway network expansion projects in Hong Kong.

He has over 35 years of experience in business management, implementation and delivery of large-scale infrastructure projects in Hong Kong, the Mainland of China and overseas.

Dr Wong is the chairman of Engineering Discipline, Construction Collaborative Degree Programmes Advisory Committee of Vocational Training Council, the vice president of The Hong Kong Institution of Engineers ('HKIE'), and a council member of Construction Industry Council. He is also the chairman of the Benevolent Fund Committee of The Lighthouse Club.

Dr Wong was formerly a member of the Occupational Deafness Compensation Board.

He holds a Bachelor of Science degree in Civil Engineering from the University of Manitoba, Canada, a Master of Engineering degree in Construction Management and Engineering from the University of Toronto, Canada, and a Doctor of Business Administration degree from Curtin University, Australia.

Dr Wong is a fellow member of HKIE and the Institution of Civil Engineers in the United Kingdom.

Jeny Yeung Mei-chun

Commercial Director

Aged 52

Ms Yeung has been the Commercial Director and a Member of the Executive Directorate since September 2011. She joined the Company in November 1999 as the Marketing Manager and was then appointed as General Manager – Marketing & Station Commercial until August 2011. Ms Yeung has been a member of the Company's Executive Committee since 2004. She is responsible for the marketing of the Company's railway services as well as managing and enhancing the MTR Brand. Ms Yeung is also responsible for customer service development and the management of various non-fare businesses.

Before joining the Company, she held various marketing and business development positions in Standard Chartered Bank (Hong Kong) Limited and Citibank in Hong Kong.

Ms Yeung holds a Bachelor of Social Sciences degree majoring in Management Studies from The University of Hong Kong.

She is a fellow of The Chartered Institute of Marketing and a chartered fellow of The Chartered Institute of Logistics and Transport in Hong Kong.

Ms Yeung is also a member of the Hong Kong Tourism Board, the Advisory Committee on Enhancing Self-Reliance Through District Partnership Programme, the Marketing Management Committee of The Hong Kong Management Association, the Advisory Committee on Publicity and Public Education in Innovation and Technology of the Innovation and Technology Commission of the HKSAR Government, and the Hong Kong Trade Development Council Infrastructure Development Advisory Committee. She is a director of Hong Kong Cyberport Management Company Limited.

Ms Yeung is also a director of some of the members of the Company's group.

Changes in Information

Changes in information of Directors during 2016 and up to the date of this Report which are required to be disclosed pursuant to the Listing Rules are set out below:

Name of Director	Name of Organisation and Position Held	Nature and Effective Date of Change
Members of the Board		
Non-Executive Director		
Professor Frederick Ma Si-hang	China Mobile Communications Corporation • NED	Cessation (3 February 2016)
	Agricultural Bank of China Limited • INED • Chairman of the Audit and Compliance Committee	Cessation (13 May 2016)
	The Hong Kong Polytechnic University • Professor of Finance Practice of the Institute of Advanced Executive Education	Cessation (26 January 2017)
Independent Non-Executive Director		
Pamela Chan Wong Shui	Hong Kong Deposit Protection Board • Chairman	Cessation (1 July 2016)
	Hong Kong Baptist University • Deputy Chairman of the Council and the Court	Cessation (1 January 2017)
Dr Dorothy Chan Yuen Tak-fai	Sustainable Agricultural Development Fund Advisory Committee (Hong Kong) • Chairperson	Appointment (1 December 2016)
Vincent Cheng Hoi-chuen	Advisory Committee on Post-service Employment of Civil Servants (Hong Kong) • Member	Cessation (1 September 2016)
Anthony Chow Wing-kin	Fountain Set (Holdings) Limited • INED	Cessation (24 June 2016)
	China City Construction Group Holdings Limited (formerly known as Chun Wo Development Holdings Limited) • NED	Cessation (12 October 2016)
	S. F. Holding Co., Ltd. (formerly known as Maanshan Dingtai Rare Earth & New Materials Co., Ltd.) • INED	Appointment (28 December 2016)
Dr Eddy Fong Ching	The Open University of Hong Kong • Chairman of the Council	Cessation (20 June 2016)
Lau Ping-cheung, Kaizer	Lantau Development Advisory Committee (Hong Kong) • Chairperson of the Traffic, Transport and District Improvement Items Subcommittee • Deputy Chairperson of the Planning and Conservation Subcommittee	Appointment (30 June 2016) Cessation (1 February 2016)
Alasdair George Morrison	Bain Capital Asia, LLC • Senior Advisor	Appointment (1 January 2016)
Ng Leung-sing	Legislative Council of the HKSAR • Member	Cessation (1 October 2016)
Abraham Shek Lai-him	Dorsett Hospitality International Limited • INED • Member of the Audit Committee	Cessation (11 March 2016)
	The Hong Kong Mortgage Corporation Limited • Director	Cessation (25 April 2016)
	Independent Commission Against Corruption (Hong Kong) • Member of the Advisory Committee on Corruption	Appointment (1 January 2017)
	TUS International Limited • INED	Cessation (6 January 2017)
	Goldin Financial Holdings Limited • INED	Appointment (9 January 2017)
Benjamin Tang Kwok-bun	Centennial College (Hong Kong) • Council Member	Cessation (1 July 2016)

Name of Director	Name of Organisation and Position Held	Nature and Effective Date of Change
Executive Director		
Lincoln Leong Kwok-kuen *(Also a member of the Executive Directorate)*	The Chartered Institute of Logistics and Transport in Hong Kong • Chartered Fellow	Appointment (18 April 2016)
	The Chinese International School Foundation Limited (Hong Kong) • Member of the Board of Governors	Cessation (26 May 2016)
Members of the Executive Directorate		
Gillian Elizabeth Meller	The Hong Kong Institute of Chartered Secretaries • Council Member • Fellow	 Appointment (14 December 2016) Appointment (31 May 2016)
	The Institute of Chartered Secretaries and Administrators (United Kingdom) • Fellow	Appointment (31 May 2016)
	Standing Committee on Company Law Reform (Hong Kong) • Member	Appointment (1 February 2017)
Dr Philco Wong Nai-keung	Construction Industry Council (Hong Kong) • Council Member • Member of the Committee on Construction Safety • Member of the Committee on Procurement and Subcontracting	 Appointment (1 February 2016) Appointment (1 February 2016) Cessation (1 February 2016)
Jeny Yeung Mei-chun	The Chartered Institute of Logistics and Transport in Hong Kong • Chartered Fellow	Appointment (15 February 2016)
	Hong Kong Tourism Board • Member	Appointment (1 March 2016)
	Advisory Committee on Enhancing Self-Reliance Through District Partnership Programme (Hong Kong) • Member	Appointment (1 July 2016)

***NED:** non-executive director*

***INED:** independent non-executive director*

Key Corporate Management

Lincoln Leong Kwok-kuen
Chief Executive Officer

Jacob Kam Chak-pui
Managing Director – Operations and Mainland Business

Commercial & Marketing

Jeny Yeung Mei-chun
Commercial Director

Jacqueline Tong Wai-Ling
General Manager – Branding and Mainland China & International Business Marketing

Annie Leung Ching-man
General Manager – Customer Experience Development

Raymond Yuen Lap-hang
General Manager – Marketing & Planning

Margaret Chu Fung-kuen
General Manager – Station Retail

Corporate Affairs

Linda So Ka-pik
Corporate Affairs Director

Lam Chan Lam-sang
Deputy General Manager – Projects & Property Communications

Maggie So Man-kit
General Manager – Corporate Relations

Corporate Strategy

Denise Ng Kee Wing-man
General Manager – Corporate Strategy

Engineering

Peter Ewen
Engineering Director

Dono Tong Kwok-wai
Design & Delivery Director – SMC&SW

Stephen Chik Wai-keung
General Manager – Planning & Civil Engineering

Scott Mackenzie
General Manager – Procurement & Contracts (Projects)

Vincent Simon Ho
Head of Corporate Safety

Wong Sha
Head of E&M Engineering

Angus Lee Chun-ming
Head of Intelligent Portfolio Office

Raymond Au Koon-shan
Principal Contracts Administration Manager – SCL

Tim Edmonds
Principal Contracts Administration Manager – XRL

Teresa Tang Sui-ching
Procurement & Contracts Manager – Operations & General

Stephen Hamill
Project Manager – Technical Support (w.e.f. 1 January 2017)

Finance

Stephen Law Cheuk-kin
Finance Director (up to 1 July 2016)

Herbert Hui Leung-wah
Finance Director (w.e.f. 2 July 2016)

Sammy Jim Kwok-wah
General Manager – Corporate Finance

Lisa Seto Siu-wah
General Manager – Financial Control

Ted Suen Yiu-tat
Head of Information Technology

Candy Ng Chui-lok
Head of Investor Relations and Retirement Benefits

Jeff Kwan Wai-hung
Treasurer

Human Resources & Administration

Margaret Cheng Wai-ching
Human Resources Director

Alison Wong Yuen-fan
General Manager – Human Resources

Internal Audit

Paul Chow Yuen-ming
Head of Internal Audit

Legal & Secretarial

Gillian Meller
Legal and European Business Director

Cecilia Cheng Yuet-fong
General Manager – Governance & Risk Management

Brian Downie
General Manager – Legal (Operations & Growth Business)

Linda Li Sau-lin
General Manager – Legal (Property)

Mainland China & International Business

Australia

Terry Wong Ping-sau
Deputy Director – Australian Business

Michael Houghton
Chief Executive Officer – Metro Trains Melbourne

David Yam Pak-nin
General Manager – Business Development

Andrew Lezala
Managing Director – Metro Trains Australia

Europe

Jeremy Long
Chief Executive Officer – European Business

Johan Söör
Chief Executive Officer – MTR Express

Peter Vinnapuu
Chief Executive Officer – MTR Nordic

Dan Hildebrand
Chief Executive Officer – MTR Pendeltågen

Johan Oscarsson
Chief Executive Officer – MTR Tech

Henrik Dahlin
Chief Executive Officer – MTR Tunnelbanan

Steve Murphy
Managing Director – MTR Crossrail

Headquarters

Ivan Lai Ching-kai
Head of Operations – Mainland China & International Business

Mainland China

Jeremy Xu Muhan
Chief Executive Officer – Mainland China Business

Yi Min
Chief Advisor – Mainland China Business

Rick Wong Hoi-wah
Chief of Engineering (Beijing)

Oscar Ho Ka-wa
Deputy General Manager – Mainland China Property

John Kwok Chor-kwong
Deputy General Manager – Operations (Beijing)

Lawrence Chung Kwok-leung
Deputy General Manager – Projects (Beijing)

Wilson Shao Shing-ming
General Manager – Beijing & Tianjin

Jia Jun
General Manager – Business Development (Mainland China)

Frank Liu Zhui-ming
General Manager – Hangzhou

Victor Chan Hin-fu
General Manager – Mainland China Property

John Woo Shui-wah
General Manager – Shenzhen Line 4

Felix Leung Ping-kin
General Manager – Tianjin Property

MTR Academy

Morris Cheung Siu-wa
President of MTR Academy

Operations

Adi Lau Tin-shing
Operations Director

Francis Li Shing-kee
Chief of Operating (w.e.f. 1 February 2017)

Tony Lee Kar-yun
Chief of Operations Engineering

Philip Wong Wai-ming
Chief Signal Engineer (Operations)

Cheris Lee Yuen-ling
Deputy General Manager – Planning & Development

Manho John-william
Deputy General Manager – Train Services & Systems Engineering

Choi Tak-tsan
General Manager – Global Operations Standards

Terry Wong Wing-kin
General Manager – Infrastructure Maintenance

Carmen Li Wai-ching
General Manager – Intercity

Ronald Cheng Kin-wai
General Manager – Planning & Development (w.e.f. 1 February 2017)

Richard Keefe
General Manager – Rolling Stock Fleet

Chan Keng-sam
General Manager – Works Management

Lu Wong Ho-leung
Head of Infrastructure Works

Nelson Ng Wai-hung
Head of Operating – North & East Regions

Alan Cheng Kwan-hing
Head of Operating – South Region

Sammy Wong Kwan-wai
Head of Operating – West Region

William Leung Hon-wai
Head of Operations Strategic Business Management

Chan Chi-kit
Head of Workshops (up to 16 March 2017)

Stella Kwan Mun-yee
Managing Director of Ngong Ping 360

Gordon Lam Bik-shun
Project Manager – Signalling (DUAT)

Projects

Philco Wong Nai-keung
Projects Director

Andrew Mead
Chief Architect (ARBUK)

Clement Ngai Yum-keung
Chief Design Manager – SCL and Head of Project Engineering

Henry Young
Chief Programming Engineer

Peter Leung Man-fat
General Manager – Operations Projects

Ken Wong Kin-wai
General Manager – Projects

Patrick Lun Tak-wo
General Manager – Projects Management Office

Lee Tze-man
General Manager – SCL and Head of E&M Construction

Jason Wong Chi-chung
General Manager – SCL Civil – EWL

Aidan Rooney
General Manager – SCL Civil – NSL

Simon Tang Wai-yung
General Manager – XRL

Leung Chi-lap
General Manager – XRL E&M

Stephen Howarth
Head of Project Safety

Nelson Cheng Wai-hung
Project Manager – Cost Control

Chan Chun-sing
Project Manager – Rolling Stock

David Salisbury
Project Manager – SCL Civil - EWL 1

Neil Ng Wai-hang
Project Manager – SCL Civil – NSL 1

Tim Leung Chi-tim
Project Manager – SCL E&M

Terence Law Che-chung
Project Manager – Signalling

Tommy Lam Choi-fung
Project Manager – XRL Railway Systems

Calum Smith
Project Manager – XRL Terminus

Charles Lau Kam-keung
Project Manager – XRL Terminus (w.e.f. 1 January 2017)

Andrew Yim Kin-on
Project Manager – XRL Terminus Building Services

Bill Clowes
Project Manager – XRL Tunnels

Property

David Tang Chi-fai
Property Director

Melissa Pang Mee-yuk
Deputy Head of Property Development (w.e.f. 1 March 2017)

James Chow So-hung
Deputy Head of Property Project

Sammy Yu Ka-yin
Head of Investment Property – East Region (Acting)

Theresa Leung Nga-yee
Head of Investment Property – West Region

James Hor Wai-hong
Head of Property Development

Wilfred Yeung Sze-wai
Head of Property Project

Steve Yiu Chin
Head of Town Planning

Report of the Members of the Board

The Members of the Board have pleasure in submitting their Report and the audited statement of Consolidated Accounts for the financial year ended 31 December 2016.

Principal Activities of the Group

The Group is principally engaged in the following core businesses – railway design, construction, operation, maintenance and investment in Hong Kong, the Mainland of China and a number of overseas cities; project management in relation to railway and property development businesses; station commercial business including leasing of station retail space, leasing of advertising space inside trains and stations, and enabling of telecommunication services on the railway system in Hong Kong; property business including property development and investment, management and leasing management of investment properties (including shopping malls and offices) in Hong Kong and the Mainland of China; and investment in Octopus Holdings Limited.

The principal businesses of the Company's subsidiaries and associates as at 31 December 2016 are set out in notes 27 and 28 to the Consolidated Accounts.

Business Review

The Company has always been committed to providing comprehensive reviews of the Group's business and performance in different sections of its Annual Reports. In light of the requirement under the Companies Ordinance for companies to have a "business review" section in the directors' report, a summary of the relevant sections in the Company's Annual Report 2016 covering the required disclosures is set out below for ease of reference.

A fair review of the business of the Group and a discussion and an analysis of the Group's performance during the year ended 31 December 2016 are provided in Chairman's Letter Section (pages 14 to 19), CEO's Review of Operations and Outlook Section (pages 20 to 39), Business Review Section (pages 40 to 97) and Financial Review Section (pages 98 to 109); particulars of important events affecting the Group that have occurred since the end of the financial year 2016 are set out in Chairman's Letter Section (pages 14 to 19), CEO's Review of Operations and Outlook Section (pages 20 to 39) and Business Review Section (pages 40 to 97); a description of the significant risks and uncertainties facing the Group can be found in CEO's Review of Operations and Outlook Section (pages 20 to 39), Business Review Section (pages 40 to 97) and Risk Management Section (pages 125 to 128); the outlook for the Group's business is set out in Chairman's Letter Section (pages 14 to 19), CEO's Review of Operations and Outlook Section (pages 20 to 39) and Business Review Section (pages 40 to 97); a description of the Group's relationships with its key stakeholders is included in Chairman's Letter Section (pages 14 to 19), CEO's Review of Operations and Outlook Section (pages 20 to 39), Business Review Section (pages 40 to 97), Investor Relations Section (pages 112 to 113), Corporate Responsibility Section (pages 114 to 119), Human Resources Section (pages 120 to 123) and Corporate Governance Report Section (pages 129 to 148); the Group's environmental policies and performance are listed in Corporate Responsibility Section (pages 114 to 119); and details regarding the Group's compliance with relevant laws and regulations which have a significant impact on the Group are provided in Corporate Governance Report Section (pages 129 to 148). Further details relating to the Group's relationships with its key stakeholders and the Group's environmental policies and performance can be found in the Company's 2016 Sustainability Report to be published in late May 2017.

Dividends

The Board has recommended to pay a final dividend of HK$0.82 per share (2015: HK$0.81 per share) and proposes that a scrip dividend option will be offered to all shareholders except for shareholders with registered addresses in New Zealand and the United States of America or any of its territories or possessions. Subject to the approval of the shareholders at the forthcoming annual general meeting ("AGM"), the proposed 2016 final dividend, with a scrip dividend option, is expected to be distributed on 12 July 2017 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 26 May 2017.

On 7 March 2017, the Board also announced that the Second Special Dividend (which term shall bear the same meaning as in the circular of the Company dated 7 January 2016) in the amount of HK$2.20 per share is expected to be distributed at the same time as payment of the 2016 final dividend. There will be no scrip dividend option for the Second Special Dividend.

Accounts

The financial position of the Group as at 31 December 2016 and the Group's financial performance and cash flows for the year are set out in the Consolidated Accounts on pages 213 to 302.

Ten-Year Statistics

A summary of the results and of the assets and liabilities of the Group together with some major operational statistics for the last ten years are set out on pages 110 to 111.

Members of the Board

Members of the Board during the year and up to the date of this Report (unless otherwise stated) were:

Name	First Elected at AGM	Last Re-elected at AGM	To be Re-elected at 2017 AGM
Non-Executive Directors			
Professor Frederick Ma Si-hang (Chairman since 1 January 2016)	2014		✓
Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)		2015	
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)		Not subject to retirement by rotation*	
Permanent Secretary for Development (Works) (Hon Chi-keung)		Not subject to retirement by rotation*	
Commissioner for Transport (Ingrid Yeung Ho Poi-yan)		Not subject to retirement by rotation*	
Independent Non-Executive Directors			
Pamela Chan Wong Shui	2014		✓
Dr Dorothy Chan Yuen Tak-fai	2014		✓
Vincent Cheng Hoi-chuen		2016	
Anthony Chow Wing-kin (since 18 May 2016)	2016		
Dr Eddy Fong Ching	2015		
Edward Ho Sing-tin		Retired at 2016 AGM held on 18 May 2016	
James Kwan Yuk-choi	2015		
Lau Ping-cheung, Kaizer	2016		
Lucia Li Li Ka-lai	2015		
Alasdair George Morrison		2014	✓
Ng Leung-sing		2014	✗^
Abraham Shek Lai-him		2014	✓
Benjamin Tang Kwok-bun	2015		
Dr Allan Wong Chi-yun	2016		
Executive Director			
Lincoln Leong Kwok-kuen (Chief Executive Officer)	2015		

* *Pursuant to the Articles of Association, Directors appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance are not required to retire by rotation.*

^ *Mr Ng Leung-sing has informed the Company that he will not stand for re-election at the 2017 AGM.*

In addition, resolutions for electing Mr Andrew Clifford Winawer Brandler and Mr Zhou Yuan (also known as Johannes Zhou) as new Directors will be proposed at the 2017 AGM. Please refer to the 2017 AGM Circular to be sent together with this Report.

Biographical details for Board Members are set out on pages 160 to 167.

Alternate Directors

The Alternate Directors in office during the year and up to the date of this Report (unless otherwise stated) were:

Name	Alternate to
(i) Andrew Lai Chi-wah (since 1 August 2016) (ii) Mable Chan (up to 31 July 2016) (iii) Elizabeth Tse Man-yee (up to 30 November 2016)	Professor Chan Ka-keung, Ceajer
(i) Under Secretary for Transport and Housing (Yau Shing-mu) (ii) Permanent Secretary for Transport and Housing (Transport) (Joseph Lai Yee-tak) (iii) Deputy Secretaries for Transport and Housing (Transport) (Rebecca Pun Ting-ting and Andy Chan Shui-fu)	Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)
Deputy Secretary for Development (Works)2 (Mak Shing-cheung (since 5 October 2016) and Chan Chi-ming (up to 4 October 2016))	Permanent Secretary for Development (Works) (Hon Chi-keung)
Deputy Commissioner for Transport/Transport Services and Management (Macella Lee Sui-chun (since 1 September 2016) and Cinderella Law Fung-ping (up to 31 August 2016))	Commissioner for Transport (Ingrid Yeung Ho Poi-yan)

Executive Directorate

Members of the Executive Directorate during the year and up to the date of this Report (unless otherwise stated) were:

Name	Position Held
Lincoln Leong Kwok-kuen	Chief Executive Officer and a Member of the Board
Dr Jacob Kam Chak-pui	Managing Director – Operations and Mainland Business since 1 May 2016 (formerly Operations Director up to 30 April 2016)
Margaret Cheng Wai-ching	Human Resources Director since 1 June 2016
Morris Cheung Siu-wa	President of MTR Academy since 1 July 2016 (formerly European Business Director up to 30 June 2016)
Dr Peter Ronald Ewen	Engineering Director since 22 February 2016
Herbert Hui Leung-wah	Finance Director since 2 July 2016
Adi Lau Tin-shing	Operations Director since 1 May 2016
Stephen Law Cheuk-kin	Finance Director up to 1 July 2016
Gillian Elizabeth Meller	Legal and European Business Director since 1 July 2016 (formerly Legal Director & Secretary up to 30 June 2016)
Linda So Ka-pik	Corporate Affairs Director
David Tang Chi-fai	Property Director
Dr Philco Wong Nai-keung	Projects Director
Jeny Yeung Mei-chun	Commercial Director

Biographical details for Members of the Executive Directorate are set out on pages 168 to 173.

Directors of Subsidiaries

The names of all the directors of the subsidiaries of the Company during the year and up to the date of this Report (unless otherwise stated) are listed on page 208.

Directors' Service Contracts

No Director proposed for election or re-election at the forthcoming AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

No Director has a service contract with the Company or any of its subsidiaries which is for a duration which may exceed three years or which requires the Company to, in order to terminate such contract, give a notice period in excess of one year or pay compensation or make other payments equivalent to more than one year's emoluments.

Directors' Material Interests in Transactions, Arrangements or Contracts

Except for, in respect of Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury), Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung), Permanent Secretary for Development (Works) (Mr Hon Chi-keung), and Commissioner for Transport (Mrs Ingrid Yeung Ho Poi-yan), all of whom were officials of Government, those connected transactions and continuing connected transactions between the Company and Government (and/or its associates) which are described on pages 187 to 206, there was no transaction, arrangement or contract of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which a Member of the Board or a Member of the Executive Directorate or an entity connected with him/her had a material interest (whether direct or indirect), which was entered into during the year or subsisted at any time during the year.

Directors' Interests in Shares and Underlying Shares of the Company

As at 31 December 2016, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

	No. of Ordinary Shares held				No. of Share Options#	No. of Share Awards#		
Member of the Board and/or the Executive Directorate	Personal interests*	Family interests†	Other interests	Corporate interests	Personal interests*	Personal interests*	Total interests	Percentage of aggregate interests to total no. of voting shares in issue
Professor Frederick Ma Si-hang	–	70,000 (Note 1)	70,000 (Note 1)	–	–	–	70,000	0.00119
Lincoln Leong Kwok-kuen	1,180,066	–	–	23,000 (Note 2)	–	359,984	1,563,050	0.02647
Pamela Chan Wong Shui	9,002	1,675	–	–	–	–	10,677	0.00018
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	–	3,350	0.00006
Lucia Li Li Ka-lai	–	1,614 (Note 3)	2,215 (Note 3)	–	–	–	3,829	0.00006
Ingrid Yeung Ho Poi-yan	1,116	–	–	–	–	–	1,116	0.00002
Mak Shing-cheung (Note 4)	558	8,058 (Note 4)	–	–	–	–	8,616	0.00015

Directors' Interests in Shares and Underlying Shares of the Company (continued)

Member of the Board and/or the Executive Directorate	No. of Ordinary Shares held				No. of Share Options#	No. of Share Awards#		Percentage of aggregate interests to total no. of voting shares in issue
	Personal interests*	Family interests†	Other interests	Corporate interests	Personal interests*	Personal interests*	Total interests	
Dr Jacob Kam Chak-pui	169,135	–	–	–	–	93,850	262,985	0.00445
Margaret Cheng Wai-ching	–	–	–	–	–	71,428	71,428	0.00121
Morris Cheung Siu-wa	44,839	–	–	–	–	43,750	88,589	0.00150
Dr Peter Ronald Ewen	–	–	–	–	–	35,700	35,700	0.00060
Herbert Hui Leung-wah	50	2,233 (Note 5)	–	–	–	–	2,283	0.00004
Adi Lau Tin-shing	21,567	–	–	–	158,000	26,684	206,251	0.00349
Gillian Elizabeth Meller	5,810	–	–	–	–	86,200	92,010	0.00156
Linda So Ka-pik	–	–	–	–	–	60,450	60,450	0.00102
David Tang Chi-fai	86,799	–	–	–	–	87,850	174,649	0.00296
Dr Philco Wong Nai-keung	7,395	–	–	–	55,000	93,267	155,662	0.00264
Jeny Yeung Mei-chun	562,850	–	–	–	–	89,350	652,200	0.01104

Notes

1 *The 70,000 shares are indirectly held by The Ma Family Trust established by Professor Frederick Ma Si-hang for himself and his family of which his spouse is also a beneficiary.*

2 *The 23,000 shares were held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr Lincoln Leong Kwok-kuen.*

3 *The 1,614 shares were held by Mrs Lucia Li Li Ka-lai's spouse and the 2,215 shares were jointly held by Mrs Li and her spouse.*

4 *Mr Mak Shing-cheung became an Alternate Director to the office of the Permanent Secretary for Development (Works) (Mr Hon Chi-keung), a non-executive Director of the Company, by virtue of his appointment to the post of the Deputy Secretary for Development (Works)2, with effect from 5 October 2016. The 8,058 shares were held by his spouse.*

5 *The 2,233 shares were held by Mr Herbert Hui Leung-wah's spouse.*

\# *Details of the Share Options and Share Awards are set out in the sections headed "2007 Share Option Scheme" and "2014 Share Incentive Scheme" respectively on pages 182 to 185*

* *Interests as beneficial owner*

† *Interests of spouse or child under 18 as beneficial owner*

Save as disclosed above and in the sections headed "2007 Share Option Scheme" and "2014 Share Incentive Scheme":

A as at 31 December 2016, no Member of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the year ended 31 December 2016, no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code.

Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5% or more of all the Company's voting shares in issue and the number of shares in which it was interested as at 31 December 2016 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to all the voting shares in issue
The Financial Secretary Incorporated ("FSI") (in trust on behalf of Government)	4,434,552,207	75.09%

The Company has been informed by the Hong Kong Monetary Authority that, as at 31 December 2016, approximately 0.39% of the Ordinary Shares in issue (not included in the FSI shareholding set out in the above table) were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

Other Persons' Interest

Save as disclosed in the sections headed "Directors' Interests in Shares and Underlying Shares of the Company" and "Substantial Shareholders' Interests", as at 31 December 2016, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO or otherwise notified to the Company and the HKSE.

2007 Share Option Scheme

Movements in the outstanding share options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme during the year ended 31 December 2016 are set out below:

Executive Directorate and eligible employees	Date granted	Options granted (Notes 1 to 5)	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2016	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2016	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Lincoln Leong Kwok-kuen	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	170,000	26.85	–	38.40
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	170,000	28.84	–	38.40
	30/3/2012	201,000	23/3/2013 – 23/3/2019	201,000	–	–	201,000	27.48	–	38.40
	6/5/2013	256,000	26/4/2014 – 26/4/2020	256,000	85,000	–	256,000	31.40	–	38.31
Dr Jacob Kam Chak-pui	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	65,000	26.85	–	38.40
	21/7/2010	50,000	28/6/2011 – 28/6/2017	50,000	–	–	50,000	27.73	–	38.40
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	170,000	28.84	–	38.40
	30/3/2012	172,000	23/3/2013 – 23/3/2019	172,000	–	–	172,000	27.48	–	38.40
	6/5/2013	202,500	26/4/2014 – 26/4/2020	202,500	67,500	–	202,500	31.40	–	38.40
Morris Cheung Siu-wa	21/7/2010	35,000	28/6/2011 – 28/6/2017	11,000	–	–	11,000	27.73	–	37.55
	20/12/2010	65,000	16/12/2011 – 16/12/2017	21,000	–	–	21,000	28.84	–	37.55
	30/3/2012	122,000	23/3/2013 – 23/3/2019	122,000	–	–	122,000	27.48	–	37.55
	6/5/2013	180,500	26/4/2014 – 26/4/2020	180,500	59,500	–	180,500	31.40	–	37.96
Adi Lau Tin-shing	11/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	75,000	26.85	–	38.20
	21/12/2010	75,000	16/12/2011 – 16/12/2017	75,000	–	–	75,000	28.84	–	38.45
	30/3/2012	69,000	23/3/2013 – 23/3/2019	69,000	–	–	69,000	27.48	–	38.45
	6/5/2013	78,000	26/4/2014 – 26/4/2020	78,000	26,000	–	–	31.40	78,000	-
	30/5/2014	80,000	23/5/2015 – 23/5/2021	80,000	27,000	–	–	28.65	80,000	-
Stephen Law Cheuk-kin	1/11/2013	196,000	25/10/2014 – 25/10/2020	196,000	65,000	–	196,000	29.87	–	40.26
Gillian Elizabeth Meller	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	65,000	26.85	–	38.45
	17/12/2010	90,000	16/12/2011 – 16/12/2017	90,000	–	–	90,000	28.84	–	38.45
	30/3/2012	158,500	23/3/2013 – 23/3/2019	158,500	–	–	158,500	27.48	–	38.45
	6/5/2013	184,000	26/4/2014 – 26/4/2020	184,000	61,000	–	184,000	31.40	–	38.45

2007 Share Option Scheme (continued)

Executive Directorate and eligible employees	Date granted	Options granted (Notes 1 to 5)	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2016	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2016	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
David Tang Chi-fai	15/12/2009	65,000	8/12/2010 – 8/12/2016	43,000	–	–	43,000	26.85	–	38.25
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	65,000	28.84	–	37.55
	30/3/2012	163,500	23/3/2013 – 23/3/2019	163,500	–	–	163,500	27.48	–	37.83
	6/5/2013	182,500	26/4/2014 – 26/4/2020	182,500	60,500	–	182,500	31.40	–	38.43
Dr Philco Wong Nai-keung	30/3/2012	70,500	23/3/2013 – 23/3/2019	23,500	–	–	23,500	27.48	–	38.50
	6/5/2013	81,000	26/4/2014 – 26/4/2020	81,000	27,000	–	81,000	31.40	–	38.50
	30/5/2014	83,000	23/5/2015 – 23/5/2021	83,000	28,000	–	28,000	28.65	55,000	38.50
Jeny Yeung Mei-chun	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	65,000	26.85	–	38.40
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	65,000	28.84	–	38.40
	30/3/2012	161,000	23/3/2013 – 23/3/2019	161,000	–	–	161,000	27.48	–	38.40
	6/5/2013	187,000	26/4/2014 – 26/4/2020	187,000	62,000	–	187,000	31.40	–	38.40
Other eligible employees	9/12/2009	670,000	8/12/2010 – 8/12/2016	470,000	–	–	470,000	26.85	–	38.40
	10/12/2009	2,551,000	8/12/2010 – 8/12/2016	726,000	–	–	726,000	26.85	–	38.63
	11/12/2009	2,297,000	8/12/2010 – 8/12/2016	570,500	–	–	570,500	26.85	–	38.47
	12/12/2009	610,000	8/12/2010 – 8/12/2016	135,000	–	–	135,000	26.85	–	38.40
	14/12/2009	2,443,000	8/12/2010 – 8/12/2016	514,000	–	–	514,000	26.85	–	39.34
	15/12/2009	2,773,000	8/12/2010 – 8/12/2016	532,000	–	45,000	487,000	26.85	–	38.57
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	373,500	–	–	373,500	26.85	–	38.93
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	167,000	–	–	167,000	26.85	–	39.39
	18/12/2009	389,000	8/12/2010 – 8/12/2016	108,000	–	–	108,000	26.85	–	39.07
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	–	70,000	26.85	–	38.69
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	75,000	26.85	–	39.87
	21/12/2009	520,000	8/12/2010 – 8/12/2016	158,000	–	–	158,000	26.85	–	39.67
	22/12/2009	256,000	8/12/2010 – 8/12/2016	122,000	–	–	122,000	26.85	–	39.66
	21/7/2010	270,000	28/6/2011 – 28/6/2017	45,000	–	–	–	27.73	45,000	–
	16/12/2010	194,000	16/12/2011 – 16/12/2017	55,000	–	–	55,000	28.84	–	38.60
	17/12/2010	4,907,000	16/12/2011 – 16/12/2017	2,349,000	–	6,000	1,749,000	28.84	594,000	38.44
	18/12/2010	673,000	16/12/2011 – 16/12/2017	389,500	–	–	164,000	28.84	225,500	38.75
	19/12/2010	174,000	16/12/2011 – 16/12/2017	25,000	–	–	25,000	28.84	–	38.30
	20/12/2010	4,789,500	16/12/2011 – 16/12/2017	1,675,000	–	–	1,122,500	28.84	552,500	39.13
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	1,096,500	–	–	611,500	28.84	485,000	38.84
	22/12/2010	975,000	16/12/2011 – 16/12/2017	486,000	–	–	178,000	28.84	308,000	37.61
	23/12/2010	189,000	16/12/2011 – 16/12/2017	75,000	–	–	42,000	28.84	33,000	41.34
	7/7/2011	215,000	27/6/2012 – 27/6/2018	35,000	–	–	35,000	26.96	–	42.25
	30/3/2012	15,868,500	23/3/2013 – 23/3/2019	7,258,000	–	9,500	3,886,500	27.48	3,362,000	38.69
	6/5/2013	20,331,500	26/4/2014 – 26/4/2020	15,559,000	5,925,500	48,000	8,407,000	31.40	7,104,000	39.07
	1/11/2013	188,500	25/10/2014 – 25/10/2020	188,500	61,500	46,500	117,500	29.87	24,500	38.59
	30/5/2014	19,812,500	23/5/2015 – 23/5/2021	17,796,000	6,472,000	278,500	4,859,000	28.65	12,658,500	39.38

Notes

1 *No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme on 7 June 2007. The 2007 Share Option Scheme expired at 5.00 p.m. on 6 June 2014, with no further option granted since then.*

2 *Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the 2007 Share Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 0.2% of the shares of the Company in issue at the date of offer in respect of such option under the 2007 Share Option Scheme.*

3 *The proportion of underlying shares in respect of which the above share options will vest is as follows:*

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	*none*
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	*one-third*
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	*two-thirds*
From the third Offer Anniversary and thereafter	*all*

4 *Pursuant to the terms of the 2007 Share Option Scheme, each grantee undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the options.*

5 *Other details of the 2007 Share Option Scheme are set out in notes 10B and 47(i) to the Consolidated Accounts.*

Equity-linked Agreement

Save as disclosed in the section headed "2007 Share Option Scheme" above, no equity-linked agreements were entered into during the year ended 31 December 2016 or subsisted at the end of the year.

2014 Share Incentive Scheme

The Company adopted the 2014 Share Incentive Scheme on 15 August 2014. The purposes of the 2014 Share Incentive Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the 2014 Share Incentive Scheme as award holders in accordance with the rules of the 2014 Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares (together, the "Award Shares"). The Award Shares to be granted under the 2014 Share Incentive Scheme are Ordinary Shares in the capital of the Company.

In general, the Company will pay to the third party trustee (the "Trustee") monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from Ordinary Shares held as part of the funds of the trust to acquire existing Ordinary Shares from the market. Such Ordinary Shares will be held on trust by the Trustee for the relevant award holders. The Trustee shall not exercise any voting rights in respect of any Ordinary Shares held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested Award Shares. An award holder shall have no right to any dividend held under the trust.

The maximum number of Award Shares that may at any time be the subject of an outstanding award granted under the 2014 Share Incentive Scheme shall not exceed 2.5% of the number of issued Ordinary Shares as at 1 January 2015, the effective date of the 2014 Share Incentive Scheme (the "Effective Date").

For the year ended 31 December 2016, a total of 2,659,778 Award Shares (2015: 4,029,200 Award Shares) were awarded under the 2014 Share Incentive Scheme. As at 31 December 2016, a total of 5,524,599 Award Shares were neither vested, lapsed nor been forfeited, representing 0.09% of the issued Ordinary Shares as at the Effective Date.

Further details of the 2014 Share Incentive Scheme are set out in the section headed "Long-Term Incentives" under the Remuneration Report (pages 157 to 158) and notes 10C and 47(ii) to the Consolidated Accounts.

The particulars of the Award Shares granted are as follows:

		Types of Award Shares granted					
Executive Directorate and eligible employees	Date of award	Restricted Shares	Performance Shares	Award Shares outstanding as at 1 January 2016	Award Shares vested during the year	Award Shares lapsed and/or forfeited during the year	Award Shares outstanding as at 31 December 2016
Lincoln Leong Kwok-kuen	27/4/2015	60,200	255,000	315,200	20,066	–	295,134
	8/4/2016	64,850	–	–	–	–	64,850
Dr Jacob Kam Chak-pui	27/4/2015	22,050	57,600	79,650	7,350	–	72,300
	8/4/2016	21,550	–	–	–	–	21,550
Margaret Cheng Wai-ching	19/8/2016	71,428	–	–	–	–	71,428
Morris Cheung Siu-wa	27/4/2015	–	28,800	28,800	–	–	28,800
	8/4/2016	14,950	–	–	–	–	14,950
Dr Peter Ronald Ewen	8/4/2016	–	35,700	–	–	–	35,700
Adi Lau Tin-shing	27/4/2015	8,600	12,550	21,150	2,866	–	18,284
	8/4/2016	8,400	–	–	–	–	8,400

2014 Share Incentive Scheme (continued)

Executive Directorate and eligible employees	Date of award	Types of Award Shares granted		Award Shares outstanding as at 1 January 2016	Award Shares vested during the year	Award Shares lapsed and/or forfeited during the year	Award Shares outstanding as at 31 December 2016
		Restricted Shares	Performance Shares				
Stephen Law Cheuk-kin	27/4/2015	16,700	57,600	74,300	11,132	63,168	–
Gillian Elizabeth Meller	27/4/2015	16,950	57,600	74,550	5,650	–	68,900
	8/4/2016	17,300	–	–	–	–	17,300
Linda So Ka-pik	8/4/2016	16,400	44,050	–	–	–	60,450
David Tang Chi-fai	27/4/2015	18,450	57,600	76,050	6,150	–	69,900
	8/4/2016	17,950	–	–	–	–	17,950
Dr Philco Wong Nai-keung	27/4/2015	21,700	57,600	79,300	7,233	–	72,067
	8/4/2016	21,200	–	–	–	–	21,200
Jeny Yeung Mei-chun	27/4/2015	19,350	57,600	76,950	6,450	–	70,500
	8/4/2016	18,850	–	–	–	–	18,850
Other eligible employees	27/4/2015	2,172,750	1,051,650	3,105,650	716,498	149,766	2,239,386
	8/4/2016	2,199,700	107,450	–	12,465	57,985	2,236,700

Shares Issued

	No. of Ordinary Shares issued	Consideration/Value (HK$)
As at 31 December 2015	5,858,228,236	N/A
Shares issued under the 2007 Share Option Scheme (Further details can be found in note 47(i) to the Consolidated Accounts)	28,996,000	845 million (received by the Company)
Scrip shares issued in respect of 2015 final dividend	15,683,803	566 million
Scrip shares issued in respect of 2016 interim dividend	2,382,026	101 million
As at 31 December 2016	5,905,290,065	N/A

Details of the movements in share capital of the Company during the year are set out in note 44 to the Consolidated Accounts.

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 2016. However, the Trustee of the 2014 Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the 2014 Share Incentive Scheme, purchased on the HKSE a total of 2,588,350 Ordinary Shares (2015: 4,029,200 Ordinary Shares) for a total consideration of approximately HK$99 million (2015: approximately HK$150 million) during the year.

Public Float

The HKSE granted to the Company, at the time of its listing on the Main Board of the HKSE in 2000, a waiver from strict compliance with Rule 8.08(1) of the Listing Rules ("Public Float Waiver"). Pursuant to the Public Float Waiver, the Company's prescribed minimum percentage of shares which must be in the hands of the public must not be less than 10% of the total number of issued shares of the Company. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this Report as required by the Public Float Waiver.

Major Suppliers and Customers

Information in respect of the Group's major suppliers and major customers for the year ended 31 December 2016 is as follows:

	As a percentage of the Group's total supplies
Total value of supplies (not of a capital nature) attributable to the Group's five largest suppliers	20.16%
	As a percentage of the Group's total revenue
Total revenue attributable to the Group's five largest customers	30.27%
Total revenue attributable to the Group's largest customer	14.38%

As at 31 December 2016, Government, being one of the Group's five largest customers, through the FSI, the substantial shareholder of the Company, held approximately 75.09% of all the Company's voting shares in issue (see the section headed "Substantial Shareholders' Interests" above for further details).

As at 31 December 2016, the Non-executive Directors (excluding Professor Frederick Ma Si-hang and all the Independent Non-executive Directors) and Alternate Directors of the Company whose names are listed on pages 178 and 179 were officials of Government.

Save as disclosed above and as at 31 December 2016, no other Members of the Board or the Executive Directorate or any of their respective close associates or any Shareholder (which to the knowledge of the Members of the Board or the Executive Directorate, own more than 5% of all the Company's voting shares in issue) had any beneficial interests in the Group's five largest customers.

Donations

During the year, the Group donated approximately HK$13.5 million (2015: approximately HK$8.2 million) to charitable and other organisations.

Bank Overdrafts, Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2016 amounted to HK$39,939 million (2015: HK$20,811 million). Particulars of the borrowings are set out in note 36 to the Consolidated Accounts.

Bonds and Notes Issued

The Group issued notes with total face value amounting to HK$7,868 million equivalent during the year ended 31 December 2016 (2015: HK$1,197 million equivalent), details of which are set out in note 36C to the Consolidated Accounts. Such notes were issued in order to meet the Group's general corporate funding requirements, including financing of capital expenditure and refinancing of debts.

Loan Agreements with Covenant Relating to Specific Performance of the Controlling Shareholder

As at 31 December 2016, the Group had borrowings of HK$34,700 million (2015: HK$14,531 million) with maturities ranging from 2017 to 2055 and undrawn committed banking facilities of HK$14,000 million (2015: HK$10,200 million), which were subject to the condition that Government, being the Company's controlling shareholder, owns more than half of all the Company's voting shares in issue. Failure to satisfy such condition may result in immediate repayment of the borrowings being demanded and cancellation of the undrawn committed banking facilities.

Properties

Particulars of the principal investment properties and properties held for sale of the Company are shown on pages 68 to 71.

Connected Transactions

During the year under review, the transactions described below were entered into with Government (which is a substantial shareholder of the Company as defined in the Listing Rules). Government is therefore a "connected person" of the Company for the purposes of the Listing Rules, and each transaction described below is a connected transaction for the Company under the Listing Rules.

As disclosed in the announcement of the Company dated 13 January 2005, the Stock Exchange has granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and Government, subject to certain conditions (the "Waiver").

Consequently, the Company makes the disclosures below in accordance with Rule 14A.71 of the Listing Rules and in accordance with the conditions of the Waiver.

I Land Agreements

A On 5 January 2016, the Company accepted an offer dated 25 November 2015 from Government to allow the Company to proceed with the proposed LOHAS Park Package 9 property development in respect of Site J of The Remaining Portion of Tseung Kwan O Town Lot No. 70 (the "Site J") at a land premium of HK$2,851,990,000 and of the terms and conditions of a further lease modification in respect of the Site J (the "Site J Lease Modification") of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant No.9689 as varied or modified by ten modification letters. The Site J Lease Modification was executed on 15 February 2016.

B On 16 March 2016, the Company accepted an offer dated 4 February 2016 from Government to allow the Company to proceed with the proposed LOHAS Park Package 10 property development in respect of Site I of The Remaining Portion of Tseung Kwan O Town Lot No. 70 (the "Site I") at a land premium of HK$1,658,800,000 and of the terms and conditions of a further lease modification in respect of the Site I (the "Site I Lease Modification") of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant No.9689 as varied or modified by eleven modification letters. The Site I Lease Modification was executed on 20 May 2016.

C On 6 December 2016, the Company accepted an offer dated 7 November 2016 from Government for the purpose of the development of the Wong Chuk Hang Station and the Wong Chuk Hang Depot at Aberdeen Inland Lot No. 464 (which forms part of the South Island Line (East)) subject to payment of a land premium of HK$1,025,021,000 and on the terms and conditions of the land grant by private treaty to be entered into between the Company and Government. The land grant was executed on 22 December 2016.

D On 4 January 2017, the Company accepted an offer dated 24 November 2016 from Government to allow the Company to proceed with the proposed Ho Man Tin Property Development at Kowloon Inland Lot No. 11264 (the "Lot") at a land premium of HK$6,282,370,000 and on the terms and conditions of the land grant by private treaty of the Lot to be entered into between the Company and Government (the "Land Grant"). The Land Grant was executed on 27 February 2017.

II The Third Agreement in Relation to the Express Rail Link

On 30 November 2015, Government and the Company entered into the deed of agreement relating to the further funding and completion of the Express Rail Link Project (the "Third XRL Agreement"). The Third XRL Agreement contains an integrated package of terms and provides that:

(i) Government will bear and finance the project cost up to HK$84.42 billion;

(ii) if the project cost exceeds HK$84.42 billion, the Company will bear and finance the portion which exceeds that sum (if any), except for certain agreed excluded costs;

(iii) the Company will pay a special dividend of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share, in cash in each tranche);

(iv) certain amendments will be made to the existing entrustment arrangements entered into in 2010 relating to the Express Rail Link (please see section B2 in the section headed "II. Non Merger-related Continuing Connected Transactions with Government and/or its Associates" in the section headed "Continuing Connected Transactions" below), including an increase in the project management fee payable to the Company to HK$6.34 billion;

(v) Government reserves the right to refer to arbitration, after commencement of operations on the Express Rail Link, the question of the Company's liability for the current cost overrun (if any); and

(vi) the Third XRL Agreement is subject to (a) the obtaining of approval of the Company's independent shareholders and (b) the obtaining of approval of the Legislative Council for Government's additional funding obligations, within the agreed timeframe.

At the general meeting of the Company held on 1 February 2016, the independent shareholders of the Company voted in favour of the resolution to approve the Third XRL Agreement and the Legislative Council of Hong Kong approved Government's additional funding obligations on 11 March 2016. Accordingly, the conditions referred to in paragraph (vi) above have been satisfied. The first tranche of the special dividend of HK$2.20 per share was distributed on 13 July 2016 and the second tranche, also of HK$2.20 per share, will be paid in the second half of 2017, at the same time as payment of the 2016 final dividend.

Continuing Connected Transactions

During the year under review, the following transactions and arrangements described below involved the provision of goods or services carried out on an ongoing or recurring basis and are expected to extend over a period of time with Government and/or KCRC, the Airport Authority (the "AA"), UGL Rail Services Pty Limited ("UGL"), Leighton Contractors (Asia) Limited ("LCAL") and John Holland Pty Limited ("JHL").

As noted above under the section headed "Connected Transactions", Government is a substantial shareholder of the Company for the purposes of the Listing Rules. KCRC and the AA are both associates of the Company as defined in the Listing Rules.

Metro Trains Melbourne Pty. Ltd. ("MTM") is a joint venture company incorporated in Australia. Before completion of a reorganisation in December 2016, the Company directly controlled 60% of the voting power at general meetings of MTM and each of UGL and John Holland MTA Pty Ltd ("JHMTA") (in the case of JHMTA, following its acquisition of a 20% interest in MTM from John Holland Melbourne Rail Franchise Pty Ltd ("John Holland") on 16 September 2016) directly controlled 20% of the voting power at general meetings of MTM. Accordingly, UGL and JHMTA were direct substantial shareholders of MTM.

Upon completion of the reorganisation, the Company, UGL and JHMTA have become indirect substantial shareholders of MTM after Metro Trains Australia Pty Ltd ("MTA") has become the new holding company of MTM. Hence, the Company, UGL and JHMTA are substantial shareholders of MTA. The proportional shareholdings of the Company, UGL and JHMTA in MTA mirror their proportional shareholdings in MTM immediately before the reorganisation. Accordingly, UGL and JHMTA are connected persons of the Company. In addition, as JHL is an associate of JHMTA and John Holland, JHL is also a connected person of the Company.

Until April 2015, LCAL was an associate of John Holland and was, therefore, a connected person of the Company. As of April 2015, LCAL ceased to be an associate of John Holland and, therefore, ceased to be a connected person of the Company, as a result of the transfer of 100% of the equity interest in John Holland Group Pty Ltd and its subsidiaries by Leighton Holdings Limited (now known as CIMIC Group Limited ("CIMIC")) to CCCC International Holding Limited.

Since December 2016, following a takeover bid by CIMIC Group Investments No. 2 Pty Limited ("CGI2", a wholly-owned subsidiary of CIMIC) for the ordinary shares in UGL Limited, UGL Limited has become an indirect subsidiary of CIMIC. Hence, each of CIMIC and UGL Limited (being a holding company of UGL) is an indirect substantial shareholder of MTM. As a result, LCAL (being an indirect wholly-owned subsidiary of CIMIC) has become a connected person of the Company again.

Therefore, each of Government, KCRC, the AA, UGL, LCAL, and JHL is therefore each "connected person" for the purposes of the Listing Rules and, during 2016, each transaction set out at paragraphs I, II and III below constituted a continuing connected transaction for the Company under the Listing Rules.

In accordance with Guidance Letter GL 73-14 issued by the Stock Exchange and taking into account the Stock Exchange's recommendation issued in January 2016, the Company's Internal Audit Department ("IAD") has reviewed the Company's continuing connected transactions set out below and the related internal control procedures. IAD found that the internal control procedures put in place by the Company were adequate and effective and reported the same to the Audit Committee of the Company to assist the Company's Independent Non-executive Directors in their annual review and confirmation required to be given pursuant to the Merger-related Waiver (as defined below), the Waiver and the Listing Rules (as appropriate).

I Merger-related Continuing Connected Transactions

Each of the transactions listed in paragraphs A to D below and which formed part of the Rail Merger, was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. These paragraphs should be read in conjunction with the paragraphs contained in the section below headed "Additional Information in respect of the Rail Merger".

As disclosed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to continuing connected transactions between the Company, Government and/or KCRC arising as a result of the Rail Merger, subject to certain conditions (the "Merger-related Waiver").

A Merger Framework Agreement

The Merger Framework Agreement was entered into on 9 August 2007 between the Company, KCRC and the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury for and on behalf of Government.

The Merger Framework Agreement contains provisions for the overall structure and certain specific aspects of the Rail Merger, including in relation to:

- a seamless interchange programme;
- corporate governance of the Company Post-Rail Merger;
- payments relating to property enabling works;
- arrangements relating to the establishment of a rolling programme on the level of flat production arising from tenders for railway property development;
- arrangements in relation to the assessment of land premium amounts;
- arrangements in relation to the employees of the Company and KCRC, including provisions preventing the Company from terminating the employment of relevant frontline staff for any reason that relates to the process of integrating the operations of the Company and KCRC;
- the implementation of certain fare reductions;
- arrangements in relation to the proposed Shatin to Central Link;
- KCRC's continuing responsibility for its existing financial arrangements;
- treatment of KCRC's cross border leases;
- the payment of HK$7.79 billion in respect of the Property Package (as described on pages 190 to 193 and in paragraph D below);
- the allocation of liability for any Pre-Rail Merger and Post-Rail Merger claims by third parties; and
- the Company's retention of its English name and (pursuant to the Rail Merger Ordinance) the change of its Chinese name to "香港鐵路有限公司".

B West Rail Agency Agreement

The West Rail Agency Agreement and related agreements were entered into on 9 August 2007 between the Company, KCRC and certain KCRC subsidiary companies (the "West Rail Subsidiaries"). Pursuant to the terms of the West Rail Agency Agreement, the Company was appointed:

- to act as KCRC's agent, and donee under powers of attorney, to exercise certain rights and perform certain obligations relating to specified development sites along West Rail; and
- to act as agent for, and donee under powers of attorney from, each of the West Rail Subsidiaries to exercise certain rights and perform certain obligations relating to specified development sites along West Rail.

The Company will receive an agency fee of 0.75% of the gross sale proceeds in respect of the unawarded West Rail development sites and 10% of the net profits accrued to the West Rail Subsidiaries under the development agreements in respect of the awarded West Rail development sites. The Company will also recover from the West Rail Subsidiaries its costs (including internal costs) incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon.

C KCRC Cross Border Lease Agreements

US CBL Assumption Agreements

Separate US CBL Assumption Agreements were entered into on 30 November 2007 between the Company, KCRC and, variously, Wilmington Trust Company, Buoyant Asset Limited, BA Leasing & Capital Corporation, Utrecht-America Finance Co., Cooperatieve Cenrale Raiffeisen-Boerenleenbank B.A., Advanced Asset Limited, Washoe Asset Management Company, Quality Asset Limited, Kasey Asset Limited, Key Equipment Finance Inc., Mercantile Leasing Company (No. 132) Limited, Landesbank Sachsen Aktiengesellschaft, Barclays Bank PLC, Bayerische Landesbank Girozentrale, U.S. Bank National Association, Circuit Asset Limited, Citicorp USA Inc., Shining Asset Limited, Banc of America FSC Holdings Inc., Fluent Asset Limited, Anzef Limited, Societe Generale, Australia and New Zealand Banking Group Limited, Statesman Asset Limited, State Street Bank and Trust Company and Bowman Asset Limited and became effective on 3 December 2007, with respect to each of the US cross border leases originally entered into between KCRC and certain counterparties (each, a "CBL"). Pursuant to each US CBL Assumption Agreement, the Company undertakes to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs. As a result thereof, the Company is generally liable to the CBL counterparties in respect of KCRC's obligations under the CBLs and has the right to exercise certain of KCRC's rights under the CBLs.

Due to the early termination of and exercise of purchase options under certain CBLs, Advanced Asset Limited, Washoe Asset Management Company, Quality Asset Limited, Circuit Asset Limited, Citicorp USA Inc., Shining Asset Limited, Storey Asset Management Company, Buoyant Asset Limited, BA Leasing & Capital Corporation, Utrecht-America Finance Co. and Cooperatieve Cenrale Raiffeisen-Boerenleenbank B.A., are no longer counterparties to the US CBL Assumption Agreements.

US CBL Allocation Agreement

The US CBL Allocation Agreement was entered into between the Company, KCRC and the subsidiaries of KCRC (the "KCRC Subsidiaries") on 2 December 2007. Pursuant to the US CBL Allocation Agreement, rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between KCRC and the Company (each of which is jointly and severally liable to specified CBL counterparties, as referred to in the paragraph above headed "US CBL Assumption Agreements"). Under the terms of the US CBL Allocation Agreement, as between the Company and KCRC, the Company is responsible for specified obligations. The Company and KCRC each made representations under the US CBL Allocation Agreement, which include, in the case of those made by KCRC, representations with respect to the status of the CBLs. The Company and KCRC agreed to indemnify each other for certain losses in relation to the CBLs.

D Property Package Agreements

Category 2A Properties

On 9 August 2007, Government entered into an undertaking that it would, within twelve months of the Merger Date or such further period of time as Government and the Company may agree, issue to KCRC an offer for the grant at nil premium of Government leases in respect of the land upon which certain properties (the "Category 2A Properties") are situated (the "said Government Leases"). The Category 2A Properties were held by KCRC as vested land under the Kowloon-Canton Railway Corporation Ordinance (Cap. 372 of the Laws of Hong Kong) ("KCRC Ordinance"). On 9 August 2007, KCRC entered into an undertaking that it would, immediately after the grant of the said Government Leases referred to in the preceding sentence, enter into agreements for sale and purchase to sell the Category 2A Properties to the Company (the "said Agreements for Sale and Purchase"). Assignments of the Category 2A Properties to the Company shall then take place pursuant to the said Agreements for Sale and Purchase (the said "Assignments"). Pursuant to the KCRC undertaking and as interim arrangements until the grant of Government leases, on 9 August 2007 the following agreements were entered into between KCRC and the Company:

- an agreement that KCRC (as lessor) shall enter into tenancy agreements with the Company (as lessee) at market rent in respect of the Category 2A Properties' vacant units (with the intention that the Company will then sub-let the vacant units to sub-tenants);
- two licence agreements in respect of the common areas within the Category 2A Properties, pursuant to which KCRC granted the Company the right to use certain common areas until the execution of the Category 2A Properties assignment referred to above;
- a lease enforcement agency agreement appointing the Company as its enforcement agent to enforce KCRC's current Category 2A Properties tenancy agreements against tenants; and
- an assignment of rental proceeds whereby the proceeds received under KCRC's current Category 2A Properties tenancy agreements with tenants are assigned to the Company.

The said Government Leases were issued to KCRC respectively on 27 March 2009 and 31 March 2009. The said Agreements for Sale and Purchase were entered into between KCRC and the Company on 27 March 2009 and 31 March 2009 respectively and the said Assignments to the Company were executed on 27 March 2009 and 31 March 2009 respectively. Deeds of Mutual Grant were also entered into between the Company and KCRC on 27 March 2009 and 31 March 2009 respectively setting out the easements, rights, entitlements, privileges and liberties of the Company and KCRC in the land on which the Category 2A Properties are situated.

Category 2B Property

On 9 August 2007, Government entered into an undertaking that it would, within twenty four months of the Merger Date or such further period of time as Government and the Company may agree, issue to the Company an offer for the grant of a Government Lease of a certain property (the "Category 2B Property") on terms to be agreed. The Category 2B Property is currently held by KCRC as vested land under the KCRC Ordinance for use as staff quarters and a recreational club.

On 9 August 2007, KCRC entered into an undertaking relating to interim arrangements to ensure that, as from the Merger Date, the Company shall be responsible for KCRC's obligations under licence agreements relating to the Category 2B Property, and for enforcing such agreements. The Company is entitled to proceeds received by KCRC in respect of those licence agreements. The interim arrangements include, inter alia, as from the Merger Date:

- an agreement that KCRC (as licensor) shall grant to the Company (as licensee) possession of the Category 2B Property (without payment of any licence fee or premium), subject to existing licences and the Second Schedule of the KCRC Ordinance, with the right of the Company to sublicense all or any part of the Category 2B Property (subject to it being used as staff quarters and a recreation club);
- until the grant of Government lease of the Category 2B Property, KCRC has appointed the Company as its enforcement agent to enforce KCRC's current Category 2B Property licence agreements against licensees; and
- KCRC has assigned to the Company the proceeds received under KCRC's current Category 2B Property licence agreements with licensees.

The basic terms offer for the Category 2B Property (i.e. Trackside Villas) was issued and accepted by the Company on 31 December 2009 and Government Lease in respect of Tai Po Town Lot No. 199 dated 29 March 2010 was issued for a term of 50 years from 2 December 2007.

Category 3 Properties

On 9 August 2007, the Company entered into three agreements (the "Category 3 Agreements") and related powers of attorney with KCRC. Each Category 3 Agreement relates to a certain property (each a "Category 3 Property"). KCRC has previously entered into a development agreement in respect of each Category 3 Property. None of the rights and obligations granted to or undertaken by the Company under the Category 3 Agreements may be exercised or performed by the Company if they relate exclusively to concession property situate on any Category 3 Property. Matters affecting the concession property situate on any Category 3 Property are dealt with under the terms of the Service Concession Agreement (as defined and summarised on page 205).

Pursuant to the terms of each Category 3 Agreement, the Company has been appointed to act as KCRC's agent, and donee under powers of attorney, to exercise rights and to perform obligations of KCRC which relate to the Category 3 Property (but excluding the right or obligation to dispose of the relevant Category 3 Property).

The Company is required at all times to comply with statutory restrictions and obligations binding on KCRC which relate to the Category 3 Properties, and shall pay all amounts due and payable from KCRC which have been incurred by KCRC as a result of the Company's actions.

In acting as KCRC's agent, the Company is required to act according to prudent commercial principles, and aim to maximise gross profits under the Category 3 Properties and to run a safe and efficient railway. In order to assist the Company in performing its agency functions, KCRC has granted powers of attorney to the Company. The Company may only use the powers of attorney to exercise rights and perform obligations conferred or undertaken by it under the relevant Category 3 Agreement. As well as acting as KCRC's agent, the Company has the right to give KCRC instructions in respect of any action or matter relating to each Category 3 Property (including its related development agreement) which the Company is unable to take by reason of the limitation of the scope of its agency powers. KCRC is required to comply promptly with those instructions provided that it is permitted under law, and under the relevant Government grant, to carry out those instructions.

KCRC is required to account for revenue received in respect of a Category 3 Property by way of balance sheet movement (rather under its profit and loss account), provided that such treatment is permitted under law and accounting principles and practices.

KCRC shall not take any action in respect of a Category 3 Property which is not carried out by the Company (acting as KCRC's agent), or according to the Company's instructions, or otherwise in accordance with the terms of the Category 3 Agreement.

As consideration for acting as KCRC's agent, the Company shall be paid a fee which is expected to be similar in quantum to the profits made by KCRC in respect of the relevant Category 3 Property (after deducting certain initial and upfront payments and consultant contribution costs, in each case paid or to be paid by the relevant developer to KCRC). Generally, the Company's fee shall be payable in instalments promptly following receipt of relevant funds by KCRC (but subject to specified deductions of amounts due from KCRC to the relevant Category 3 Property developer).

The Company has agreed to give certain indemnities to KCRC in respect of each Category 3 Property.

The Company shall be the first manager, or shall ensure that a manager is appointed in respect of, each Category 3 Property (once developed).

The Company's appointment as agent shall terminate when KCRC ceases to have any undivided share in the relevant Category 3 Property, other than concession property, and neither KCRC nor the developer nor the guarantors have any further rights to exercise, or obligations to perform, under the development agreement relating to the relevant Category 3 Property.

In relation to the Merger Framework Agreement, the West Rail Agency Agreement (and related powers of attorney), the US CBL Assumption Agreements, the US CBL Allocation Agreement and the agreements in relation to Category 2A, Category 2B and Category 3 Properties (together the "Merger-related Continuing Connected Transactions") and in accordance with paragraph B(I)(i) of the Merger-related Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Merger-related Continuing Connected Transactions and confirmed that the Merger-related Continuing Connected Transactions were entered into:

(1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;

(2) on normal commercial terms or better (within the meaning of the Listing Rules); and

(3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to carry out a review of each of the Merger-related Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(I)(ii) of the Merger-related Waiver, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions have not been approved by the Board; and

(b) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

II Non Merger-related Continuing Connected Transactions with Government and/or its Associates

The following disclosures are made in accordance with the conditions of the Waiver and Rule 14A.71 of the Listing Rules.

A1 Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link

The Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link (the "First SCL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First SCL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Shatin to Central Link, including in relation to:

- Government's obligation to pay the Company up to a maximum aggregate amount of HK$1,500 million in respect of certain costs incurred by the Company pursuant to the First SCL Agreement, including the Company's in-house design costs and certain on-costs and preliminary costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First SCL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Shatin to Central Link;
- the limitation of the Company's liability to Government under the First SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$600 million; and
- should the railway scheme for the Shatin to Central Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Shatin to Central Link.

A2 Entrustment Agreement for Advance Works Relating to the Shatin to Central Link

The Entrustment Agreement for Advance Works Relating to the Shatin to Central Link (the "Second SCL Agreement") was entered into on 17 May 2011 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Second SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second SCL Agreement and carrying out its other obligations under the Second SCL Agreement, Government shall pay to the Company the Company's project management cost. The amount of such project management cost is to be agreed between the Company and Government and prior to such agreement, the project management cost shall be paid by Government to the Company on a provisional basis calculated in accordance with the Second SCL Agreement;

- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Second SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear all of the "Works Cost" (as defined in the Second SCL Agreement). In this connection, Government will make payments to the Company in respect of the Works Cost on a provisional basis, subject to adjustments when the final outturn cost of the Works Cost is determined;
- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Second SCL Agreement is limited to approximately HK$3,000 million per annum and a total in aggregate of approximately HK$15,000 million;
- the Company shall carry out or procure the carrying out of certain enabling works on the expanded Admiralty Station and the to be constructed Ho Man Tin Station, the reprovisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other works as described under the Second SCL Agreement;
- the Company's total liability to Government under the First SCL Agreement and the Second SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement and the Second SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the completion of the relevant works, a final report on the activities required to be carried out under the Second SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and

- in the case of those activities under the Second SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and

- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

A3 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link

The Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link (the "Third SCL Agreement") was entered into on 29 May 2012 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Third SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Third SCL Agreement and carrying out its other obligations under the First SCL Agreement and the Second SCL Agreement, Government shall pay to the Company the Company's project management cost. The amount of the project management cost is HK$7,893 million and will be paid by Government to the Company on a quarterly basis;
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Third SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Third SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear certain "Third Party Costs", any "Interface Works Costs" and any "Direct Costs" (each as defined in the Third SCL Agreement);
- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Third SCL Agreement is limited to HK$3,000 million per annum and a total in aggregate of HK$15,000 million;
- the maximum aggregate amount payable by the Company to Government under the Third SCL Agreement in relation to its contribution to certain railway works under the Third SCL Agreement is limited to HK$4,000 million per annum and a total in aggregate of HK$15,000 million;
- the Company's total liability to Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Third SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the handover of the Shatin to Central Link project to Government, a final report on the activities required to be carried out under the Third SCL Agreement;

- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Third SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Third SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Third SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

B1 Entrustment Agreement for Design and Site Investigation in Relation to the Express Rail Link

The Entrustment Agreement for Design and Site Investigation in Relation to the Express Rail Link (the "First XRL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First XRL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Express Rail Link, including in relation to:

- Government's obligation to pay the Company, up to a maximum aggregate amount of HK$1,500 million, in respect of certain costs incurred by the Company pursuant to the First XRL Agreement, including the Company's in-house design costs and certain on-costs, preliminary costs and recruited staff costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First XRL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Express Rail Link;
- the limitation of the Company's liability to Government under the First XRL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$700 million; and
- should the railway scheme for the Express Rail Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Express Rail Link.

B2 Entrustment Agreement for Construction, Testing and Commissioning of the Express Rail Link

The Entrustment Agreement for the construction and commissioning of the Express Rail Link was entered into on 26 January 2010 between the Company and the Secretary for Transport and Housing for and on behalf of Government (the "Second XRL Agreement").

The scheme in respect of the Express Rail Link was first gazetted under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong) on 28 November 2008, with amendments and corrections gazetted on 30 April 2009. The scheme, as amended with such minor modifications as deemed necessary, was authorised by the Chief Executive in Council on 20 October 2009 and funding support approved by the Finance Committee on 16 January 2010.

The Second XRL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second XRL Agreement and carrying out its other obligations under the Second XRL Agreement and the First XRL Agreement, Government shall pay to the Company HK$4,590 million (further details relating to the amendments to this provision are set out in the section above headed "II. The Third Agreement in Relation to the Express Rail Link" in the section headed "Connected Transactions"), to be paid in cash quarterly in advance on a scheduled basis as such sum may be varied in accordance with the Second XRL Agreement, subject to the maximum payment limits stated in the Second XRL Agreement (being HK$2,000 million annually and HK$10,000 million in total) (the "Maximum Payment Limits");
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second XRL Agreement and in consideration of the Company executing or procuring the execution of the miscellaneous works (if any) and carrying out its other obligations under the Second XRL Agreement in relation to the miscellaneous works (if any), Government shall pay to the Company an amount equal to an agreed fixed percentage of third party costs attributable to the miscellaneous works from time to time subject to the Maximum Payment Limits;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second XRL Agreement that were carried out in the immediately preceding calendar month and, within three months following the earlier of handover of the Express Rail Link project to Government or termination of the Second XRL Agreement, a final report on the activities required to be carried out under the Second XRL Agreement;
- the Company shall be responsible for the care of all works constructed under the Express Rail Link project from the commencement of construction until the date of handover of those works to Government (or to a third party directed by Government) and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second XRL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;

- in the case of those activities under the Second XRL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
- in the case of those activities under the Second XRL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor;

- Government is required to bear (i) any costs payable to third parties, (ii) any charges, costs or amounts payable to any Government department, bureau, agency or body in relation to the activities to be carried out under the Second XRL Agreement, (iii) any and all amounts payable to the KCRC as compensation for damage arising as a result of the Company and/or a third party contractor carrying out activities under the Second XRL Agreement; and (iv) all land acquisition, clearance and related costs (including all amounts arising as a result of any claim for compensation by any third party) and those costs which are incurred by the Lands Department in connection with the Express Rail Link project (further details relating to the amendments to this provision are set out in the section above headed "II. The Third Agreement in Relation to the Express Rail Link" in the section headed "Connected Transactions"); and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Express Rail Link are given or granted.

Government has agreed that the Company has been asked to proceed with the construction, testing and commissioning of the Express Rail Link (pursuant to and on the terms of the Second XRL Agreement) on the understanding that the Company will be invited to undertake the operation of the Express Rail Link under the concession approach.

Pursuant to the Third XRL Agreement, certain amendments have been made to the Second XRL Agreement to reflect the arrangements contained in the Third XRL Agreement, including (i) amendments to the arrangements for the bearing and financing of the project cost; and (ii) an increase in the project management cost payable to the Company to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations in relation to the Express Rail Link project). Further details are set out in the section above headed "II. The Third Agreement in Relation to the Express Rail Link" in the section headed "Connected Transactions".

C Renewal of the existing Maintenance Agreement for the Automated People Mover System at the Hong Kong International Airport

The Company entered into a Maintenance Agreement with the AA for the maintenance of the Automated People Mover system at the Hong Kong International Airport since 2002. It was signed on 18 March 2002 for a period of three years, which expired on 6 July 2005. A Supplemental Agreement was agreed with the AA, and approved by the Board in June 2005, to extend the Maintenance Agreement for another three years until 6 July 2008, which also included options for the Automated People Mover serving the Sky Plaza and Sky Pier terminal buildings. Another Maintenance Agreement was then signed on 21 August 2008 for a period of five years, which expired on 5 July 2013 (the "Maintenance Agreement").

On 5 July 2013, the Company entered into a new Maintenance Contract with the AA for the renewal of the then expired Maintenance Agreement for the Automated People Mover system for a seven year period (the "New Maintenance Contract"), effective from 6 July 2013. On 5 March 2015, the Company entered into a supplemental agreement to the New Maintenance Contract with the AA for carrying out the Automated People Mover system's testing and commissioning works (the "Supplemental Agreement"). It is expected that the highest amount per year receivable from the AA under the New Maintenance Contract and the Supplemental Agreement will be HK$60 million.

The New Maintenance Contract contains provisions relating to the operation and maintenance by the Company of the Automated People Mover system installed at Hong Kong International Airport (the "System") and the carrying out by the Company of certain specified services in respect of the System, they including the following:

- provisions stating that the duration of the New Maintenance Contract shall be seven years from 6 July 2013 up to and including 5 July 2020;
- provisions relating to the performance of scheduled maintenance works and overhaul of the System by the Company;
- provisions relating to monitoring the System for any breakdown and the Company providing repair services where necessary;
- provisions relating to the standards to which the Company must operate the System;
- provisions relating to the carrying out by the Company (as additional services), in certain circumstances, of upgrade work on the System; and
- provisions relating to the operations of and maintenance for the extension of the System to the new Midfield Concourse.

D Project Agreement for the Financing, Design, Construction and Operation of the West Island Line

The Project Agreement for the Financing, Design, Construction and Operation of the West Island Line (the "WIL Project Agreement") was entered into on 13 July 2009 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The WIL Project Agreement contains provisions for the financing of and the carrying out, or procuring the carrying out, of the design, construction, completion, testing and commissioning by the Company of the railway works required in order to bring the West Island Line into operation in accordance with the MTR Ordinance, the Operating Agreement between the Company and the Secretary for Transport and Housing for and on behalf of Government dated 9 August 2007 and the WIL Project Agreement. The West Island Line will be owned, operated and maintained by the Company for its own account for the period of the Company's railway franchise. The WIL Project Agreement includes provisions in relation to:

- payment by Government of HK$12,252 million to the Company in consideration of the Company's obligations under the WIL Project Agreement, such sum constituting funding support from Government for the Company to implement the West Island Line project;
- within 24 months of commercial operations commencing on the West Island Line on a revenue earning basis and providing scheduled transport for the public (which period was extended to no later than 30 June 2018 by a supplemental agreement between the Company and Government dated 23 December 2016), payment by the Company to Government of any "Repayment Amounts" for any over-estimation of certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway works and reprovisioning, remedial and improvement works (together with interest);
- the design, construction and completion of the associated reprovisioning, remedial and improvement works (the cost of which shall be the responsibility of the Company) and the associated essential public infrastructure works (the cost of which shall be the responsibility of Government);
- the Company's responsibility for costs relating to land acquisition, clearance and related costs arising from the implementation of the West Island Line project (save for costs arising from certain claims for compensation by third parties) and all costs, expenses and other amounts incurred or paid by the Lands Department pursuant to the involvement of the Lands Department in connection with the implementation of the West Island Line project; and
- the Company carrying out measures specified in the environmental impact assessment and the environmental permit issued by Government to the Company in relation to the West Island Line on 12 January 2009.

The construction of the West Island Line took place between the date of the WIL Project Agreement and 2015.

In relation to the First SCL Agreement, the Second SCL Agreement, the Third SCL Agreement, the First XRL Agreement, the Second XRL Agreement (as amended by the Third XRL Agreement), the New Maintenance Contract and the WIL Project Agreement (as amended by the supplemental agreement) (together the "Non Merger-related Continuing Connected Transactions") and the Third XRL Agreement and in accordance with paragraph B(I)(iii)(a) of the Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Non Merger-related Continuing Connected Transactions and the Third XRL Agreement and confirmed that the Non Merger-related Continuing Connected Transactions were entered into:

(1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;

(2) on normal commercial terms or better (within the meaning of the Listing Rules); and

(3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to carry out a review of each of the Non Merger-related Continuing Connected Transactions and the Third XRL Agreement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(I)(iii)(b) of the Waiver, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions and the Third XRL Agreement have not been approved by the Board; and

(b) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions and the Third XRL Agreement were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

III Non Merger-related Continuing Connected Transactions with parties other than Government and/or its Associates

The following disclosures are made in accordance with Rule 14A.71 of the Listing Rules.

A Pre-Existing UGL Contract and Pre-Existing Supplemental UGL Contract for the provision of maintenance and other services for certain trains

As explained above, UGL is a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. The Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract (each, as defined below) is therefore a "continuing connected transaction" within the meaning of Rule 14A.31 of the Listing Rules.

On 11 January 2002, the Company entered into a contract with UGL for the provision of maintenance and other services in respect of trains at certain depots for a period of seven years commencing on or around 1 October 2002 to 30 September 2009 (the "Pre-Existing UGL Contract"). The commencement date was subsequently advanced by three months. On 14 April 2009, the Company entered into a supplemental agreement with UGL for the extension of the Pre-Existing UGL Contract for a further period of seven years from 1 August 2009 and for the transfer of the provision of certain services to the Kowloon Bay depot (the "Pre-Existing Supplemental UGL Contract").

The Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) provides for the provision of maintenance and other services by UGL in respect of 15 G/H stock trains used by the Company on the Kwun Tong Line, the Island Line, the Tsuen Wan Line and the Tseung Kwan O Line, in each case at the Tseung Kwan O depot and the Kowloon Bay depot, including provisions in relation to:

- payment by the Company of a total sum of HK$172,059,100.12 to UGL (including for variations and additional works) in consideration of UGL providing certain services between 1 August 2002 and 31 July 2009 and payment by the Company of HK$152,940,000 to UGL for the extended term of seven years pursuant to the Pre-Existing Supplemental UGL Contract (which amount is to be paid on a scheduled basis), subject to certain adjustments, including for the level of performance by the relevant trains;
- indemnification by UGL of the Company against certain losses and expenses sustained by the Company arising out of or in connection with UGL carrying out its obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract);
- maintenance by UGL of insurance in relation to certain liabilities to the Company;
- the Company effecting and maintaining third party insurance covering the legal liability of both UGL and the Company for accidental death or injury to persons or accidental loss of or damage to property, in each case, arising out of the UGL's obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract); and
- the Company maintaining "Contractors All Risks" insurance covering loss or damage to certain goods, equipment and temporary buildings at the Tseung Kwan O depot and the Kowloon Bay depot.

The terms of the Pre-existing UGL Contract were agreed upon subsequent to a tender process that invited submissions from a number of contractors, including UGL. UGL was selected by the Company in accordance with the Company's established procedures for the assessment of tenders.

The Company regularly outsources certain services to third parties that specialise in the type of work outsourced, thereby improving the efficiency of the Company's operations and allowing the Company to concentrate its resources on its core business areas. UGL is a specialist in the provision of construction, refurbishment and maintenance services to the railway industry.

B Contract 903 between the Company and LCAL relating to certain works on the South Island Line (East)

As explained above, LCAL is a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules again. Contract 903 (as defined below) is therefore a "continuing connected transaction" within the meaning of Rule 14A.31 of the Listing Rules.

On 17 May 2011, the Company and LCAL entered into Contract 903 (as amended by a supplemental agreement on 14 November 2014) (the "Contract 903") for the construction of certain works relating to the Aberdeen Channel Bridge, Wong Chuk Hang Station and Ocean Park Station in respect of the South Island Line (East) (the "Contract 903 Works").

Contract 903 is in substantially the same form as the Company's standard conditions of contract for target cost construction and contains the following provisions:

- the principal obligation of LCAL under Contract 903 is the construction of the Contract 903 Works;
- LCAL shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 903 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 903 Works, or the right of the Company to execute the Contract 903 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by LCAL;
- LCAL shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of LCAL or its sub-contractors or suppliers arising out of and in the course of such employment;

- LCAL shall effect and maintain insurance with a limit of not less than HK$200 million in relation to certain of its liabilities;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of LCAL under Contract 903;
- LCAL's liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 903 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage. The total liability of LCAL to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the target cost plus fees as calculated under Contract 903;
- the total amount payable by the Company to LCAL under Contract 903 is the Contract Sum, which includes the target cost for the Contract 903 Works and fees to LCAL. From time to time the scope of the Contract 903 Works may vary and the Company will be obliged to revise the fees payable to LCAL in accordance with the terms of the Contract;
- the Company is obliged to pay the target cost for the Contract 903 Works to LCAL on a scheduled basis set out in Contract 903. If the final total cost of the Contract 903 Works exceeds or is less than the target cost for the Works, the deficit or, as the case may be, the excess will be borne by or, as the case may be, distributed to the Company and LCAL on a basis calculated in accordance with Contract 903;
- the maximum aggregate amount payable annually by the Company under Contract 903 is approximately HK$1,400 million. As payments by the Company to LCAL are paid on a scheduled basis as set out in Contract 903, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$700 million. In addition, LCAL has agreed to separately purchase additional cover for "Third Party Liability" insurance in the amount of HK$3,638 million; and
- the Company may at any time, by giving 30 days' notice in writing to LCAL, terminate Contract 903 but without prejudice to any claims by the Company for breach of contract.

C Contract 904 between the Company, LCAL and JHL relating to certain works on the South Island Line (East)

As explained above, each of LCAL and JHL is a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. Contract 904 (as defined below) is therefore a "continuing connected transaction" within the meaning of Rule 14A.31 of the Listing Rules.

On 17 May 2011, the Company, LCAL and JHL (LCAL and JHL being "the Contractors") entered into Contract 904 (as amended by a supplemental agreement on 7 June 2013) (the "Contract 904") for the construction of certain works relating to Lei Tung Station and South Horizons Station in respect of the South Island Line (East) (the "Contract 904 Works").

Contract 904 is in substantially the same form as the Company's standard conditions of contract for engineering works and contains the following provisions:

- the principal obligation of the Contractors is the construction of the Contract 904 Works. The obligations of the Contractors under Contract 904 are joint and several;
- the Contractors shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 904 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 904 Works, or the right of the Company to execute the Contract 904 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by the Contractors;

- the Contractors shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of the Contractors or their subcontractors or suppliers arising out of and in the course of such employment;
- the Contractors shall effect and maintain insurance with a limit of not less than HK$200 million in relation to certain of its liabilities;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of the Contractors under Contract 904;
- the Contractors' liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 904 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage;
- the total liability of the Contractors to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the contract sum under the Contract;
- the total amount payable by the Company to the Contractors under Contract 904 is the Contract Sum. From time to time the scope of Works may vary and the Company will be obliged to revise the Contract Sum in accordance with the terms of Contract 904;
- the maximum aggregate amount payable annually by the Company under Contract 904 is approximately HK$1,400 million. As payments by the Company to the Contractors are paid on a scheduled basis as set out in Contract 904, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$700 million. In addition, the Contractors have agreed to separately purchase additional cover for "Third Party Liability" insurance in the amount of AU$485 million; and
- the Company may at any time, by giving 30 days' notice in writing to the Contractors, terminate Contract 904 but without prejudice to any claims by the Company for breach of contract.

In relation to the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract, Contract 903 and Contract 904 (together the "Continuing Connected Transactions with Parties other than Government and/or its Associates") and in accordance with Rule 14A.55 of the Listing Rules, the Company confirms that the Independent Non-executive Directors of the Company have reviewed the Continuing Connected Transactions with Parties other than Government and/or its Associates and confirmed that each of the Continuing Connected Transactions with Parties other than Government and/or its Associates was entered into:

(1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;

(2) on normal commercial terms or better (within the meaning of the Listing Rules); and

(3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to carry out a review of the Continuing Connected Transactions with Parties other than Government and/or its Associates in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with Rule 14A.56 of the Listing Rules, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have not been approved by the Board;

(b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not, in all material respects, in accordance with the pricing policies of the Group;

(c) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(d) with respect to the aggregate amount of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have exceeded the relevant annual caps as set by the Company in respect of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates.

Additional Information in respect of the Rail Merger

The Rail Merger consisted of a number of separate agreements, each of which was detailed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, and which together formed a complete package deal which was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. The information set out at paragraph A below describes the payment framework adopted in respect of the Rail Merger and paragraphs B to E below set out, summaries of the various agreements entered into by the Company in respect of the Rail Merger in addition to those agreements disclosed above under the heading "Merger-related Continuing Connected Transactions".

A Payments in connection with Merger-related Agreements

In connection with the Rail Merger, the following initial payments were made by the Company to KCRC on 2 December 2007 (being the Merger Date):

- an upfront payment of HK$4.25 billion, payable under the Service Concession Agreement (as described in paragraph B below), being the upfront fee for the right to operate the Service Concession (as defined in paragraph B below) and the consideration for the purchased rail assets; and
- an upfront payment of HK$7.79 billion payable under the Merger Framework Agreement (as described on page 189) in consideration for the execution of the Property Package Agreements (as described on pages 190 to 193 and in paragraph E below) and the sale of the shares in the KCRC Subsidiaries (as defined on page 190) that were transferred to the Company under the Sale and Purchase Agreement which was entered into on 9 August 2007 between the Company and KCRC.

In addition to the initial payments above, the Company is also required to make the following payments to KCRC going forward:

- fixed annual payments of HK$750 million payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in arrears on the day immediately preceding each anniversary of the Merger Date which falls during the concession period in respect of the 12 month period up to and including the date on which such payment falls due; and
- variable annual payments payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in each case, calculated on a tiered basis by reference to the amount of revenue from the KCRC system (as determined in accordance with the Service

Concession Agreement) for each financial year of the Company. No variable annual payment is payable in respect of the first 36 months following the Merger Date.

As a complete package deal, other than the payment elements described above and unless stated otherwise in the relevant paragraph below, no specific allocation was made between the various elements of the Rail Merger.

B Service Concession Agreement

The Service Concession Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Service Concession Agreement contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company (the "Service Concession"), including in relation to:

- the grant of the Service Concession to the Company to access, use and operate the concession property (other than KCRC railway land referred to immediately below) to certain specified standards;
- the grant of a licence to access and use certain KCRC railway land;
- the term (being an initial period of 50 years from the Merger Date) of the Service Concession and redelivery of the KCRC system upon expiry or termination of the concession period. The Service Concession will end if the Company's franchise relating to the KCRC railway is revoked;
- the payments of an upfront payment of HK$4.25 billion and fixed annual payments and variable annual payments (as described in paragraph A above);
- KCRC remaining the legal and beneficial owner of the concession property as at the Merger Date and the Company being the legal and beneficial owner of certain future concession property (the "Additional Concession Property");
- the regime for compensation payable by KCRC to the Company if Additional Concession Property is returned to KCRC at the end of the concession period;
- the rights and restrictions of the Company and KCRC in relation to the concession property; and
- subject to certain conditions, the Company bearing all risks, liabilities and/or costs whatsoever associated with or arising from the concession property and the land on which any of the concession property is located during the concession period.

C Sale and Purchase Agreement

The Sale and Purchase Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Sale and Purchase Agreement provides the terms pursuant to which the Company acquired certain assets and contracts (the "Purchased Rail Assets") from KCRC.

The consideration for the sale of the Purchased Rail Assets (excluding the shares in the KCRC Subsidiaries) formed part of the upfront payment of HK$4.25 billion. The consideration for the sale of the shares in the KCRC Subsidiaries (which own the Category 1A Properties referred to at paragraph E below and act as property managers) formed part of the payment of HK$7.79 billion for the property package (as described in paragraph A above and in paragraph E below).

D Operating Agreement

The Operating Agreement was entered into on 9 August 2007 between the Company and the Secretary for Transport and Housing for and on behalf of Government as contemplated in the MTR Ordinance.

The Operating Agreement is based on the previous Operating Agreement which was signed on 30 June 2000. The Operating Agreement differs from the previous Operating Agreement to provide for, amongst other things, the nature of the combined MTRC railway and KCRC railway. The Operating Agreement includes terms relating to:

- the extension of the Company's franchise under the MTR Ordinance;
- the design, construction and maintenance of the railway;
- passenger services;

- a framework for the award of new projects and the operation and ownership structure of new railways;
- the adjustment mechanism to be applied to certain of the Company's fares; and
- compensation which may be payable under the MTR Ordinance to the Company in relation to a suspension, expiry or termination of the franchise.

Under the Operating Agreement, the fare adjustment mechanism is subject to review periodically. The first of such reviews was undertaken in 2013. The Company and Government agreed on 16 April 2013 to amend the fare adjustment mechanism. On 23 March 2016, the Company announced that it had received a letter from Government requesting a joint review between Government and the Company of the fare adjustment mechanism with a view to advancing the next scheduled review by one year. On 20 April 2016, the Company announced that the Board of the Company had considered Government's request and that the Company had written to Government confirming its agreement to commence such joint review. The Company will make further announcement(s) in due course. In addition, the wider terms of the Operating Agreement are subject to review every five years and such a review was also undertaken in 2013. As a result of such review, the Company and Government agreed measures in enhancing communication and liaison on operational arrangements.

E Additional Property Package Agreements

Category 1A Properties

The Category 1A Properties are held by the KCRC Subsidiaries. Under the terms of the Sale and Purchase Agreement, the Company acquired from KCRC the shares in the KCRC Subsidiaries (and thereby indirectly acquired the "Category 1A Properties").

Category 1B Properties

On 9 August 2007, KCRC and the Company entered into an agreement for sale and purchase under which KCRC agreed to assign certain properties (the "Category 1B Properties") to the Company on the Merger Date. The relevant assignment was executed between KCRC and the Company on 2 December 2007.

Category 4 Properties

On 9 August 2007, Government entered into an undertaking that it would, within periods to be agreed between the Company and Government, offer to the Company a private treaty grant in respect of certain development sites (the "Category 4 Properties"). The terms of each private treaty grant shall generally be determined by Government, and the premium for each private treaty grant shall be assessed on a full market value basis ignoring the presence of the railway other than the Tin Shui Wai Terminus, Light Rail, Yuen Long, New Territories.

On 9 August 2007, the Company issued a letter to KCRC confirming that, if there should be any railway premises on the Category 4 Properties, the Company would assign the railway premises to KCRC.

Metropolis Equity Sub-participation Agreement

The Metropolis Equity Sub-participation Agreement was entered into on 9 August 2007 between KCRC and the Company. KCRC is obliged to act on the Company's instructions, and pay to the Company any distributions, or proceeds of sale, relating to its shareholding in the property management company The Metropolis Management Company Limited ("Metropolis"). The issued share capital of Metropolis is 25,500 A shares (which are held by KCRC) and 24,500 B shares (which are held by Cheung Kong Property Management Limited). Metropolis' business is property management.

F Application of Merger-related Waiver

In relation to the Operating Agreement and the Service Concession Agreement, pursuant to paragraph A of the Merger-related Waiver, the Stock Exchange granted a waiver to the Company from strict compliance with all the continuing connected transaction requirements of Chapter 14A of the Listing Rules.

Capital and Revenue Expenditure

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. All project expenditures over 0.2% of the net assets of the Company and the employment of consultancy services over 0.1% of the net assets of the Company require the approval of the Board.

Reporting and Monitoring

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board. Monthly results of the Company's operations, businesses and projects are reported against the budget to the Board and updated forecasts for the year are prepared regularly.

Treasury Management

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt portfolio with reference to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debt, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's financing requirements and the market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's exposure to interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

Major financing transactions and guidelines for derivatives transactions, including the credit risk management framework, are approved at the Board level.

Computer Processing

There are defined procedures, controls and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2008. Disaster recovery rehearsal on critical applications is conducted annually. In addition, the Company has been certified with ISO 27001:2013 on the Information Security Management System that complies with the required standard for the comprehensive scope of IT services operation.

Permitted Indemnity Provision

Pursuant to the Articles of Association, subject to the statutes, the Company will indemnify every Director of the Company out of its own assets against any liability incurred by him/her in the execution of his/her office in defending any civil or criminal proceedings. The relevant Article was in force during the year ended 31 December 2016 and on 7 March 2017 when this Report was approved. To ensure sufficient coverage is provided, the Company undertakes an annual review of the Directors' and Officers' liability insurance policy of the Company (the "D&O Insurance Policy") in light of recent trends in the insurance market and other relevant factors. The D&O Insurance Policy also indemnifies the other directors within the Group.

Going Concern

The Consolidated Accounts on pages 213 to 302 have been prepared on a going concern basis. The Board has reviewed the Group's budget for 2017, together with the longer-term forecast for the following five years and is satisfied that the Group has sufficient resources to continue as a going concern for the foreseeable future.

Auditors

The retiring auditors, KPMG, have signified their willingness to continue in office. A resolution will be proposed at the forthcoming AGM to reappoint them and to authorise the Directors to fix their remuneration.

For and on behalf of the Board

Gillian Elizabeth Meller
Company Secretary
Hong Kong, 7 March 2017

Directors of Subsidiaries

The names of all directors of the subsidiaries of the Company during the year and up to the date of this Report (unless otherwise stated) are listed below:

Name	Director	Alternate Director
Beacham, Alan Edward*	√	
Bellette, Irene Vera		√
Bergkvist, Gunnar Ove	√	
Bråten, Tomm Otto	√(Resigned)	
Chan Chi-kun*	√	√(Resigned)
Chan Hin-fu*	√	
Chan Wai-man, Raymond*	√	
Dr Chan Yuen Tak-fai, Dorothy	√	
Cheng Kin-wai	√(Resigned)	
Cheng Wai-ching, Margaret	√	
Cheung Siu-wa, Morris*	√	
Choi Tak-tsan*		√
Chow Chiu-wai		√
Chow Chun-ling	√	
Chu Fung-kuen, Margaret	√	
Collis, Charles G.	√	
Dagberg, Henrik J:son	√	
Downie, Brian Francis*	√	√
Drake, Richard Francis*	√(Resigned)	
Elfving, Hans-Åke Börje	√	
Dr Ewen, Peter Ronald	√	
Dr Fong Ching, Eddy	√	
Fung Wai-yee*	√	
Hales, Rodney*		√(Resigned)
Hammarström, Stig Christer		√
Haukeli, Kjell		√(Resigned)
Hildebrand, Dan Olofsson	√	
Ho Ka-wa*	√	
Ho Tin-kin	√(Resigned)	
Holmberg Wallberg, Lena Cecilia*	√	
Hor Wai-hong	√	
Houghton, Michael David	√	
Hui Leung-wah, Herbert*	√	
Hundersmarck, Henrik	√(Resigned)	
Jerbi, Mohamed Moncef		√
Jim Kwok-wah*		√
Johnson, Glenn H.		√
Johnstone, Key Bengt Ivar		√(Resigned)
Jones, Niel L.		√
Dr Kam Chak-pui, Jacob*	√	√(Resigned)
Kee Wing-man, Denise		√
Keefe, Richard Michael*	√	
Kwan Mun-yee, Stella*	√	
Kwan Wai-hung	√	
Kwok Lai-kay, Lena*	√	√
Kwong Chung-hing*		√
Lai Ching-kai		√(Resigned)
Lai Kai-shing	√(Resigned)	
Langridge, Neil Andrew*		√
Lau Cheuk-man, Wilfred*		√(Resigned)
Lau Ping-cheung, Kaizer	√	
Lau Tin-shing, Adi*	√	
Lau Wai-ming	√	
Law Cheuk-kin, Stephen*	√(Resigned)	
Lee Kar-yun*	√	

Name	Director	Alternate Director
Lee Wai-ying*	√	
Lee Yuen-ling	√	
Leong Kwok-kuen, Lincoln*	√	
Leong Sin-ling, Betty*	√(Resigned)	
Leung Nga-yee, Theresa*	√	
Leung Yiu-fai, David*	√	
Levai, Jack		√(Resigned)
Lezala, Andrew Peter*	√	√(Resigned)
Li Sau-lin, Linda*	√	√
Li Shing-kee	√(Resigned)	
Lo, Julian		√
Long, Jeremy Paul Warwick*	√	
Lundqvist, Curt Ove*	√	
Professor Ma Si-hang, Frederick	√	
McCusker, Andrew*	√	
McLean, Neil Lauchlan McCreadie*		√(Resigned)
Meller, Gillian Elizabeth*	√	
Meyer, Peter*	√	√
Mociak, Karl Heinz*	√	√
Moros, Tony Antonio	√(Resigned)	
Murphy, Stephen John	√	
Nelson, Michael John*	√	
Nilsen, Silje	√(Resigned)	
Norris, Mark Frederick*	√	
Oscarsson, Karl Johan	√	
Pira, Tomas*	√	
Qian Yu-hong	√	
Seto Siu-wah, Lisa*	√	√
Solberg, Trond Anders		√(Resigned)
Söör, Karl Johan	√(Resigned)	
Suen Yiu-tat	√	
Tang Chi-fai, David*	√	
Tong Ying-fai		√
Viinapuu, Hans Peter*	√	
Walker, Phillip Graeme	√(Resigned)	
Warmazyar, Mohammed		√(Resigned)
Warren, Nicholas P.	√	
Wennerberg, Matti Sigfrid Hasse	√	
Wong Chi-chung	√	
Dr Wong Chi-yun, Allan	√	
Dr Wong Nai-keung, Philco*	√(Resigned)	
Wong Ping-sau*	√	√(Resigned)
Wong Shiu-ki	√(Resigned)	
Wong Wing-kin	√	
Woo Shui-wah*	√	
Xia Jing	√	
Xu Muhan*	√	
Yam Pak-nin*	√	√
Yan Po-wa	√(Resigned)	
Yeung Mei-chun, Jeny*	√	
Yi Min*	√(Resigned)	
Yu Hon-kit, Henry	√	
Yu Ka-yin*	√	√
Yuen Lai-ki*	√	
Yuen Lap-hang		√

* *Person who serves as a director and/or an alternate director in more than one subsidiary.*

Contents of Consolidated Accounts and Notes

Independent Auditor's Report

to the Members of MTR Corporation Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated accounts of MTR Corporation Limited ("the Company") and its subsidiaries ("the Group") set out on pages 213 to 302, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated accounts, including a summary of significant accounting policies.

In our opinion, the consolidated accounts give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Accounts* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of our audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Railway construction in progress under entrustment by the HKSAR Government

Refer to note 24 to the consolidated accounts and the accounting policies in note 2Z

The Key Audit Matter	How the matter was addressed in our audit
The Group and the Government of the Hong Kong Special Administrative Region ("HKSAR Government") have entered into certain entrustment arrangements whereby the Group has been entrusted by the HKSAR Government to proceed with the planning, design, construction, testing and commissioning of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("the XRL") and the Shatin to Central Link ("the SCL"). As the HKSAR Government is the owner of both the XRL and the SCL, the financing of the development of these two railway lines is borne by the HKSAR Government, with the Group receiving project management fees. Pursuant to an agreement entered into with the HKSAR Government on 30 November 2015, the Group will bear and finance project costs for the XRL which exceed HK$84.42 billion and the HKSAR Government reserves the right to refer to arbitration the question of the Group's liability, if any, in respect of the project costs borne and financed by the HKSAR Government which exceed HK$65 billion up to HK$84.42 billion. In the event that the Group is found to be liable under the relevant entrustment agreements, the Group's liability for such costs is currently limited to the amount of the project management fees and certain other additional fees received by the Group under the agreement. Management engaged an independent civil engineering consultant to provide an independent assessment of the completion status of the XRL project and of management's estimates of the remaining costs to complete the XRL project, project claims and the overall forecast total project costs. We identified railway construction in progress under entrustment by the HKSAR Government as a key audit matter because the arrangements in respect of these railway projects are highly complex and convey rights and obligations on the Group which could potentially have significant financial implications for the Group.	Our audit procedures in relation to railway construction in progress under entrustment by the HKSAR Government included the following: • inspecting the minutes of the relevant committees of the Group and discussing with management the current status of the XRL and SCL projects, including the costs incurred to date, the remaining critical milestones and estimated costs to complete including contract claims, and the assessment of the financial implications of these projects for the Group; • assessing the design and implementation of management's key internal controls over the determination of estimated costs to complete the XRL and the SCL and the allocation of costs to each of these projects; • evaluating the qualifications, experience, expertise, independence and objectivity of the independent civil engineering consultant engaged by management for XRL; • discussing with the independent civil engineering consultant the XRL project status and the estimated costs to complete the project, including the forecast total project costs and the risk of these exceeding HK$84.42 billion; • comparing, on a sample basis, the costs to complete the XRL and SCL as assessed by management and, for the XRL, as assessed by the independent civil engineering consultant, with relevant underlying documentation; • comparing costs incurred during the current year in respect of the XRL and SCL with underlying contracts and interim certificates certifying the value of work performed; • holding discussions with management and the Group's external legal advisors to assess the Company's legal obligations and financial exposure in connection with these projects; • inspecting the relevant entrustment agreements to ascertain project management fees receivable and comparing the receipt of such project management fees for the year with bank statements and other relevant documentation; and • assessing the disclosures in the consolidated accounts in relation to the XRL and SCL projects with reference to the requirements of the prevailing accounting standards.

Valuation of completed investment properties ("IP")	
Refer to note 19 to the consolidated accounts and the accounting policies in note 2F(i)	
The Key Audit Matter	**How the matter was addressed in our audit**
The fair value of the Group's IP as at 31 December 2016 was HK$70,060 million, with a revaluation gain for the year ended 31 December 2016 recorded in the consolidated profit and loss account of HK$808 million. The Group's IP, which are located in Hong Kong, principally comprise shopping malls and office premises. The fair values of the Group's IP were assessed by an external property valuer based on independent valuations. We identified valuation of the Group's IP as a key audit matter because of the significance of IP to the consolidated accounts and because the determination of the fair values involves significant judgement and estimation, particularly in selecting the appropriate valuation methodology, market yields and market rents.	Our audit procedures to assess the valuation of the Group's IP included the following: • obtaining and inspecting the IP valuation report prepared by the external property valuer; • evaluating the independence, qualifications, expertise and objectivity of the external property valuer; • evaluating the valuation methodologies adopted with reference to those applied by other external property valuers for similar property types; • holding discussions with management and the external property valuer and challenging the key assumptions and estimates adopted in the valuations, including prevailing market rents and market yields applied by comparing, on a sample basis, the key estimates adopted with comparable available market data and government produced market statistics; and • comparing the tenancy information, including occupancy rates and market rents, provided by the Group to the external property valuer with underlying contracts and documentation, on a sample basis.

Assessing potential impairment of fixed assets other than assets carried at revalued amounts	
Refer to notes 20-21 to the consolidated accounts and the accounting policies in note 2H	
The Key Audit Matter	**How the matter was addressed in our audit**
The carrying value of the Group's fixed assets other than assets carried at revalued amounts as at 31 December 2016 totalled HK$128,316 million and the related depreciation and amortisation charge for the year ended 31 December 2016 amounted to HK$4,414 million. The carrying values of these assets are reviewed annually by management for potential indicators of impairment. For assets where such indicators exist, management performs detailed impairment reviews, taking into account, inter alia, the impact of revenue assumptions and technical factors which may affect the expected remaining useful lives and carrying value of the assets. We identified the potential impairment of fixed assets other than assets carried at revalued amounts as a key audit matter because the assessment can involve a significant degree of management judgement in determining the key assumptions such as expected revenue levels.	Our audit procedures to assess the potential impairment of fixed assets other than assets carried at revalued amounts included the following: • obtaining, discussing with management and evaluating the key assumptions underlying management's assessment of potential impairment of these assets; • where potential indicators of impairment were identified, evaluating management's impairment assessments and the assumptions adopted therein, including revenue assumptions, with reference to the actual revenue levels achieved in the current year, future operating plans and broader city specific developments; • assessing the discount rates adopted by management in the impairment assessments by comparison with available financial information of other similar companies taking into account regional and industry specific risk premiums; • comparing the assumptions adopted in the prior year's impairment assessments with actual results for the current year, investigating significant variances identified and considering the impact on the current year's impairment assessments; and • performing sensitivity analyses for the discount rates applied and the assumptions for revenue levels adopted and considering the information used to derive the most sensitive assumptions and whether there were any indicators of management bias in their selection.

Information other than the consolidated accounts and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated accounts and our auditor's report thereon.

Our opinion on the consolidated accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated accounts

The directors are responsible for the preparation of consolidated accounts that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounts.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheung Wing Han, Ivy.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
7 March 2017

Consolidated Profit and Loss Account

for the year ended 31 December in HK$ million	Note	2016	2015
Revenue from Hong Kong transport operations	4	**17,655**	16,916
Revenue from Hong Kong station commercial businesses	5	**5,544**	5,380
Revenue from Hong Kong property rental and management businesses	6	**4,741**	4,533
Revenue from Mainland of China and international railway, property rental and management subsidiaries	7	**13,478**	12,572
Revenue from Mainland of China property development subsidiary	7	**1,348**	–
Revenue from other businesses	8	**2,423**	2,300
		45,189	41,701
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses	9A	**(5,191)**	(4,906)
– Energy and utilities		**(1,511)**	(1,482)
– Operational rent and rates		**(149)**	(231)
– Stores and spares consumed		**(538)**	(557)
– Maintenance and related works	9B	**(1,379)**	(1,324)
– Railway support services		**(277)**	(274)
– General and administration expenses		**(659)**	(610)
– Other expenses		**(318)**	(318)
		(10,022)	(9,702)
Expenses relating to Hong Kong station commercial businesses		**(532)**	(550)
Expenses relating to Hong Kong property rental and management businesses		**(811)**	(865)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	7	**(12,890)**	(11,846)
Expenses relating to Mainland of China property development subsidiary	7	**(982)**	(140)
Expenses relating to other businesses		**(2,278)**	(2,174)
Project study and business development expenses	9C	**(361)**	(304)
Operating expenses before depreciation, amortisation and variable annual payment	9D,E&F	**(27,876)**	(25,581)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment			
– Arising from recurrent businesses		**16,947**	16,260
– Arising from Mainland of China property development		**366**	(140)
		17,313	16,120
Profit on Hong Kong property development	11	**311**	2,891
Operating profit before depreciation, amortisation and variable annual payment		**17,624**	19,011
Depreciation and amortisation	12	**(4,127)**	(3,849)
Variable annual payment		**(1,787)**	(1,649)
Operating profit before interest and finance charges		**11,710**	13,513
Interest and finance charges	13	**(612)**	(599)
Investment property revaluation	19	**808**	2,100
Share of profit or loss of associates	28	**535**	361
Profit before taxation		**12,441**	15,375
Income tax	14A	**(2,093)**	(2,237)
Profit for the year		**10,348**	13,138
Attributable to:			
– Shareholders of the Company		**10,254**	12,994
– Non-controlling interests		**94**	144
Profit for the year		**10,348**	13,138
Profit for the year attributable to shareholders of the Company:			
– Arising from underlying businesses before property development		**8,916**	8,565
– Arising from property development		**530**	2,329
– Arising from underlying businesses		**9,446**	10,894
– Arising from investment property revaluation		**808**	2,100
		10,254	12,994
Earnings per share:	16		
– Basic		**HK$1.74**	HK$2.22
– Diluted		**HK$1.74**	HK$2.22

The notes on pages 218 to 302 form part of the accounts.

Consolidated Statement of Comprehensive Income

for the year ended 31 December in HK$ million	Note	2016	2015
Profit for the year		**10,348**	13,138
Other comprehensive income for the year (after taxation and reclassification adjustments):	18		
Items that will not be reclassified to profit or loss:			
– Surplus on revaluation of self-occupied land and buildings		**131**	271
– Remeasurement of net liability of defined benefit plans		**123**	(580)
		254	(309)
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of overseas subsidiaries and associates		**(856)**	(570)
– non-controlling interests		**(7)**	(28)
– Cash flow hedges: net movement in hedging reserve		**375**	(134)
		(488)	(732)
		(234)	(1,041)
Total comprehensive income for the year		**10,114**	12,097
Attributable to:			
– Shareholders of the Company		**10,027**	11,981
– Non-controlling interests		**87**	116
Total comprehensive income for the year		**10,114**	12,097

The notes on pages 218 to 302 form part of the accounts.

Consolidated Statement of Financial Position

in HK$ million	Note	At 31 December 2016	At 31 December 2015
Assets			
Fixed assets			
– Investment properties	19	**70,060**	68,388
– Other property, plant and equipment	20	**103,613**	79,576
– Service concession assets	21	**28,269**	27,755
		201,942	175,719
Property management rights	22	**27**	28
Goodwill	27	**57**	–
Railway construction in progress	23	**–**	19,064
Property development in progress	25A	**17,484**	17,983
Deferred expenditure	26	**463**	288
Interests in associates	28	**7,015**	5,912
Deferred tax assets	43B	**25**	91
Investments in securities	29	**370**	336
Properties held for sale	30	**1,394**	1,139
Derivative financial assets	31	**183**	81
Stores and spares	32	**1,484**	1,373
Debtors, deposits and payments in advance	33	**4,073**	5,135
Amounts due from related parties	34	**2,171**	1,636
Tax recoverable	43A	**362**	–
Cash, bank balances and deposits	35	**20,290**	12,318
		257,340	241,103
Liabilities			
Bank overdrafts	36A	**–**	50
Short-term loans	36A	**1,350**	1,599
Creditors and accrued charges	37	**30,896**	22,860
Current taxation	43A	**123**	953
Contract retentions	38	**1,012**	994
Amounts due to related parties	39	**11,783**	1,858
Loans and other obligations	36A	**38,589**	19,162
Obligations under service concession	40	**10,507**	10,564
Derivative financial liabilities	31	**569**	830
Loan from holders of non-controlling interests	41	**109**	110
Deferred income	42	**721**	743
Deferred tax liabilities	43B	**12,125**	11,209
		107,784	70,932
Net assets		**149,556**	170,171
Capital and reserves			
Share capital	44	**47,929**	46,317
Shares held for Share Incentive Scheme	44	**(227)**	(151)
Other reserves	44	**101,759**	123,889
Total equity attributable to shareholders of the Company		**149,461**	170,055
Non-controlling interests		**95**	116
Total equity		**149,556**	170,171

Approved and authorised for issue by the Members of the Board on 7 March 2017

Frederick S H Ma
Chairman

Lincoln K K Leong
Chief Executive Officer

Herbert L W Hui
Finance Director

The notes on pages 218 to 302 form part of the accounts.

Consolidated Statement of Changes in Equity

for the year ended 31 December in HK$ million	Note	Share capital	Shares held for Share Incentive Scheme	Other reserves: Fixed assets revaluation reserve	Other reserves: Hedging reserve	Other reserves: Employee share-based capital reserve	Other reserves: Exchange reserve	Other reserves: Retained profits	Total equity attributable to shareholders of the Company	Non-controlling interests	Total equity
2016											
Balance as at 1 January 2016		**46,317**	**(151)**	**2,912**	**(225)**	**210**	**(152)**	**121,144**	**170,055**	**116**	**170,171**
Changes in equity for the year ended 31 December 2016:											
– Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**10,254**	**10,254**	**94**	**10,348**
– Other comprehensive income for the year	18	**–**	**–**	**131**	**375**	**–**	**(856)**	**123**	**(227)**	**(7)**	**(234)**
– Total comprehensive income for the year		**–**	**–**	**131**	**375**	**–**	**(856)**	**10,377**	**10,027**	**87**	**10,114**
– Special dividend	15	**–**	**–**	**–**	**–**	**–**	**–**	**(25,902)**	**(25,902)**	**–**	**(25,902)**
– 2015 final ordinary dividend	15	**–**	**–**	**–**	**–**	**–**	**–**	**(4,758)**	**(4,758)**	**–**	**(4,758)**
– Shares issued in respect of scrip dividend of 2015 final ordinary dividend	44A	**566**	**(5)**	**–**	**–**	**–**	**–**	**–**	**561**	**–**	**561**
– 2016 interim ordinary dividend	15	**–**	**–**	**–**	**–**	**–**	**–**	**(1,473)**	**(1,473)**	**–**	**(1,473)**
– Shares issued in respect of scrip dividend of 2016 interim ordinary dividend	44A	**101**	**(2)**	**–**	**–**	**–**	**–**	**–**	**99**	**–**	**99**
– Shares purchased for Share Incentive Scheme		**–**	**(99)**	**–**	**–**	**–**	**–**	**–**	**(99)**	**–**	**(99)**
– Vesting of award shares of Share Incentive Scheme		**1**	**30**	**–**	**–**	**(31)**	**–**	**–**	**–**	**–**	**–**
– Award shares of Share Incentive Scheme forfeited		**–**	**–**	**–**	**–**	**(7)**	**–**	**3**	**(4)**	**–**	**(4)**
– Ordinary dividends paid to holders of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(108)**	**(108)**
– Employee share-based payments		**–**	**–**	**–**	**–**	**110**	**–**	**–**	**110**	**–**	**110**
– Employee share options exercised	44A	**944**	**–**	**–**	**–**	**(99)**	**–**	**–**	**845**	**–**	**845**
– Employee share options forfeited		**–**	**–**	**–**	**–**	**(1)**	**–**	**1**	**–**	**–**	**–**
Balance as at 31 December 2016		**47,929**	**(227)**	**3,043**	**150**	**182**	**(1,008)**	**99,392**	**149,461**	**95**	**149,556**
2015											
Balance as at 1 January 2015		45,280	–	2,641	(91)	214	418	114,863	163,325	157	163,482
Changes in equity for the year ended 31 December 2015:											
– Profit for the year		–	–	–	–	–	–	12,994	12,994	144	13,138
– Other comprehensive income for the year	18	–	–	271	(134)	–	(570)	(580)	(1,013)	(28)	(1,041)
– Total comprehensive income for the year		–	–	271	(134)	–	(570)	12,414	11,981	116	12,097
– 2014 final ordinary dividend	15	–	–	–	–	–	–	(4,673)	(4,673)	–	(4,673)
– Shares issued in respect of scrip dividend of 2014 final ordinary dividend	44A	242	–	–	–	–	–	–	242	–	242
– Shares purchased for Share Incentive Scheme		–	(150)	–	–	–	–	–	(150)	–	(150)
– 2015 interim ordinary dividend	15	–	–	–	–	–	–	(1,461)	(1,461)	–	(1,461)
– Shares issued in respect of scrip dividend of 2015 interim ordinary dividend	44A	145	(1)	–	–	–	–	–	144	–	144
– Ordinary dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	(157)	(157)
– Employee share-based payments		–	–	–	–	78	–	–	78	–	78
– Employee share options exercised	44A	650	–	–	–	(81)	–	–	569	–	569
– Employee share options forfeited		–	–	–	–	(1)	–	1	–	–	–
Balance as at 31 December 2015		46,317	(151)	2,912	(225)	210	(152)	121,144	170,055	116	170,171

The notes on pages 218 to 302 form part of the accounts.

Consolidated Cash Flow Statement

for the year ended 31 December in HK$ million	Note	2016		2015	
Cash flows from operating activities					
Cash generated from operations	45	**19,136**		16,457	
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		**625**		653	
Current tax paid					
– Hong Kong Profits Tax paid		**(2,271)**		(1,800)	
– Mainland of China and overseas tax paid		**(355)**		(369)	
Net cash generated from operating activities			**17,135**		14,941
Cash flows from investing activities					
Capital expenditure					
– Purchase of assets for Hong Kong transport and related operations		**(4,615)**		(4,216)	
– Shenzhen Metro Longhua Line Project and related operations		**(220)**		(553)	
– Island Line Extension Project		**(1,112)**		(1,255)	
– South Island Line (East) Project		**(2,884)**		(2,227)	
– Kwun Tong Line Extension Project		**(1,247)**		(1,278)	
– Shenzhen Longhua Line Depot property development		**(730)**		(1,121)	
– Hong Kong property development		**(470)**		(10,253)	
– Investment property projects and fitting out work		**(589)**		(609)	
– Other capital projects		**(72)**		(158)	
Fixed annual payment		**(750)**		(750)	
Variable annual payment		**(1,649)**		(1,472)	
Receipts in respect of Hong Kong property development		**2,177**		2,707	
Receipts in respect of Shenzhen Longhua Line Depot property development		**3,226**		5,527	
Increase in bank deposits with more than three months to maturity when placed or pledged		**(7,212)**		(2,607)	
Purchase of investments in securities		**(143)**		(219)	
Proceeds from sale or redemption of investments in securities		**109**		407	
Proceeds from disposal of fixed assets		**4**		4	
Acquisition of a subsidiary, net of cash acquired		**44**		–	
Investments in associates		**(1,273)**		(61)	
Receipt of loan repayment from an associate		**93**		–	
Loan to an associate		**(13)**		(91)	
Dividends received from associates		**208**		179	
Net cash used in investing activities			**(17,118)**		(18,046)
Cash flows from financing activities					
Proceeds from shares issued under share option schemes		**845**		569	
Purchase of shares for Share Incentive Scheme		**(99)**		(150)	
Drawdown of loans		**33,950**		7,473	
Proceeds from issuance of capital market instruments		**7,809**		1,176	
Repayment of loans		**(21,078)**		(7,999)	
Repayment of capital market instruments		**(1,200)**		(500)	
Interest paid		**(748)**		(691)	
Interest received		**270**		136	
Finance charges paid		**(41)**		(22)	
Dividends paid to shareholders of the Company		**(18,508)**		(5,748)	
Dividends paid to holders of non-controlling interests		**(108)**		(157)	
Net cash generated from/(used in) financing activities			**1,092**		(5,913)
Net increase/(decrease) in cash and cash equivalents			**1,109**		(9,018)
Cash and cash equivalents at 1 January			**6,227**		15,413
Effect of exchange rate changes			**(299)**		(168)
Cash and cash equivalents at 31 December	35		**7,037**		6,227

The notes on pages 218 to 302 form part of the accounts.

Notes to the Consolidated Accounts

1 Statement of Compliance

These accounts have been prepared in compliance with the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These accounts have also been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The HKFRSs are fully converged with International Financial Reporting Standards in all material respects. A summary of the principal accounting policies adopted by the Group is set out in note 2.

The HKICPA has issued certain new and revised HKFRSs that are first effective for accounting periods beginning on or after 1 January 2016. Changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts are disclosed in note 2A(iii).

2 Principal Accounting Policies

A Basis of Preparation of the Accounts

(i) The measurement basis used in the preparation of the accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (note 2F(i));
- self-occupied land and buildings (note 2F(ii));
- financial instruments classified as investments in securities other than those intended to be held to maturity (note 2M); and
- derivative financial instruments (note 2T).

(ii) The preparation of the accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and estimations about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates are discussed in note 54.

(iii) The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's accounts:

- Annual Improvements to HKFRSs 2012 – 2014 Cycle
- Amendments to HKFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to HKAS 1, *Disclosure Initiative*
- Amendments to HKAS 16 and 38, *Clarification of Acceptable Methods of Depreciation and Amortisation*

The application of these amendments to HKFRSs in the current accounting period does not have an impact on the Group's consolidated accounts.

The Group has not applied any new or revised standard or interpretation that is not yet effective for the current accounting period (note 55).

B Basis of Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates (note 2D) made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate.

C Subsidiaries and Non-controlling Interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group or other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2 Principal Accounting Policies *(continued)*

C Subsidiaries and Non-controlling Interests *(continued)*

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated profit and loss account and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (note 2D).

Investments in subsidiaries are carried in the Company's statement of financial position at cost less any impairment losses (note 2H(ii)).

D Associates

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated accounts of the Group using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets. The Group's share of the post-acquisition results of the investees for the year is recognised in the consolidated profit and loss account, whereas the Group's share of the post-acquisition items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (note 2H(ii)).

E Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2H(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 Principal Accounting Policies *(continued)*

F Fixed Assets

(i) Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include properties that are being constructed or developed for future use as investment properties.

Investment properties are stated on the statement of financial position at fair value as measured semi-annually by independent professionally qualified valuers. Gains or losses arising from changes in the fair value are recognised in the consolidated profit and loss account in the period in which they arise.

(ii) Leasehold land registered and located in the Hong Kong Special Administrative Region is accounted for as being held under a finance lease and is stated at cost less accumulated depreciation and impairment losses (note 2H(ii)). Land held for own use under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at inception of the lease, are accounted for as being held under a finance lease, unless the buildings are also clearly held under an operating lease. For these purposes, inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. The self-occupied land and buildings are stated on the statement of financial position at their fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers semi-annually, with changes in the fair value arising on revaluations recorded as movements in the fixed assets revaluation reserve, except:

(a) where the balance of the fixed assets revaluation reserve relating to a self-occupied land and building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the profit and loss account; and

(b) where a revaluation deficit had previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is firstly credited to the profit and loss account to the extent of the deficit previously charged to the profit and loss account, and thereafter taken to the fixed assets revaluation reserve.

(iii) Civil works and plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2H(ii)).

(iv) Assets under construction are stated at cost less impairment losses (note 2H(ii)). Cost comprises direct costs of construction, such as materials, staff costs and overheads, together with interest expense capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate fixed assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

(v) Leased Assets

(a) Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments (computed using the rate of interest implicit in the lease), of such assets are included in fixed assets and the corresponding liabilities, net of finance charges are recorded as obligations under finance leases. Depreciation and impairment losses are accounted for in accordance with the accounting policy as set out in notes 2I(iv) and 2H(ii) respectively. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(b) Leases of assets, other than that mentioned in note 2F(ii), under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as operating leases. Where the Group leases out assets under operating leases, the assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Impairment losses are accounted for in accordance with the accounting policies on impairment of assets (note 2H(ii)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in note 2Z(ii).

(vi) Subsequent expenditure relating to the replacement of certain parts of an existing fixed asset is recognised in the carrying amount of the asset if it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised, with any gain or loss arising therefrom being dealt with in the profit and loss account.

Expenditure on repairs or maintenance of an existing fixed asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense in the profit and loss account when incurred.

Gains or losses arising from the retirement or disposal of a fixed asset or an investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed assets revaluation reserve to retained profits and is not re-classified to profit and loss account.

(vii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services, upfront payments and expenditure directly attributable to the acquisition of the service concession up to inception of the service concession are capitalised as service concession assets and amortised on a straight-line basis over the period of the service concession. Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at their present value, calculated using the incremental long term borrowing rate determined at inception as the discount rate, as service concession assets and amortised on a straight-line basis over the period of the service concession, with a corresponding liability recognised as obligations under service concession. Annual payments for the service concession which are not fixed or determinable at inception and are contingent on future revenue are charged to the profit and loss account in the period when incurred.

2 Principal Accounting Policies *(continued)*

F Fixed Assets *(continued)*

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenue and costs are recognised in the profit and loss account by reference to the stage of completion at the end of reporting period while the fair value of construction service is capitalised initially as service concession assets in the statement of financial position and amortised on a straight-line basis over the shorter of the assets' useful lives and the period in which the service concession assets are expected to be available for use by the Group.

Expenditure for the replacement and/or upgrade of the assets subject to service concession is capitalised and amortised on a straight-line basis over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried on the statement of financial position as an intangible asset at cost less accumulated amortisation and impairment losses, if any (note 2H(ii)).

Income and expenditure and assets and liabilities in relation to the operation of the service concessions are accounted for in the Group's and the Company's profit and loss accounts and statements of financial position.

G Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated on the statement of financial position at cost less accumulated amortisation and impairment losses (note 2H(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

H Impairment of Assets

(i) Impairment of Debtors and Other Receivables

Debtors and other current and non-current receivables are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases, the impairment loss is reversed through the profit and loss account.

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including service concession assets but other than assets carried at revalued amounts);
- property management rights;
- goodwill;
- railway construction in progress;
- property development in progress;
- deferred expenditure; and
- investments in subsidiaries and associates.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount for goodwill is estimated annually whether or not there is any indication of impairment.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

2 Principal Accounting Policies *(continued)*

I Depreciation and Amortisation

(i) Investment properties are not depreciated.

(ii) Fixed assets other than investment properties, assets under construction and service concession assets which are amortised over the entire or remaining period of the service concession (note 2F(vii)) are depreciated or amortised on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

Land and Buildings

Self-occupied land and buildings	the shorter of 50 years and the unexpired term of the lease
Leasehold land	the unexpired term of the lease

Civil Works

Excavation and boring	Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes	100 years
Station building structures	100 years
Depot structures	80 years
Kiosk structures	20 – 30 years
Cableway station tower and theme village structures	27 – 30 years

Plant and Equipment

Rolling stock and components	4 – 42 years
Platform screen doors	10 – 35 years
Rail track	7 – 50 years
Environmental control systems, lifts and escalators, fire protection and drainage system	7 – 30 years
Power supply systems	7 – 40 years
Aerial ropeway and cabin	5 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	20 – 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 28 years
Station architectural finishes	8 – 30 years
Fixtures and fittings	4 – 25 years
Maintenance equipment	4 – 40 years
Office furniture and equipment	2 – 15 years
Computer software licences and applications	2 – 10 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	4 – 8 years

Where parts of an item of property, plant and equipment have different useful lives, each part is depreciated or amortised separately. The useful lives of the various categories of fixed assets are reviewed annually in the light of actual asset condition, usage experience and the current asset replacement programme.

(iii) No depreciation or amortisation is provided on assets under construction until the construction is completed and the assets are ready for their intended use.

(iv) Depreciation on assets held under finance leases is provided at rates designed to write off the cost of the asset in equal annual amounts over the shorter of the lease term or the anticipated useful life of the asset as set out above, except in cases where title to the asset will be acquired by the Group at the end of the lease where depreciation is provided at rates designed to write off the cost of the asset in equal amounts over the anticipated useful life of the asset.

J Construction Costs

(i) Costs incurred by the Group in respect of feasibility studies on proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:

- where the proposed projects are at a preliminary review stage with no certainty of materialising, the costs concerned are charged to the profit and loss account; and
- where the proposed projects are at a detailed study stage, having been agreed based on a feasible financial plan, the costs concerned are recorded as deferred expenditure until such time as a project agreement is reached, whereupon the costs are transferred to railway construction in progress.

(ii) After entering into a project agreement, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

2 Principal Accounting Policies *(continued)*

K Joint Operations

A joint operation is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The arrangements entered into by the Group with developers for Hong Kong property development without establishing separate entities are considered to be joint operations in accordance with HKFRS 11, *Joint Arrangements*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. Such costs are deductible from the proceeds of sale before surplus proceeds are shared. In respect of its interests in such operations, the Group accounts for the purchase consideration of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) paid net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the profit and loss account on the basis of note 2L(iii) after netting off any related balance in property development in progress at that time.

L Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs, acquisition of development rights, aggregate cost of development, borrowing costs capitalised, provisions and other direct expenses are dealt with as property development in progress.

(ii) Payments received from developers in respect of property developments are offset against the amounts in property development in progress attributable to that development. Any surplus amounts of payments received from developers in excess of the balance in property development in progress are transferred to deferred income. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

(iii) Profits arising from the development of properties in Hong Kong undertaken in conjunction with property developers are recognised in the profit and loss account as follows:

- where the Group receives payments from developers, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
- where the Group receives a right to a share of the net surplus from sale of the development and interests in any unsold units, income is initially recognised by the Group upon the issue of occupation permits provided the amounts of revenue and costs can be estimated reliably. The interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2L(v); and
- where the Group receives a distribution of the assets of the development, profit is recognised based on the fair value of such assets at the time of receipt and after taking into account any outstanding risks and obligations retained by the Group in connection with the development.

Upon recognition of profit, the balance of deferred income or property development in progress relating to that development is credited or charged to the profit and loss account, as the case may be.

(iv) Revenue arising from sales of properties in Mainland of China is recognised when the risks and rewards associated with ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under creditors and accrued charges.

(v) Where properties are received as a profit distribution upon completion of development and are held for sale, those properties are stated at fair value upon receipt as their cost and subsequently carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. When properties are sold, the carrying amount of those properties is recognised as cost of properties sold in the period in which the related revenue is recognised. The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

(vi) Where properties under construction are received from a development for investment purpose, these properties are recognised as investment properties at fair value. Further costs incurred in the construction of those assets and the related fitting out costs are capitalised in investment properties.

2 Principal Accounting Policies *(continued)*

M Investments in Securities

The Group's policies for investments in securities (other than investments in its subsidiaries and associates) are as follows:

(i) Investments in securities held for trading purpose are initially stated at fair value. At the end of each reporting period, the fair value is remeasured with any resultant unrealised gain or loss being recognised in the profit and loss account.

(ii) Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(iii) Interest income in relation to investment in securities is recognised as it accrues using the effective interest method.

(iv) Profit or loss on disposal of investments in securities are determined as the difference between the net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

N Stores and Spares

Stores and spares used for business operation are categorised as either revenue or capital. Revenue spares are stated in the statement of financial position at cost, using the weighted average cost method and are recognised as expenses in the period in which the consumption occurs. Provision is made for obsolescence where appropriate. Capital spares are included in fixed assets and stated at cost less accumulated depreciation and impairment losses (note 2H(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

O Long-term Contracts

The accounting policy for contract revenue is set out in note 2Z(iii). When the outcome of a fixed-price long-term contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a long-term contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

Long-term contracts in progress at the end of reporting period are recorded in the statement of financial position at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the statement of financial position as "Gross amount due from customers for contract work" (as an asset) or "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the statement of financial position under "Debtors, deposits and payments in advance". Amounts received before the related work is performed are included in the statement of financial position as a liability under "Creditors and accrued charges".

P Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value with a maturity at acquisition within three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Q Debtors, Deposits and Payments in Advance

Debtors, deposits and payments in advance are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less impairment losses for bad and doubtful debts (note 2H(i)), except where the effect of discounting would be immaterial or the discount is not measurable as the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

R Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value net of transaction costs incurred. The interest-bearing fixed rate borrowings not subject to fair value hedges are subsequently stated at amortised costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Subsequent to initial recognition, the carrying amount of interest-bearing borrowings subject to fair value hedges is remeasured and the change in fair value attributable to the risk being hedged is recognised in the profit and loss account to offset the effect of the gain or loss on the related hedging instrument.

S Creditors and Accrued Charges

Creditors and accrued charges are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

2 Principal Accounting Policies *(continued)*

T Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on the Group's policies, these instruments are used solely for reducing or eliminating financial risks associated with the Group's investments and liabilities and not for trading or speculation purposes.

Derivatives are initially recognised at fair value and are subsequently remeasured at their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; or (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income which is accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the profit and loss account in the periods when the hedged item is recognised in the profit and loss account. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the profit and loss account.

(iii) Derivatives That Do Not Qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

U Employee Benefits

(i) Salaries, annual leave, other allowances, contributions to defined contribution retirement plans, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and other costs of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where these benefits are incurred for staff relating to construction projects, capital works and property developments, they are capitalised as part of the cost of the qualifying assets. In other cases, they are recognised as expenses in the profit and loss account as incurred.

(ii) The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. Service cost and net interest expense/ income on the net defined benefit liability/asset are recognised either as an expense in the profit and loss account, or capitalised as part of the cost of the relevant construction projects, capital works or property developments, as the case may be. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in the profit and loss account or capitalised at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/income for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the weighted average duration of the plan's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise of actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/asset) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/asset).

2 Principal Accounting Policies *(continued)*

U Employee Benefits *(continued)*

(iii) Equity-settled share-based payments are measured at fair value at the date of grant.

- For share options, the fair value determined at the grant date is recognised as staff costs, unless the relevant employee expenses qualify for recognition as an asset, on a straight-line basis over the vesting period and taking into account the probability that the options will vest, with a corresponding increase in the employee share-based capital reserve within equity. Fair value is measured by use of the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

  During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit and loss account in the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based capital reserve). The equity amount is recognised in the employee share-based capital reserve until either the option is exercised which is transferred to the share capital account or the option is lapsed (on expiry of the share options)/forfeited (when the vesting conditions are not fulfilled) which is released directly to retained profits.

- For award shares under the 2014 Share Incentive Scheme, the amounts to be expensed as staff costs are determined by reference to the fair value of the award shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the relevant vesting periods, with a corresponding credit to the employee share-based capital reserve under equity.

  For those award shares which are amortised over the vesting periods, the Group reviews its estimates of the number of award shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit and loss account in the year of the review, with a corresponding adjustment to the employee share-based capital reserve. Upon vesting of award shares, the related costs of the vested award shares purchased from the market (the "purchased shares") and shares received in relation to scrip dividend and shares purchased from the proceeds of cash ordinary dividends received (the "ordinary dividend shares") are credited to Shares held for Share Incentive Scheme, with a corresponding decrease in employee share-based compensation reserve for the purchased shares, and decrease in retained earnings for the ordinary dividend shares.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the fair value of the shares determined at the end of each reporting period.

(iv) Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

V Retirement Schemes

The Group operates both defined contribution and defined benefit retirement schemes.

Employer's contributions to defined contribution retirement schemes including MPF Schemes are recognised in the accounts in accordance with the policy set out in note 2U(i).

Employer's contributions paid and payable in respect of employees of defined benefit retirement schemes are calculated annually by independent actuaries in accordance with the Retirement Scheme Rules and provisions of the Occupational Retirement Schemes Ordinance. The pension expenses recognised in the accounts are dealt with in accordance with note 2U(ii).

W Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried backward or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2 Principal Accounting Policies *(continued)*

W Income Tax *(continued)*

The limited exceptions to the recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2F(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

X Financial Guarantee Contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment to the holder when due in accordance with the original or modified terms of a debt instrument.

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee, after netting off any consideration received or receivable at inception, is initially debited to the profit and loss account and recognised as deferred income within creditors and accrued charges. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2Y if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors and accrued charges in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

Y Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Z Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits associated with the transactions will flow to the Group and the amount of revenue can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Fare revenue is recognised when the journey is provided.

2 Principal Accounting Policies *(continued)*

Z Revenue Recognition *(continued)*

(ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is accounted for in accordance with the terms of the leases. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recovered.

(iv) Incomes from other railway and station commercial businesses, property management, railway franchises and service concessions are recognised when the services are provided.

AA Operating Lease Charges

Rentals payable under operating leases are charged on a straight-line basis over the period of the lease to the profit and loss account, except for rentals payable in respect of railway construction, property development in progress and proposed capital projects which are capitalised as part of railway construction in progress, property development in progress and deferred expenditure respectively.

BB Interest and Finance Charges

Interest income and expense directly attributable to the financing of capital projects prior to their completion or commissioning are capitalised. Exchange differences arising from foreign currency borrowings relating to the acquisition of assets are capitalised to the extent that they are regarded as an adjustment to capitalised interest costs. Interest expense attributable to other purposes is charged to the profit and loss account.

Finance charges implicit in the lease payments on assets held under finance leases are charged to the profit and loss account over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

CC Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in the profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year. Statement of financial position items are translated into Hong Kong dollars at the closing exchange rates at the end of reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

DD Segment Reporting

Operating segments, and the amounts of each segment item reported in the accounts, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of businesses and operations in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services and products, the type or class of customers, the methods used to provide the services or distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

EE Related Parties

For the purposes of these accounts, a person, or a close member of that person's family, is related to the Group if that person is a member of the key management personnel of the Group.

An entity is related to the Group if (i) the entity and the Group are members of the same group; (ii) the entity is an associate of the Group; (iii) the entity is a post-employment benefit plans for the benefit of employees of the Group or of any entity that is a related party of the Group; (iv) an individual who is a related party of the Group has control, joint control, significant influence over that entity or is a member of the key management personnel of that entity; or (v) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

FF Government Grants

Government grants are assistance by governments in the form of transfer of resources in return for the Group's compliance to the conditions attached thereto. Government grants which represent compensation for the cost of an asset are deducted from the cost of the asset in arriving at its carrying value to the extent of the amounts received and receivable as at the date of the statement of financial position. Government grants which represent compensation for expenses or losses are deducted from the related expenses. Any excess of the amount of grant received or receivable over the cost of the asset or the expenses or losses at the end of reporting period are carried forward as advance receipts or deferred income to set off against the future cost of the asset or future expenses or losses.

3 Rail Merger with Kowloon-Canton Railway Corporation

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of Kowloon-Canton Railway Corporation ("KCRC") ("Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the Hong Kong Special Administrative Region (the "HKSAR Government"), KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement. Key elements of the Rail Merger included the following:

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), extendable pursuant to the provisions of the MTR Ordinance (note 51C);
- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay variable annual payments to KCRC, calculated on a tiered basis by reference to the revenue generated from the KCRC system above certain thresholds;
- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;
- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted; and
- Property Package Agreements and Merger Framework Agreement setting out the acquisition of certain properties, property management rights and property development rights by the Company as well as the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK$ million	2016	2015
Fare revenue:		
– Domestic Service	**12,395**	11,819
– Cross-boundary Service	**3,252**	3,172
– Airport Express	**998**	950
– Light Rail and Bus	**707**	671
– Intercity Service	**137**	142
	17,489	16,754
Other rail-related income	**166**	162
	17,655	16,916

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, South Island (East), Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan Lines. Other rail-related income includes mainly ancillary service income from Intercity Service, by-law infringement surcharge and Octopus load agent fees.

The Kwun Tong Line Extension, which is an extension of the existing Kwun Tong Line from Yau Ma Tei station to the new Ho Man Tin and Whampoa stations, opened on 23 October 2016. The South Island Line (East), which is a new railway connecting the Southern District of Hong Kong from Admiralty to South Horizons stations, opened on 28 December 2016.

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK$ million	2016	2015
Duty free shops and kiosks rental	**3,723**	3,540
Advertising	**1,090**	1,109
Telecommunication income	**561**	548
Other station commercial income	**170**	183
	5,544	5,380

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK$ million	2016	2015
Property rental income from:		
– Elements	**1,161**	1,101
– Telford Plaza	**886**	863
– Maritime Square	**557**	528
– Luk Yeung Galleria	**214**	205
– PopCorn	**186**	172
– Citylink Plaza	**172**	168
– Paradise Mall	**149**	152
– International Finance Centre	**650**	633
– Other properties	**476**	445
	4,451	4,267
Property management income	**290**	266
	4,741	4,533

7 Revenue and Expenses Relating to Mainland of China and International Subsidiaries

Revenue and expenses relating to Mainland of China and international subsidiaries comprise:

	2016		2015	
in HK$ million	Revenue	Expenses	Revenue	Expenses
Railway-related subsidiaries outside of Hong Kong				
– Melbourne Train	**7,944**	**7,639**	7,755	7,293
– MTR Nordic*	**2,952**	**2,887**	2,792	2,741
– London Crossrail	**1,071**	**1,005**	713	666
– Shenzhen Metro Longhua Line	**673**	**535**	665	528
– Sydney Metro Northwest	**697**	**712**	493	491
	13,337	**12,778**	12,418	11,719
Property rental and management businesses in Mainland of China	**141**	**112**	154	127
	13,478	**12,890**	12,572	11,846
Property development in Mainland of China	**1,348**	**982**	–	140
Total Mainland of China and international subsidiaries	**14,826**	**13,872**	12,572	11,986

* MTR Nordic comprises the Stockholm Metro, MTR Tech, MTR Express and Stockholm Commuter Rail ("Stockholms pendeltåg") operations in Sweden.

MTR Tech AB (previously Tunnelbanan Teknik Stockholm AB) became a wholly owned subsidiary of the Group from 15 February 2016 (note 27).

The Group commenced the operation and maintenance concession for the Stockholms pendeltåg commuter rail service on 11 December 2016.

8 Revenue from Other Businesses

Revenue from other businesses comprises incomes from:

in HK$ million	2016	2015
Ngong Ping 360	**391**	347
Consultancy business	**216**	189
Project management for HKSAR Government	**1,790**	1,736
Miscellaneous businesses	**26**	28
	2,423	2,300

9 Operating Expenses

A Total staff costs include:

in HK$ million	2016	2015
Amounts charged to profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**5,191**	4,906
– maintenance and related works for Hong Kong transport operations	**97**	86
– other expense line items for Hong Kong transport operations	**69**	89
– expenses relating to Hong Kong station commercial businesses	**87**	80
– expenses relating to Hong Kong property rental and management businesses	**115**	110
– expenses relating to Mainland of China and international subsidiaries	**5,825**	5,224
– expenses relating to other businesses	**2,053**	1,901
– project study and business development expenses	**208**	225
– profit on Hong Kong property development	**26**	9
Amounts capitalised under:		
– railway construction in progress before offset by government grant	**399**	465
– property development in progress	**144**	135
– assets under construction and other projects	**487**	411
– service concession assets	**355**	346
Amounts recoverable	**559**	545
Total staff costs	**15,615**	14,532

Amounts recoverable relate to property management, entrustment works and other agreements.

The following expenditures are included in total staff costs:

in HK$ million	2016	2015
Share-based payments	**106**	78
Contributions to defined contribution retirement plans and Mandatory Provident Fund	**688**	650
Amounts recognised in respect of defined benefit retirement plans	**442**	406
	1,236	1,134

B The costs of maintenance and related works for Hong Kong transport operations relate mainly to contracted maintenance and revenue works. Other routine repairs and maintenance works are performed by in-house operations and the costs of which are included under staff costs and related expenses as well as stores and spares consumed.

C Project study and business development expenses comprise:

in HK$ million	2016	2015
Business development expenses	**333**	272
Miscellaneous project study expenses	**28**	32
	361	304

Business development expenses relate mainly to new business opportunities in the Mainland of China, Europe and Australia.

D Auditors' remuneration charged to the consolidated profit and loss account include:

in HK$ million	2016	2015
Audit services	**17**	15
Tax services	**1**	1
Other audit related services	**6**	6
Non-audit services	**–**	13
	24	35

9 Operating Expenses *(continued)*

E The following charges are included in operating expenses:

in HK$ million	2016	2015
Loss on disposal of fixed assets	**65**	44
Derivative financial instruments – transferred from hedging reserve (note 18B)	**12**	20
Unrealised loss on revaluation of investments in securities	**–**	1

F Operating lease expenses charged to the consolidated profit and loss account comprise:

in HK$ million	2016	2015
Shopping centre, office building, staff quarters and bus depot	**99**	85
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for subsidiaries	**995**	913
	1,094	998

10 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of Members of the Board and the Executive Directorate of the Company were as follows:

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2016					
Members of the Board					
– Frederick Ma Si-hang	**1.2**	**–**	**–**	**–**	**1.2**
– Pamela Chan Wong Shui	**0.3**	**–**	**–**	**–**	**0.3**
– Dorothy Chan Yuen Tak-fai	**0.4**	**–**	**–**	**–**	**0.4**
– Vincent Cheng Hoi-chuen	**0.3**	**–**	**–**	**–**	**0.3**
– Anthony Chow Wing-kin (appointed on 18 May 2016)	**0.2**	**–**	**–**	**–**	**0.2**
– Eddy Fong Ching	**0.4**	**–**	**–**	**–**	**0.4**
– Edward Ho Sing-tin (retired on 18 May 2016)	**0.1**	**–**	**–**	**–**	**0.1**
– James Kwan Yuk-choi	**0.3**	**–**	**–**	**–**	**0.3**
– Kaizer Lau Ping-cheung	**0.3**	**–**	**–**	**–**	**0.3**
– Lucia Li Li Ka-lai	**0.3**	**–**	**–**	**–**	**0.3**
– Alasdair George Morrison	**0.4**	**–**	**–**	**–**	**0.4**
– Ng Leung-sing	**0.3**	**–**	**–**	**–**	**0.3**
– Abraham Shek Lai-him	**0.4**	**–**	**–**	**–**	**0.4**
– Benjamin Tang Kwok-bun	**0.3**	**–**	**–**	**–**	**0.3**
– Allan Wong Chi-yun	**0.3**	**–**	**–**	**–**	**0.3**
– Ceajer Chan Ka-keung	**0.3**	**–**	**–**	**–**	**0.3**
– Anthony Cheung Bing-leung	**0.3**	**–**	**–**	**–**	**0.3**
– Hon Chi-keung	**0.3**	**–**	**–**	**–**	**0.3**
– Ingrid Yeung Ho Poi-yan	**0.3**	**–**	**–**	**–**	**0.3**
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen	**–**	**8.8**	**1.4**	**4.6**	**14.8**
– Jacob Kam Chak-pui	**–**	**6.1**	**0.9**	**2.2**	**9.2**
– Margaret Cheng Wai-ching (appointed on 1 June 2016)*	**–**	**2.6**	**0.3**	**0.6**	**3.5**
– Morris Cheung Siu-wa	**–**	**4.3**	**1.3**	**1.2**	**6.8**
– Peter Ronald Ewen (appointed on 22 February 2016)*	**–**	**3.3**	**0.5**	**0.9**	**4.7**
– Stephen Law Cheuk-kin (up to 1 July 2016)	**–**	**3.5**	**0.3**	**0.8**	**4.6**
– Herbert Hui Leung-wah (appointed on 2 July 2016)*	**–**	**2.3**	**0.3**	**0.5**	**3.1**
– Adi Lau Tin-shing (appointed on 1 May 2016)*	**–**	**3.1**	**1.5**	**1.0**	**5.6**
– Gillian Elizabeth Meller	**–**	**4.0**	**0.6**	**1.3**	**5.9**
– Linda So Ka-pik	**–**	**3.6**	**0.5**	**1.1**	**5.2**
– David Tang Chi-fai	**–**	**4.3**	**0.6**	**1.5**	**6.4**
– Philco Wong Nai-keung	**–**	**5.3**	**0.8**	**1.7**	**7.8**
– Jeny Yeung Mei-chun	**–**	**4.5**	**0.6**	**1.5**	**6.6**
	6.7	**55.7**	**9.6**	**18.9**	**90.9**

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2015					
Members of the Board					
– Raymond Ch'ien Kuo-fung (up to 31 December 2015)	1.2	–	–	–	1.2
– Pamela Chan Wong Shui	0.3	–	–	–	0.3
– Dorothy Chan Yuen Tak-fai	0.4	–	–	–	0.4
– Vincent Cheng Hoi-chuen	0.3	–	–	–	0.3
– Christine Fang Meng-sang (up to 10 August 2015)	0.2	–	–	–	0.2
– Eddy Fong Ching (appointed on 13 January 2015)	0.4	–	–	–	0.4
– Edward Ho Sing-tin	0.4	–	–	–	0.4
– James Kwan Yuk-choi	0.3	–	–	–	0.3
– Kaizer Lau Ping-cheung (appointed on 11 August 2015)	0.1	–	–	–	0.1
– Lucia Li Li Ka-lai	0.3	–	–	–	0.3
– Alasdair George Morrison	0.4	–	–	–	0.4
– Frederick Ma Si-hang	0.4	–	–	–	0.4
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.3	–	–	–	0.3
– T. Brian Stevenson (up to 20 May 2015)	0.2	–	–	–	0.2
– Benjamin Tang Kwok-bun	0.3	–	–	–	0.3
– Allan Wong Chi-yun (appointed on 11 August 2015)	0.1	–	–	–	0.1
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Anthony Cheung Bing-leung	0.3	–	–	–	0.3
– Wai Chi-sing (up to 6 April 2015)	0.1	–	–	–	0.1
– Hon Chi-keung (appointed on 7 April 2015)	0.2	–	–	–	0.2
– Ingrid Yeung Ho Poi-yan	0.3	–	–	–	0.3
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen	–	8.4	1.2	4.5	14.1
– Morris Cheung Siu-wa	–	4.1	0.6	1.2	5.9
– Jacob Kam Chak-pui	–	5.5	0.8	2.0	8.3
– Stephen Law Cheuk-kin	–	5.0	0.7	1.3	7.0
– Gillian Elizabeth Meller	–	3.8	0.6	1.3	5.7
– Linda So Ka-pik (appointed on 16 September 2015)**	–	1.0	0.1	0.3	1.4
– David Tang Chi-fai	–	4.2	0.6	1.5	6.3
– Philco Wong Nai-keung	–	5.1	0.8	1.7	7.6
– Jeny Yeung Mei-chun	–	4.1	0.6	1.6	6.3
	7.1	41.2	6.0	15.4	69.7

* Margaret W C Cheng, Peter R Ewen, Herbert L W Hui and Adi T S Lau were appointed as Members of the Executive Directorate on the respective dates shown in the above table. The amounts of their emoluments shown in the above table cover the period from the date of their appointment to 31 December 2016.

** Linda K P So was appointed as a Member of the Executive Directorate on 16 September 2015. The amount of her emoluments shown in the above table covers the period from the date of her appointment to 31 December 2015.

The above emoluments do not include the fair value of share options granted under 2007 Share Option Scheme as well as Award Shares granted under 2014 Share Incentive Scheme.

The director's fees in respect of the office of the Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung), the office of the Permanent Secretary for Development (Works) (Hon Chi-keung) and the office of the Commissioner for Transport (Ingrid Yeung Ho Poi-yan), each of whom was appointed Director by the Chief Executive of the HKSAR pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong), were received by the HKSAR Government rather than by the individuals concerned.

The director's fee in respect of Professor Chan Ka-keung, Ceajer, the Secretary for Financial Services and the Treasury of the HKSAR Government, was received by the HKSAR Government rather than by Professor Chan personally.

Alternate Directors were not entitled to director's fees.

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

Share options were granted to Members of the Executive Directorate under the Company's 2007 Share Option Scheme, which were offered to them on 10 December 2007, 8 December 2008, 12 June 2009, 8 December 2009, 28 June 2010, 16 December 2010, 23 March 2012, 26 April 2013 and 25 October 2013. The entitlements of each of the Members are as follows:

- Lincoln K K Leong was granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010, 201,000 shares on 30 March 2012 and 256,000 shares on 6 May 2013, of which 85,000 options were vested in 2016 (2015: 152,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$20,961 (2015: HK$0.1 million);
- Jacob C P Kam was granted options in respect of 75,000 shares on 13 December 2007, 65,000 shares each on 8 December 2008 and 14 December 2009, 50,000 shares on 21 July 2010, 170,000 shares on 17 December 2010, 172,000 shares on 30 March 2012 and 202,500 shares on 6 May 2013, of which 67,500 options were vested in 2016 (2015: 124,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$16,646 (2015: HK$0.1 million);
- Morris S W Cheung was granted options in respect of 65,000 shares each on 12 December 2007, 10 December 2008 and 11 December 2009, 35,000 shares on 21 July 2010, 65,000 shares on 20 December 2010, 122,000 shares on 30 March 2012 and 180,500 shares on 6 May 2013, of which 59,500 options were vested in 2016 (2015: 100,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$14,673 (2015: HK$0.1 million);
- Adi T S Lau was granted options in respect of 75,000 shares on 12 December 2007, 65,000 shares on 11 December 2008 and 75,000 shares each on 11 December 2009 and 21 December 2010, 69,000 shares on 30 March 2012, 78,000 shares on 6 May 2013 and 80,000 shares on 30 May 2014, of which 53,000 options were vested in 2016 (2015: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$35,876 (2015: HK$0.1 million);
- Gillian E Meller was granted options in respect of 55,000 shares on 12 December 2007, 70,000 shares on 11 December 2008, 65,000 shares on 10 December 2009, 90,000 shares on 17 December 2010, 158,500 shares on 30 March 2012 and 184,000 shares on 6 May 2013, of which 61,000 options were vested in 2016 (2015: 114,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$15,043 (2015: HK$0.1 million);
- David C F Tang was granted options in respect of 65,000 shares each on 13 December 2007, 12 December 2008, 15 December 2009 and 17 December 2010, 163,500 shares on 30 March 2012 and 182,500 shares on 6 May 2013, of which 60,500 options were vested in 2016 (2015: 115,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$14,920 (2015: HK$0.1 million);
- Philco N K Wong was granted options in respect of 70,500 shares on 30 March 2012, 81,000 shares on 6 May 2013 and 83,000 shares on 30 May 2014, of which 55,000 options were vested in 2016 (2015: 78,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$37,240 (2015: HK$0.1 million);
- Jeny M C Yeung was granted options in respect of 75,000 shares on 12 December 2007 and 65,000 shares each on 10 December 2008, 10 December 2009 and 17 December 2010, 161,000 shares on 30 March 2012 and 187,000 shares on 6 May 2013, of which 62,000 options were vested in 2016 (2015: 115,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$15,290 (2015: HK$0.1 million); and
- Stephen C K Law was granted options in respect of 196,000 shares on 1 November 2013, of which 65,000 options were vested in 2016 (2015: 65,500), and the fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$53,727 (2015: HK$0.1 million).

Restricted Shares and Performance Shares were granted to Members of the Executive Directorate under the Company's 2014 Share Incentive Scheme on 27 April 2015, 8 April 2016 and 19 August 2016. Performance Shares offered to Members of the Executive Directorate under such grants, in general, covered a period of three years from the date of grant. The entitlements of each of the Members are as follows:

- Lincoln K K Leong was granted 60,200 Restricted Shares and 255,000 Performance Shares on 27 April 2015 and 64,850 Restricted Shares on 8 April 2016, of which a total of 20,066 Restricted Shares were vested in 2016 (2015: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$5.3 million (2015: HK$3.3 million);
- Jacob C P Kam was granted 22,050 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and 21,550 Restricted Shares on 8 April 2016, of which a total of 7,350 Restricted Shares were vested in 2016 (2015: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$1.4 million (2015: HK$0.9 million);
- Margaret W C Cheng was granted 71,428 Restricted Shares on 19 August 2016. The respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$0.7 million;
- Morris S W Cheung was granted 28,800 Performance Shares on 27 April 2015 and 14,950 Restricted Shares on 8 April 2016 and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$0.6 million (2015: HK$0.3 million);
- Peter Ronald Ewen was granted 35,700 Restricted Shares on 8 April 2016. The respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$0.4 million;
- Adi T S Lau was granted 8,600 Restricted Shares and 12,550 Performance Shares on 27 April 2015 and 8,400 Restricted Shares on 8 April 2016, of which a total of 2,866 Restricted Shares were vested in 2016 (2015: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$0.4 million (2015: nil);

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

- Gillian E Meller was granted 16,950 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and 17,300 Restricted Shares on 8 April 2016, of which a total of 5,650 Restricted Shares were vested in 2016 (2015: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$1.3 million (2015: HK$0.8 million);
- Linda So Ka-pik was granted 16,400 Restricted Shares and 44,050 Performance Shares on 8 April 2016. The respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$0.9 million;
- David C F Tang was granted 18,450 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and 17,950 Restricted Shares on 8 April 2016, of which a total of 6,150 Restricted Shares were vested in 2016 (2015: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$1.3 million (2015: HK$0.8 million);
- Philco N K Wong was granted 21,700 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and 21,200 Restricted Shares on 8 April 2016, of which a total of 7,233 Restricted Shares were vested in 2016 (2015: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$1.4 million (2015: HK$0.9 million);
- Jeny M C Yeung was granted 19,350 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and 18,850 Restricted Shares on 8 April 2016, of which a total of 6,450 Restricted Shares were vested in 2016 (2015: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$1.4 million (2015: HK$0.8 million); and
- Stephen C K Law was granted 16,700 Restricted Shares and 57,600 Performance Shares on 27 April 2015, of which a total of 11,132 Restricted Shares were vested in 2016 (2015: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2016 was HK$0.2 million (2015: HK$0.8 million).

None of the Performance Shares awarded to the Members of the Executive Directorate were vested in 2016.

The details of Board Members' and Executive Directorate's interest in the Company's shares are disclosed in the Report of the Members of the Board and note 47.

For the year ended 31 December 2016, three (2015: three) Members of the Executive Directorate of the Company, whose emoluments are shown above, were among the five individuals whose emoluments were the highest. The total remuneration of the five highest paid individuals for the year is shown below:

in HK$ million	2016	2015
Base pay, allowances and benefits in kind	**31.7**	30.0
Variable remuneration related to performance	**10.2**	12.0
Retirement scheme contributions	**5.4**	3.5
	47.3	45.5

The emoluments of the top 5 highest paid individuals for the year are within the following bands:

	2016	2015
HK$7,000,001 – HK$7,500,000	**–**	1
HK$7,500,001 – HK$8,000,000	**3**	1
HK$8,000,001 – HK$8,500,000	**–**	2
HK$9,000,001 – HK$9,500,000	**1**	–
HK$13,500,001 – HK$14,500,000	**–**	1
HK$14,500,001 – HK$15,500,000	**1**	–
	5	5

(ii) The aggregate emoluments of Members of the Board and the Executive Directorate for the year was HK$106.4 million (2015: HK$79.1 million).

(iii) The Company has a service contract with each of the independent non-executive Directors ("INED")/non-executive Directors ("NED") (including Dr. Raymond Ch'ien Kuo-fung (up to 31 December 2015), Professor Frederick Ma Si-hang (re-designated from INED to NED on 30 November 2015 and appointed as non-executive Chairman for 3 years commencing on 1 January 2016) and Professor Ceajer Chan Ka-keung but excluding three additional directors appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)) specifying the terms of his/her continuous appointments as an INED/a NED and a Member of the relevant Board Committees, for a period not exceeding three years. He/she is also subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 91 and 92(a) of the Company's Articles of Association. Dr. Raymond Ch'ien Kuo-fung, a Member of the Board and the non-executive Chairman of the Company since 1998 and 2003 respectively, was re-appointed by the HKSAR Government on 29 October 2012 as the non-executive Chairman of the Company until 31 December 2015. Professor Frederick Ma Si-hang was appointed by the HKSAR government as the new non-executive Chairman of the Company for a term of three years, effective 1 January 2016.

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2016 are set out in the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

2007 Share Option Scheme

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 47(i), all Members of the Executive Directorate were granted options to acquire shares between 2007 and 2014 (note 10A(i)).

Under the vesting terms of the options, options granted will be evenly vested in respect of their underlying shares over a period of three years from the date of offer to grant such options.

C Award Shares

Award Shares outstanding in respect of each Member of the Executive Directorate as at 31 December 2016 are set out in the Report of the Members of the Board. Details of the award shares granted to Members of the Executive Directorate are as follows:

Under the 2014 Share Incentive Scheme as described in note 47(ii), all Members of the Executive Directorate may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded on the basis of individual performance. Performance Shares are awarded which vest subject to the performance of the Company, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions.

An award of Restricted Shares will vest rateably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved.

11 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK$ million	2016	2015
Share of surplus from property development	**270**	2,898
Income from receipt of properties for investment purpose	**83**	–
Agency fee and other income from West Rail property development (note 25D)	**48**	30
Other overhead costs net of miscellaneous income	**(90)**	(37)
	311	2,891

12 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2016	2015
Depreciation charge on assets relating to:		
– Hong Kong transport operations	**3,042**	2,891
– Hong Kong station commercial businesses	**115**	114
– Hong Kong property rental and management businesses	**13**	12
– Mainland of China and international subsidiaries	**101**	78
– Other businesses	**65**	66
	3,336	3,161
Amortisation charge on:		
– Service concession assets relating to:		
– Rail Merger with KCRC	**771**	671
– Mainland of China and international subsidiaries	**426**	384
– Property management rights	**1**	2
	1,198	1,057
– Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(407)**	(369)
	791	688
	4,127	3,849

13 Interest and Finance Charges

in HK$ million	2016		2015	
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments	**739**		672	
– Obligations under service concession	**710**		714	
– Other obligations (note 20F)	**20**		19	
Finance charges	**74**		39	
Exchange loss/(gain)	**75**		(104)	
		1,618		1,340
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(143)**		(217)
Derivative financial instruments:				
– Fair value hedges	**(2)**		(12)	
– Cash flow hedges:				
– transferred from hedging reserve to offset interest expenses	**20**		22	
– transferred from hedging reserve to offset exchange (loss)/gain	**(11)**		123	
– Derivatives not qualified for hedge accounting	**5**		4	
		12		137
Interest expenses capitalised		**(632)**		(494)
		855		766
Interest income in respect of deposits with banks		**(243)**		(167)
		612		599

During the year ended 31 December 2016, interest expenses capitalised were calculated on a monthly basis at the pre-determined cost of borrowings and/or the relevant group companies' borrowing cost which varied from 2.3% to 6.7% per annum (2015: 2.7% to 6.3% per annum).

During the year ended 31 December 2016, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line were HK$143 million (2015: HK$217 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2016, the gain resulting from fair value changes of the underlying financial assets and liabilities being hedged was HK$34 million (2015: HK$73 million) while the loss resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$32 million (2015: HK$61 million), thus resulting in a net gain of HK$2 million (2015: HK$12 million).

14 Income Tax

A Income tax in the consolidated profit and loss account represents:

in HK$ million	2016	2015
Current tax		
– Hong Kong Profits Tax	**989**	1,791
– Mainland of China and overseas tax	**326**	190
	1,315	1,981
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(75)**	(23)
	1,240	1,958
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**49**	(36)
– depreciation allowances in excess of related depreciation	**771**	435
– provisions and others	**33**	(120)
	853	279
	2,093	2,237

14 Income Tax *(continued)*

The provision for Hong Kong Profits Tax for the year ended 31 December 2016 is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current taxes for the Mainland of China and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant Mainland of China tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2015: 16.5%), while that arising in the Mainland of China and overseas is calculated at the appropriate current rates of taxation ruling in the relevant countries.

B Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016		2015	
	HK$ million	%	HK$ million	%
Profit before taxation	**12,441**		15,375	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**2,089**	**16.8**	2,555	16.6
Land Appreciation Tax (net of tax effect on deduction of Enterprise Income Tax)	**63**	**0.5**	–	–
Tax effect of non-deductible expenses	**386**	**3.1**	338	2.2
Tax effect of non-taxable revenue	**(415)**	**(3.3)**	(606)	(3.9)
Tax effect of unused tax losses not recognised	**45**	**0.3**	(27)	(0.2)
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(75)**	**(0.6)**	(23)	(0.1)
Actual tax expenses	**2,093**	**16.8**	2,237	14.6

15 Dividends

During the year, ordinary dividends paid and proposed to shareholders of the Company comprise:

in HK$ million	**2016**	2015
Ordinary dividends payable attributable to the year		
– Interim ordinary dividend declared of HK$0.25 (2015: HK$0.25) per share	**1,475**	1,462
– Final ordinary dividend proposed after the end of reporting period of HK$0.82 (2015: HK$0.81) per share	**4,842**	4,745
	6,317	6,207
Ordinary dividends paid attributable to the previous year		
– Final ordinary dividend of HK$0.81 (2014: HK$0.80) per share approved and payable/paid during the year	**4,763**	4,673

The final ordinary dividend proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

For interim and final ordinary dividends, scrip dividend elections were offered to all shareholders except shareholders with registered addresses in the United States of America or any of its territories or possessions.

Pursuant to the agreement entered into between the HKSAR Government and the Company dated 30 November 2015 (the "XRL Agreement"), the Company will pay a special dividend of HK$4.40 in aggregate per share in two equal tranches (HK$2.20 per share in cash in each tranche) conditional on satisfaction of the following conditions specified in the XRL Agreement (the "Conditions"):

(i) independent shareholder approval; and

(ii) HKSAR Legislative Council approval in respect of the HKSAR Government's additional funding obligations,

being granted prior to the Back Stop Date (being 30 September 2016 or earlier, if a termination of XRL Entrustment Agreement is commenced prior to that date).

Given the Company's independent shareholders gave their approval at the General Meeting held on 1 February 2016 and the approval from HKSAR Legislative Council in respect of the HKSAR Government's additional funding obligations was obtained on 11 March 2016, the Conditions have been satisfied. The first tranche of special dividend was paid on 13 July 2016 and it is expected that the second tranche will be paid in the second half of 2017. There will be no scrip alternative for the special dividend. Details are set out in note 24A.

Details of ordinary dividends and special dividend paid to the Financial Secretary Incorporated are disclosed in note 51P.

16 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to shareholders of HK$10,254 million (2015: HK$12,994 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme, which is calculated as follows:

	2016	2015
Issued ordinary shares at 1 January	**5,858,228,236**	5,826,534,347
Effect of scrip dividend issued	**7,891,191**	3,861,439
Effect of share options exercised	**17,603,974**	12,801,362
Less: Shares held for Share Incentive Scheme	**(5,242,719)**	(2,355,135)
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 31 December	**5,878,480,682**	5,840,842,013

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to shareholders of HK$10,254 million (2015: HK$12,994 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option scheme and Share Incentive Scheme, which is calculated as follows:

	2016	2015
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 31 December	**5,878,480,682**	5,840,842,013
Effect of dilutive potential shares under the share option scheme	**9,498,438**	11,902,289
Effect of shares awarded under Share Incentive Scheme	**4,961,616**	2,460,621
Weighted average number of shares (diluted) at 31 December	**5,892,940,736**	5,855,204,923

C Basic and diluted earnings per share would have been HK$1.61 (2015: HK$1.87) and HK$1.60 (2015: HK$1.86) respectively, if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$9,446 million (2015: HK$10,894 million).

17 Segmental Information

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

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

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

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

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

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

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

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

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

17 Segmental Information *(continued)*

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

in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates: Mainland of China and international railway, property rental and management businesses	Mainland of China and international affiliates: Mainland of China property development	Other businesses	Un-allocated amount	Total
2016									
Revenue	17,655	5,544	4,741	–	13,478	1,348	2,423	–	45,189
Operating expenses	(10,022)	(532)	(811)	–	(12,890)	(982)	(2,278)	–	(27,515)
Project study and business development expenses	–	–	–	–	–	–	–	(361)	(361)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	7,633	5,012	3,930	–	588	366	145	(361)	17,313
Profit on Hong Kong property development	–	–	–	311	–	–	–	–	311
Operating profit before depreciation, amortisation and variable annual payment	7,633	5,012	3,930	311	588	366	145	(361)	17,624
Depreciation and amortisation	(3,780)	(148)	(14)	–	(120)	–	(65)	–	(4,127)
Variable annual payment	(1,281)	(502)	(4)	–	–	–	–	–	(1,787)
Operating profit before interest and finance charges	2,572	4,362	3,912	311	468	366	80	(361)	11,710
Interest and finance charges	–	–	–	–	(16)	90	–	(686)	(612)
Investment property revaluation	–	–	808	–	–	–	–	–	808
Share of profit or loss of associates	–	–	–	–	288	(2)	249	–	535
Income tax	–	–	–	(44)	(130)	(191)	–	(1,728)	(2,093)
Profit for the year ended 31 December 2016	2,572	4,362	4,720	267	610	263	329	(2,775)	10,348
Assets									
Fixed assets	121,418	2,059	70,116	–	7,659	–	690	–	201,942
Other operational assets *	2,291	297	332	623	3,902	5,915	1,781	13,422	28,563
Property management rights	–	–	27	–	–	–	–	–	27
Goodwill	–	–	–	–	57	–	–	–	57
Property development in progress	–	–	–	14,479	–	3,005	–	–	17,484
Deferred expenditure	30	–	12	–	–	–	421	–	463
Deferred tax assets	–	2	–	–	12	11	–	–	25
Investments in securities	–	–	–	–	–	–	370	–	370
Properties held for sale	–	–	–	985	–	409	–	–	1,394
Interests in associates	–	–	–	–	4,915	1,230	870	–	7,015
Total assets	123,739	2,358	70,487	16,087	16,545	10,570	4,132	13,422	257,340
Liabilities									
Segment liabilities	24,361	2,808	2,005	2,322	6,703	7,267	2,019	49,071	96,556
Obligations under service concession	10,344	–	–	–	163	–	–	–	10,507
Deferred income	–	181	–	17	523	–	–	–	721
Total liabilities	34,705	2,989	2,005	2,339	7,389	7,267	2,019	49,071	107,784
Other Information									
Capital expenditure on:									
Fixed assets	4,968	285	679	–	183	–	15	–	6,130
Railway construction in progress	5,376	–	–	–	–	–	–	–	5,376
Property development in progress	–	–	–	435	–	525	–	–	960
Non-cash expenses other than depreciation and amortisation	57	5	–	–	3	–	–	–	65

* Other operational assets include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

17 Segmental Information *(continued)*

in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates: Mainland of China and international railway, property rental and management businesses	Mainland of China and international affiliates: Mainland of China property development	Other businesses	Unallocated amount	Total
2015									
Revenue	16,916	5,380	4,533	–	12,572	–	2,300	–	41,701
Operating expenses	(9,702)	(550)	(865)	–	(11,846)	(140)	(2,174)	–	(25,277)
Project study and business development expenses	–	–	–	–	–	–	–	(304)	(304)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	7,214	4,830	3,668	–	726	(140)	126	(304)	16,120
Profit on Hong Kong property development	–	–	–	2,891	–	–	–	–	2,891
Operating profit before depreciation, amortisation and variable annual payment	7,214	4,830	3,668	2,891	726	(140)	126	(304)	19,011
Depreciation and amortisation	(3,534)	(142)	(14)	–	(93)	–	(66)	–	(3,849)
Variable annual payment	(1,187)	(458)	(4)	–	–	–	–	–	(1,649)
Operating profit before interest and finance charges	2,493	4,230	3,650	2,891	633	(140)	60	(304)	13,513
Interest and finance charges	–	–	–	–	4	17	–	(620)	(599)
Investment property revaluation	–	–	2,100	–	–	–	–	–	2,100
Share of profit or loss of associates	–	–	–	–	126	–	235	–	361
Income tax	–	–	–	(475)	(135)	36	–	(1,663)	(2,237)
Profit for the year ended 31 December 2015	2,493	4,230	5,750	2,416	628	(87)	295	(2,587)	13,138
Assets									
Fixed assets	95,936	1,927	68,442	–	8,672	–	742	–	175,719
Other operational assets *	1,947	309	311	2,207	3,481	3,635	1,251	7,402	20,543
Property management rights	–	–	28	–	–	–	–	–	28
Railway construction in progress	19,064	–	–	–	–	–	–	–	19,064
Property development in progress	–	–	–	14,046	–	3,937	–	–	17,983
Deferred expenditure	5	–	14	–	–	–	269	–	288
Deferred tax assets	–	3	–	–	23	65	–	–	91
Investments in securities	–	–	–	–	–	–	336	–	336
Properties held for sale	–	–	–	1,139	–	–	–	–	1,139
Interests in associates	–	–	–	–	3,810	1,319	783	–	5,912
Total assets	116,952	2,239	68,795	17,392	15,986	8,956	3,381	7,402	241,103
Liabilities									
Segment liabilities	10,453	1,846	1,858	1,270	7,044	5,689	1,805	29,660	59,625
Obligations under service concession	10,392	–	–	–	172	–	–	–	10,564
Deferred income	–	150	–	19	574	–	–	–	743
Total liabilities	20,845	1,996	1,858	1,289	7,790	5,689	1,805	29,660	70,932
Other Information									
Capital expenditure on:									
Fixed assets	4,391	237	614	–	1,048	–	18	–	6,308
Railway construction in progress	3,859	–	–	–	–	–	–	–	3,859
Property development in progress	–	–	–	10,666	–	569	–	–	11,235
Non-cash expenses other than depreciation and amortisation	36	4	–	–	2	–	2	–	44

* Other operational assets include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

17 Segmental Information *(continued)*

Unallocated assets and liabilities mainly comprise cash, bank balances and deposits, derivative financial assets and liabilities, interest-bearing loans and borrowings as well as deferred tax liabilities.

For the year ended 31 December 2016, revenue from one (2015: one) customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue. Approximately 14.38% (2015: 17.17%) of the Group's total turnover was attributable to this customer.

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, property management rights, goodwill, railway construction in progress, property development in progress, deferred expenditure and interests in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment, railway construction in progress and property development in progress, the location of the proposed capital project in the case of deferred expenditure, the location of the operation to which they are related in the case of service concession assets, property management rights and goodwill, and the location of operation in the case of interests in associates.

	Revenue from external customers		Specified non-current assets	
in HK$ million	**2016**	2015	**2016**	2015
Hong Kong (place of domicile)	**30,246**	29,070	**210,120**	201,258
Australia	**8,641**	8,248	**355**	305
Mainland of China	**2,176**	850	**15,702**	16,590
Sweden	**2,952**	2,792	**719**	750
United Kingdom	**1,086**	730	**92**	91
Other countries	**88**	11	**–**	–
	14,943	12,631	**16,868**	17,736
	45,189	41,701	**226,988**	218,994

18 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below:

	2016			2015		
in HK$ million	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries and associates	**(856)**	**–**	**(856)**	(570)	–	(570)
– Non-controlling interests	**(7)**	**–**	**(7)**	(28)	–	(28)
	(863)	**–**	**(863)**	(598)	–	(598)
Surplus on revaluation of self-occupied land and buildings	**156**	**(25)**	**131**	325	(54)	271
Remeasurement of net liability of defined benefit plans	**149**	**(26)**	**123**	(694)	114	(580)
Cash flow hedges: net movement in hedging reserve (note 18B)	**450**	**(75)**	**375**	(162)	28	(134)
Other comprehensive income	**(108)**	**(126)**	**(234)**	(1,129)	88	(1,041)

18 Other Comprehensive Income *(continued)*

B The components of other comprehensive income of the Group relating to cash flow hedges are as follows:

in HK$ million	2016	2015
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**427**	(315)
Amounts transferred to/(from) initial carrying amount of hedged items	**2**	(12)
Amounts transferred to profit or loss:		
– Interest and finance charges (note 13)	**9**	145
– Other expenses (note 9E)	**12**	20
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the year	**(71)**	51
– Amounts transferred to initial carrying amount of hedged items	**–**	4
– Amounts transferred to profit or loss	**(4)**	(27)
	375	(134)

19 Investment Properties

Movements and analysis of the Group's and the Company's investment properties, all of which being held in Hong Kong and carried at fair value, are as follows:

	The Group		The Company	
in HK$ million	2016	2015	2016	2015
Cost or valuation				
At 1 January	**68,388**	65,679	**66,900**	64,237
Additions	**672**	609	**646**	597
Transfer from other property, plant and equipment (note 20)	**192**	–	**192**	–
Change in fair value	**808**	2,100	**779**	2,066
At 31 December	**70,060**	68,388	**68,517**	66,900
Long leases	**18**	20	**18**	20
Medium-term leases	**70,042**	68,368	**68,499**	66,880
	70,060	68,388	**68,517**	66,900

All investment properties of the Group were revalued at 31 December 2016 and 2015. Details of the fair value measurement are disclosed in note 46. The net increase in fair value of HK$808 million (2015: HK$2,100 million) arising from the revaluation has been credited to the consolidated profit and loss account. Investment properties are revalued semi-annually by Jones Lang LaSalle Limited and future market condition changes may result in further gains or losses to be recognised through profit and loss account in subsequent periods. Cost or valuation as at 31 December 2016 include investment properties under development of HK$2,585 million (2015: HK$1,949 million).

The Group's future minimum lease receipts in respect of investment properties under non-cancellable operating leases are disclosed together with those in respect of other properties under note 20D.

20 Other Property, Plant and Equipment

The Group

in HK$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2016						
Cost or Valuation						
At 1 January 2016	**732**	**3,721**	**47,408**	**73,670**	**1,967**	**127,498**
Additions	**–**	**–**	**–**	**285**	**2,841**	**3,126**
Disposals/write-offs	**–**	**–**	**(1)**	**(523)**	**(19)**	**(543)**
Surplus on revaluation	**–**	**37**	**–**	**–**	**–**	**37**
Reclassification within other property, plant and equipment	**–**	**–**	**(2)**	**2**	**–**	**–**
Transfer to investment properties (note 19)	**–**	**(192)**	**–**	**–**	**–**	**(192)**
Transfer to additional concession property (note 21)	**–**	**–**	**–**	**(7)**	**(10)**	**(17)**
Transfer from railway construction in progress (note 23)	**1,025**	**–**	**13,822**	**9,313**	**280**	**24,440**
Other assets commissioned	**–**	**–**	**281**	**1,480**	**(1,761)**	**–**
Exchange differences	**–**	**–**	**–**	**(74)**	**(1)**	**(75)**
At 31 December 2016	**1,757**	**3,566**	**61,508**	**84,146**	**3,297**	**154,274**
At Cost	**1,757**	**–**	**61,508**	**84,146**	**3,297**	**150,708**
At 31 December 2016 Valuation	**–**	**3,566**	**–**	**–**	**–**	**3,566**
Aggregate depreciation						
At 1 January 2016	**258**	**–**	**7,414**	**40,250**	**–**	**47,922**
Charge for the year	**14**	**119**	**410**	**2,793**	**–**	**3,336**
Written back on disposals	**–**	**–**	**–**	**(459)**	**–**	**(459)**
Written back on revaluation	**–**	**(119)**	**–**	**–**	**–**	**(119)**
Exchange differences	**–**	**–**	**–**	**(19)**	**–**	**(19)**
At 31 December 2016	**272**	**–**	**7,824**	**42,565**	**–**	**50,661**
Net book value at 31 December 2016	**1,485**	**3,566**	**53,684**	**41,581**	**3,297**	**103,613**
2015						
Cost or Valuation						
At 1 January 2015	732	3,507	47,101	70,907	1,415	123,662
Additions	–	–	–	950	2,232	3,182
Disposals/write-offs	–	–	–	(533)	(6)	(539)
Surplus on revaluation	–	214	–	–	–	214
Transfer from additional concession property (note 21)	–	–	–	(1)	7	6
Transfer from railway construction in progress (note 23)	–	–	147	801	76	1,024
Other assets commissioned	–	–	160	1,597	(1,757)	–
Exchange differences	–	–	–	(51)	–	(51)
At 31 December 2015	732	3,721	47,408	73,670	1,967	127,498
At Cost	732	–	47,408	73,670	1,967	123,777
At 31 December 2015 Valuation	–	3,721	–	–	–	3,721
Aggregate depreciation						
At 1 January 2015	245	–	7,011	38,127	–	45,383
Charge for the year	13	111	403	2,634	–	3,161
Written back on disposals	–	–	–	(487)	–	(487)
Written back on revaluation	–	(111)	–	–	–	(111)
Exchange differences	–	–	–	(24)	–	(24)
At 31 December 2015	258	–	7,414	40,250	–	47,922
Net book value at 31 December 2015	474	3,721	39,994	33,420	1,967	79,576

20 Other Property, Plant and Equipment *(continued)*

The Company

in HK$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2016						
Cost or Valuation						
At 1 January 2016	**732**	**3,721**	**47,408**	**71,424**	**1,933**	**125,218**
Additions	**–**	**–**	**–**	**174**	**2,775**	**2,949**
Disposals/write-offs	**–**	**–**	**(1)**	**(518)**	**(19)**	**(538)**
Surplus on revaluation	**–**	**37**	**–**	**–**	**–**	**37**
Reclassification within other property, plant and equipment	**–**	**–**	**(2)**	**2**	**–**	**–**
Transfer to investment properties (note 19)	**–**	**(192)**	**–**	**–**	**–**	**(192)**
Transfer to additional concession property (note 21)	**–**	**–**	**–**	**(7)**	**(10)**	**(17)**
Transfer from railway construction in progress (note 23)	**1,025**	**–**	**13,822**	**9,313**	**280**	**24,440**
Other assets commissioned	**–**	**–**	**281**	**1,460**	**(1,741)**	**–**
At 31 December 2016	**1,757**	**3,566**	**61,508**	**81,848**	**3,218**	**151,897**
At Cost	**1,757**	**–**	**61,508**	**81,848**	**3,218**	**148,331**
At 31 December 2016 Valuation	**–**	**3,566**	**–**	**–**	**–**	**3,566**
Aggregate depreciation						
At 1 January 2016	**258**	**–**	**7,414**	**39,282**	**–**	**46,954**
Charge for the year	**14**	**119**	**410**	**2,649**	**–**	**3,192**
Written back on disposals	**–**	**–**	**–**	**(458)**	**–**	**(458)**
Written back on revaluation	**–**	**(119)**	**–**	**–**	**–**	**(119)**
At 31 December 2016	**272**	**–**	**7,824**	**41,473**	**–**	**49,569**
Net book value at 31 December 2016	**1,485**	**3,566**	**53,684**	**40,375**	**3,218**	**102,328**
2015						
Cost or Valuation						
At 1 January 2015	732	3,507	47,101	69,460	1,337	122,137
Additions	–	–	–	174	2,187	2,361
Disposals/write-offs	–	–	–	(518)	(6)	(524)
Surplus on revaluation	–	214	–	–	–	214
Transfer from additional concession property (note 21)	–	–	–	(1)	7	6
Transfer from railway construction in progress (note 23)	–	–	147	801	76	1,024
Other assets commissioned	–	–	160	1,508	(1,668)	–
At 31 December 2015	732	3,721	47,408	71,424	1,933	125,218
At Cost	732	–	47,408	71,424	1,933	121,497
At 31 December 2015 Valuation	–	3,721	–	–	–	3,721
Aggregate depreciation						
At 1 January 2015	245	–	7,011	37,246	–	44,502
Charge for the year	13	111	403	2,511	–	3,038
Written back on disposals	–	–	–	(475)	–	(475)
Written back on revaluation	–	(111)	–	–	–	(111)
At 31 December 2015	258	–	7,414	39,282	–	46,954
Net book value at 31 December 2015	474	3,721	39,994	32,142	1,933	78,264

20 Other Property, Plant and Equipment *(continued)*

A The lease term of the Group's and the Company's leasehold land is analysed as follows:

The Group and The Company

in HK$ million	2016	2015
At net book value		
– long leases	**128**	131
– medium-term leases	**1,357**	343
	1,485	474

The lease of the land on which civil works as well as plant and equipment are situated for Hong Kong transport operations was granted to the Company under a running line lease which is coterminous with the Company's franchise to operate the mass transit railway under the Operating Agreement (notes 51A, 51B and 51C).

Under the terms of the lease, the Company undertakes to keep and maintain all the leased areas, including underground and overhead structures, at its own cost. With respect to parts of the railway situated in structures where access is shared with other users, such as the Lantau Fixed Crossing, the Company's obligation for maintenance is limited to the railway only. All maintenance costs incurred under the terms of the lease have been dealt with as expenses relating to Hong Kong transport operations in the consolidated profit and loss account.

B All self-occupied land and buildings of the Group are held in Hong Kong under medium-term leases and carried at fair value. The details of the fair value measurement are disclosed in note 46. The revaluation surplus of HK$156 million (2015: HK$325 million) and the related deferred tax expenses of HK$25 million (2015: HK$54 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 44F). The carrying amount of the self-occupied land and buildings at 31 December 2016 would have been HK$770 million (2015: HK$774 million) had the land and buildings been stated at cost less accumulated depreciation.

C Assets under construction include capital works on operating railway.

D The Group leases out investment properties and station kiosks, including duty free shops, under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date, at which time all terms will be renegotiated. Lease payments are adjusted periodically to reflect market rentals. Certain leases carry additional rental based on turnover, some of which are with reference to thresholds. Lease incentives granted are amortised in the consolidated profit and loss account as an integral part of the net lease payment receivable.

The gross carrying amounts of investment properties of the Group and the Company held for use in operating leases were HK$67,475 million (2015: HK$66,439 million) and HK$65,932 million (2015: HK$64,951 million) respectively. The costs of station kiosks of the Group and the Company held for use in operating leases were HK$686 million (2015: HK$672 million) and the related accumulated depreciation charges were HK$377 million (2015: HK$348 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
in HK$ million	2016	2015	2016	2015
Within 1 year	**7,262**	6,666	**6,934**	6,355
After 1 year but within 5 years	**15,412**	7,764	**14,819**	7,188
Later than 5 years	**2,326**	329	**2,031**	23
	25,000	14,759	**23,784**	13,566

E In addition to the leasehold land classified as being held under a finance lease in note 20A above, the Group leases plant and equipment under finance leases expiring in 2024. At the end of the lease term the Group has the option to purchase the leased equipment at a price deemed to be a bargain purchase option. The lease does not include contingent rental.

At the end of the reporting period, the net book value of plant and equipment under finance lease of the Group was HK$437 million (2015: HK$628 million).

F In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars ("Lease Transaction") involving a total original cost of HK$2,562 million and a total net book value of HK$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors based on terms ranging from 21 to 29 years with an obligation to pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at the expiry of the lease term for fixed amounts. Part of the rental prepayments received from the Investors has been invested in debt securities to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. The Group has an obligation to replace these debt securities with other debt securities in the event those securities do not meet certain credit ratings requirements. In addition, the Group has provided standby letters of credit to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms.

20 Other Property, Plant and Equipment *(continued)*

The Group retains legal title to the assets and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, an amount of approximately HK$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value of approximately HK$3,533 million in March 2003. This resulted in the Group having received in 2003 an amount of HK$141 million net of costs. As the Group is not able to control the investment account in pursuit of its own objectives and its obligations to pay the lease payments are funded by the proceeds of the above investments, those obligations and investments in the Defeasance Securities were not recognised in March 2003 as liabilities and assets of the Group. The net amount of cash received was accounted for as deferred income by the Group and amortised to the consolidated profit and loss account over the lease period until 2008, when credit ratings of some of these Defeasance Securities were downgraded and subsequently replaced by standby letters of credit, the charge on which had fully offset the remaining balance of the deferred income.

21 Service Concession Assets

Movements and analysis of the Group and the Company's service concession assets are as follows:

The Group

	KCRC Rail Merger					
in HK$ million	Initial concession property	Additional concession property	Shenzhen Metro Longhua Line	MTR Nordic Group	London Crossrail	Total
2016						
Cost						
At 1 January 2016	**15,226**	**8,569**	**9,070**	**65**	**64**	**32,994**
Net additions during the year	**–**	**2,252**	**75**	**5**	**–**	**2,332**
Disposals	**–**	**(91)**	**(8)**	**–**	**–**	**(99)**
Transfer from other property, plant and equipment (note 20)	**–**	**17**	**–**	**–**	**–**	**17**
Recoveries from Government for entrustment works	**–**	**–**	**(125)**	**–**	**–**	**(125)**
Exchange differences	**–**	**–**	**(582)**	**(5)**	**(11)**	**(598)**
At 31 December 2016	**15,226**	**10,747**	**8,430**	**65**	**53**	**34,521**
Accumulated amortisation						
At 1 January 2016	**2,461**	**1,294**	**1,428**	**51**	**5**	**5,239**
Charge for the year	**305**	**466**	**411**	**7**	**8**	**1,197**
Written-off on disposals	**–**	**(63)**	**(4)**	**–**	**–**	**(67)**
Exchange differences	**–**	**–**	**(112)**	**(4)**	**(1)**	**(117)**
At 31 December 2016	**2,766**	**1,697**	**1,723**	**54**	**12**	**6,252**
Net book value at 31 December 2016	**12,460**	**9,050**	**6,707**	**11**	**41**	**28,269**
2015						
Cost						
At 1 January 2015	15,226	6,390	9,291	71	13	30,991
Net additions during the year	–	2,252	213	–	52	2,517
Disposals	–	(67)	(8)	–	–	(75)
Transfer to other property, plant and equipment (note 20)	–	(6)	–	–	–	(6)
Exchange differences	–	–	(426)	(6)	(1)	(433)
At 31 December 2015	15,226	8,569	9,070	65	64	32,994
Accumulated amortisation						
At 1 January 2015	2,157	967	1,121	48	–	4,293
Charge for the year	304	367	372	7	5	1,055
Written-off on disposals	–	(40)	(4)	–	–	(44)
Exchange differences	–	–	(61)	(4)	–	(65)
At 31 December 2015	2,461	1,294	1,428	51	5	5,239
Net book value at 31 December 2015	12,765	7,275	7,642	14	59	27,755

21 Service Concession Assets *(continued)*

The Company

in HK$ million	Initial concession property	Additional concession property	Total
2016			
Cost			
At 1 January 2016	**15,226**	**8,569**	**23,795**
Net additions during the year	**–**	**2,220**	**2,220**
Disposals	**–**	**(91)**	**(91)**
Transfer from other property, plant and equipment (note 20)	**–**	**17**	**17**
At 31 December 2016	**15,226**	**10,715**	**25,941**
Accumulated amortisation			
At 1 January 2016	**2,461**	**1,294**	**3,755**
Charge for the year	**305**	**466**	**771**
Written-off on disposals	**–**	**(63)**	**(63)**
At 31 December 2016	**2,766**	**1,697**	**4,463**
Net book value at 31 December 2016	**12,460**	**9,018**	**21,478**
2015			
Cost			
At 1 January 2015	15,226	6,390	21,616
Net additions during the year	–	2,252	2,252
Disposals	–	(67)	(67)
Transfer to other property, plant and equipment (note 20)	–	(6)	(6)
At 31 December 2015	15,226	8,569	23,795
Accumulated amortisation			
At 1 January 2015	2,157	967	3,124
Charge for the year	304	367	671
Written-off on disposals	–	(40)	(40)
At 31 December 2015	2,461	1,294	3,755
Net book value at 31 December 2015	12,765	7,275	20,040

Initial concession property relates to the payments recognised at inception of the Rail Merger with KCRC while additional concession property relates to the expenditures for the replacement and/or upgrade of the initial concession property after inception of the Rail Merger.

On 30 July 2014, the Group entered into a concession agreement with Transport for London to operate the London Crossrail train service for an eight-year period with a two-year extension option, with passenger operation expected to commence in phases from 2015 to 2019. Service concession assets in respect of London Crossrail relate to the costs incurred between the signing of concession agreement on 30 July 2014 and prior to the commencement of the franchise period for preparing the Group to operate London Crossrail. The concession property is amortised and charged to the consolidated profit and loss account over the term of the franchise.

22 Property Management Rights

Property management rights relate to the rights acquired by the Company from KCRC in the Rail Merger in respect of existing and future managed properties on the Appointed Day.

The Group and The Company

in HK$ million	2016	2015
Cost at 1 January and 31 December	**40**	40
Accumulated amortisation		
At 1 January	**12**	10
Charge for the year	**1**	2
At 31 December	**13**	12
Net book value at 31 December	**27**	28

23 Railway Construction in Progress

The Group and The Company

in HK$ million	Balance at 1 January	Expenditure	Capitalised on commissioning (note 20)	Balance at 31 December
2016				
South Island Line (East) Project				
Construction costs	**10,955**	**2,138**	**(13,093)**	**–**
Consultancy fees	**634**	**69**	**(703)**	**–**
Staff costs and other expenses	**1,407**	**1,461**	**(2,868)**	**–**
Finance costs	**737**	**253**	**(990)**	**–**
	13,733	**3,921**	**(17,654)**	**–**
Kwun Tong Line Extension Project				
Construction costs	**4,188**	**970**	**(5,158)**	**–**
Consultancy fees	**254**	**48**	**(302)**	**–**
Staff costs and other expenses	**625**	**361**	**(986)**	**–**
Finance costs	**264**	**76**	**(340)**	**–**
	5,331	**1,455**	**(6,786)**	**–**
Total	**19,064**	**5,376**	**(24,440)**	**–**
2015				
Island Line Extension Project				
Construction costs	3,364	479	(3,843)	–
Consultancy fees	149	7	(156)	–
Staff costs and other expenses	230	68	(298)	–
(Interest income)/finance costs	(100)	6	94	–
Principal and interest repaid/repayable in respect of government grant	66	118	(184)	–
Utilisation of government grant	(3,363)	–	3,363	–
	346	678	(1,024)	–
South Island Line (East) Project				
Construction costs	9,740	1,215	–	10,955
Consultancy fees	593	41	–	634
Staff costs and other expenses	1,133	274	–	1,407
Finance costs	552	185	–	737
	12,018	1,715	–	13,733
Kwun Tong Line Extension Project				
Construction costs	2,932	1,256	–	4,188
Consultancy fees	229	25	–	254
Staff costs and other expenses	508	117	–	625
Finance costs	196	68	–	264
	3,865	1,466	–	5,331
Total	16,229	3,859	(1,024)	19,064

23 Railway Construction in Progress *(continued)*

A Island Line Extension Project

On 13 July 2009, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the extension of Island Line to the Western District and related services and facilities.

Pursuant to the agreement, the HKSAR Government provided a grant of HK$12.3 billion to the Company in March 2010 (having already made HK$0.4 billion available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism whereby, within 24 months of commercial operations of the extension of Island Line to the Western District i.e. December 2016 (based on commencement of commercial operation on 28 December 2014), the Company has to pay to the HKSAR Government amounts to reflect the excess of the original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest). Under a supplemental agreement signed in December 2016, the Company and the HKSAR Government agreed to extend the timeframe for the repayment mechanism to not later than 30 June 2018. During the year ended 31 December 2016, the Company has recognised and prepaid an amount with a principal of HK$48 million and interest of HK$18 million to the HKSAR Government under the repayment mechanism (2015: principal of HK$142 million and interest of HK$44 million).

During the year ended 31 December 2016, Sai Ying Pun Station's Ki Ling Lane Entrance commenced service on 27 March 2016. As at 31 December 2016, the Company has no authorised outstanding commitments on contracts (2015: HK$25 million) for this project (note 52).

B South Island Line (East) ("SIL(E)") Project

On 17 May 2011, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the SIL(E).

As at 31 December 2016, the project cost estimate is revised from HK$16.9 billion to HK$17.2 billion (before capitalised interest expense of HK$1.0 billion).

As at 31 December 2016, the Company has incurred cumulative expenditure of HK$17.6 billion (2015: HK$13.7 billion). During the year ended 31 December 2016, HK$17.6 billion has been transferred out from Railway Construction in Progress to Other Property, Plant and Equipment upon the opening of the South Island Line (East) on 28 December 2016. As at 31 December 2016, the Company has authorised outstanding commitments on contracts totalling HK$0.4 billion (2015: HK$0.9 billion) for this project.

C Kwun Tong Line Extension ("KTE") Project

On 17 May 2011, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the KTE.

As at 31 December 2016, the project cost estimate is revised from HK$7.2 billion to HK$6.9 billion (before capitalised interest expense of HK$0.3 billion).

As at 31 December 2016, the Company has incurred cumulative expenditure of HK$6.8 billion (2015: HK$5.3 billion). During the year ended 31 December 2016, HK$6.8 billion has been transferred out from Railway Construction in Progress to Other Property, Plant and Equipment upon the opening of the Kwun Tong Line Extension on 23 October 2016. As at 31 December 2016, the Company has authorised outstanding commitments on contracts totalling HK$4 million (2015: HK$0.2 billion) for this project.

24 Other Railway Construction in Progress under Entrustment by the HKSAR Government

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project

On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the XRL (the "XRL Preliminary Entrustment Agreement"). Pursuant to the XRL Preliminary Entrustment Agreement, the HKSAR Government is obligated to pay the Company the Company's in-house design costs and certain on-costs, preliminary costs and staff costs.

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the XRL on the understanding that the Company would subsequently be invited to undertake the operation of the XRL under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the XRL (the "XRL Entrustment Agreement"). Pursuant to the XRL Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the XRL and the HKSAR Government, as owner of XRL, is responsible for bearing and financing the full amount of the total cost of such activities (the "Entrustment Cost") and for paying to the Company a fee in accordance with an agreed payment schedule (the "Project Management Fee") (subsequent amendments to these arrangements are described below). As at 31 December 2016 and up to the date of this annual report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

24 Other Railway Construction in Progress under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project *(continued)*

The HKSAR Government has the right to claim against the Company if the Company breaches the XRL Entrustment Agreement and, under the XRL Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the XRL Entrustment Agreement or breach by the Company of the XRL Entrustment Agreement. Under the XRL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the XRL Preliminary Entrustment Agreement and the XRL Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the Project Management Fee and any other fees that the Company receives under the XRL Entrustment Agreement and certain fees received by the Company under the XRL Preliminary Entrustment Agreement (the "Liability Cap"). Up to the date of this annual report, no claim has been received from the HKSAR Government.

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

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

- the XRL being completed in the third quarter of 2018 (including programme contingency of six months) (the "XRL Revised Programme"); and
- the total project cost of HK$85.3 billion (including contingency), based on the XRL Revised Programme.

As a result of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "Revised Cost Estimate").

On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "XRL Agreement") relating to the further funding and completion of the XRL. The XRL Agreement contains an integrated package of terms (subject to conditions as set out in note 24A(vi)) and provides that:

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

(ii) The Company will, if the project exceeds HK$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "Further Cost Overrun") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the XRL Agreement);

(iii) The Company will pay a Special Dividend of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share in cash in each tranche). The first tranche will be paid in cash within a reasonable period after the XRL Agreement becomes fully unconditional and effective (the first tranche was paid on 13 July 2016) and the second tranche will be paid in cash approximately 12 months thereafter (which is expected to be in the second half of 2017). There will be no scrip alternative;

(iv) The HKSAR Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the XRL Preliminary Entrustment Agreement and XRL Entrustment Agreement ("Entrustment Agreements") (including any question the HKSAR Government may have regarding the validity of the Liability Cap). The Entrustment Agreements contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under the XRL Entrustment Agreement, the Liability Cap is equal to the Project Management Cost and any other fees that the Company receives under XRL Entrustment Agreement and certain fees received by the Company under the Preliminary Entrustment Agreement. Accordingly, the Liability Cap increases from up to HK$4.94 billion to up to HK$6.69 billion as the Project Management Cost is increased in accordance with the XRL Agreement (as it will be equal to the increased Project Management Cost under the XRL Entrustment Agreement of HK$6.34 billion plus the additional fees referred to above). If the arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
- seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;

(v) Certain amendments are made to the XRL Entrustment Agreement to reflect the arrangements contained in the XRL Agreement, including an increase in Project Management Fee payable to the Company under XRL Entrustment Agreement to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations under XRL Entrustment Agreement in relation to XRL project) and to reflect the XRL Revised Programme;

24 Other Railway Construction in Progress under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project *(continued)*

(vi) The arrangements under the XRL Agreement (including the payment of the Special Dividend) were conditional on:

- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and
- HKSAR Legislative Council approval in respect of the HKSAR Government's additional funding obligations.

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

The Company has not made any provision in its accounts in respect of:

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe there is any need to revise further the XRL Revised Programme or the Revised Cost Estimate of HK$84.42 billion;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in paragraph (iv) above), given that (a) the Company has not received any notification from Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the XRL Agreement, cannot take place until after commencement of commercial operations on the XRL) (as of 31 December 2016 and up to the date of this annual report); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the XRL Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and

(iii) any possible insufficiency of the Project Management Fee to enable the Company to recover fully its internal costs incurred in performing its obligations in relation to the XRL project, given that the Company estimates that the increased Project Management Fee under XRL Agreement should be sufficient to cover such costs (based on current known circumstances),

and, where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).

During the year ended 31 December 2016, Project Management Fee of HK$811 million (2015: HK$823 million) was recognised in the consolidated profit and loss account.

B Shatin to Central Link ("SCL") Project

On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the SCL ("SCL Preliminary Entrustment Agreement"). Pursuant to the SCL Preliminary Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible to fund directly the total cost of such activities.

On 17 May 2011, the Company entered into another entrustment agreement with the HKSAR Government for the financing, construction, procurement of services and equipment and other matters associated with certain enabling works in relation to the SCL ("SCL Advance Works Entrustment Agreement"). Pursuant to the SCL Advance Works Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the agreed works while the HKSAR Government is responsible to bear and pay to the Company all the work costs ("SCL Advance Works Costs").

In August 2015, the Company notified the HKSAR Government that the Company estimated that the cost for the works carried out under the SCL Advance Works Entrustment Agreement will exceed the original estimate of HK$7,350 million in respect thereof by HK$1,274 million (including contingency). In February 2016, the Company notified the HKSAR Government that the estimated exceedance will be adjusted to HK$1,267 million (including contingency). 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 December 2016, the HKSAR Government consulted the Legislative Council Panel on Transport Subcommittee on Matters Relating to Railways regarding such additional funding requirement before submitting the funding application to the Legislative Council Public Works Subcommittee in 2017.

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 2016 and up to the date of this annual report, the Company has received payments of the project management fee from the HKSAR Government in accordance with the original agreed payment schedule.

24 Other Railway Construction in Progress under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

In May 2014, the Company notified the HKSAR Government of the delays to the completion of the East West Corridor and North South Corridor. The programme for delivery of the Shatin to Central Link has been impacted by certain key external events. For the East West Corridor, the discovery of archaeological relics in the To Kwa Wan area has led to an 11-month delay but with the hard work of the teams involved and the successful implementation of a number of delay recovery measures, the length of this delay has now been reduced with the estimated completion of this corridor in mid-2019. For the North South Corridor, the Company had previously reported a six-month delay due to a number of external factors including the anticipated late handover by a third party of construction sites for the new Exhibition Station. The Company had also stated that any further delay in site handover beyond those reported, will result in additional delay to the completion of this corridor. Now, as a result of the late site handover with incomplete entrusted works by another third party contractor at Wan Chai North, the completion of this corridor has been further delayed by an additional three months (to a total expected delay of nine months). However, the North South Corridor is still targeted to complete in 2021. Any additional delays by third parties in site handover or site handover with incomplete work may result in further delays in the completion of the North South Corridor.

For the SCL Entrustment Agreement, taking into account the continuing difficulties and challenges, including those described above, the Company considers that the cost estimate for the SCL Entrustment Agreement will need to be revised upwards significantly to take account of (i) the additional HK$4,100 million that was previously reported as a result of the archaeological finds in the To Kwa Wan area, (ii) the late handover of construction sites at Exhibition Station, (iii) the previously unbudgeted foundation works for top-side development at Exhibition Station, (iv) the late site handover with incomplete entrusted works by another third party contractor at Wan Chai North, and (v) other factors such as lower availability of labour in Hong Kong's construction sector. The Company has advised the HKSAR Government that it will therefore conduct a detailed review of the project cost estimate relating to the SCL Entrustment Agreement.

Given the complexity of the project works, the continuing uncertainties associated with some of the issues highlighted above and the fact that the North South Corridor is currently only 45.4% complete, this review will only be completed in the second half of 2017 after which the Company will formally report the findings to the HKSAR Government.

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements and, under each SCL Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the relevant SCL Agreement. Under the SCL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. Up to the date of this annual report, no claim has been received from the HKSAR Government.

Given (i) the SCL Agreements, provide that the HKSAR Government shall bear and finance the full amount of the relevant costs to the extent described above; and (ii) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company in relation to any SCL Agreement (as of 31 December 2016 and up to the date of this annual report), the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any) arising from the matters described above.

During the year ended 31 December 2016, project management fee of HK$979 million (2015: HK$913 million) was recognised in the consolidated profit and loss account. Additionally, during the year ended 31 December 2016, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK$1,597 million (2015: HK$1,442 million). As at 31 December 2016, 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$1,359 million (2015: HK$984 million).

25 Property Development in Progress

Pursuant to the project agreements in respect of the construction of railway extensions and the Property Package Agreements in respect of the Rail Merger, the HKSAR Government has granted the Company with development rights on the land over the stations along railway lines.

As at 31 December 2016, the outstanding property developments of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung Kwan O Area 86 (LOHAS Park), South Island Line (East) Property Project at a site in Wong Chuk Hang, Kwun Tong Line Extension Property Project at a site in Ho Man Tin and the East Rail Line/Light Rail Property Projects at sites along the related railway lines.

In 2011, the Company's two wholly owned subsidiaries, MTR Corporation (Shenzhen) Limited and MTR Property (Shenzhen) Company Limited, won the bid for Lot 1 of the Shenzhen Metro Longhua Line Depot Site. On 3 May 2012, the two subsidiaries established a project company in the Mainland of China, MTR Property Development (Shenzhen) Company Limited, to undertake residential and commercial development of the site ("Shenzhen Property Project"). Part of the net profits generated from this property development will be shared with the Shenzhen Municipal Government.

25 Property Development in Progress *(continued)*

A Property Development in Progress

The Group

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to properties held for sale	Transfer out to profit or loss	Exchange differences	Balance at 31 December
2016							
Airport Railway Property Projects	**–**	**2**	**(2)**	**–**	**–**	**–**	**–**
Tseung Kwan O Extension Property Projects	**3,643**	**152**	**–**	**–**	**–**	**–**	**3,795**
East Rail Line/Light Rail Property Projects	**8,928**	**151**	**–**	**–**	**–**	**–**	**9,079**
South Island Line (East) Property Project	**1,061**	**81**	**–**	**–**	**–**	**–**	**1,142**
Kwun Tong Line Extension Property Project	**414**	**49**	**–**	**–**	**–**	**–**	**463**
Shenzhen Property Project	**3,937**	**525**	**–**	**(409)**	**(791)**	**(257)**	**3,005**
	17,983	**960**	**(2)**	**(409)**	**(791)**	**(257)**	**17,484**
2015							
Airport Railway Property Projects	–	4	(4)	–	–	–	–
Tseung Kwan O Extension Property Projects	1,240	2,981	(3)	–	(575)	–	3,643
East Rail Line/Light Rail Property Projects	1,316	7,612	–	–	–	–	8,928
South Island Line (East) Property Project	1,045	16	–	–	–	–	1,061
Kwun Tong Line Extension Property Project	361	53	–	–	–	–	414
Shenzhen Property Project	3,528	569	–	–	–	(160)	3,937
	7,490	11,235	(7)	–	(575)	(160)	17,983

The Company

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Balance at 31 December
2016					
Airport Railway Property Projects	**–**	**2**	**(2)**	**–**	**–**
Tseung Kwan O Extension Property Projects	**3,643**	**152**	**–**	**–**	**3,795**
East Rail Line/Light Rail Property Projects	**8,928**	**151**	**–**	**–**	**9,079**
South Island Line (East) Property Project	**1,061**	**81**	**–**	**–**	**1,142**
Kwun Tong Line Extension Property Project	**414**	**49**	**–**	**–**	**463**
	14,046	**435**	**(2)**	**–**	**14,479**
2015					
Airport Railway Property Projects	–	4	(4)	–	–
Tseung Kwan O Extension Property Projects	1,240	2,981	(3)	(575)	3,643
East Rail Line/Light Rail Property Projects	1,316	7,612	–	–	8,928
South Island Line (East) Property Project	1,045	16	–	–	1,061
Kwun Tong Line Extension Property Project	361	53	–	–	414
	3,962	10,666	(7)	(575)	14,046

Leasehold land in Hong Kong included under property development in progress are held under medium-term leases.

25 Property Development in Progress *(continued)*

B Deferred Income on Property Development

The Group and The Company

in HK$ million	Balance at 1 January	Offset against development in progress (note 25A)	Balance at 31 December
2016			
Airport Railway Property Projects	**19**	**(2)**	**17**
Total (note 42)	**19**	**(2)**	**17**
2015			
Airport Railway Property Projects	23	(4)	19
Tseung Kwan O Extension Property Projects	3	(3)	–
Total (note 42)	26	(7)	19

C Stakeholding Funds

Being the stakeholder under certain Airport Railway, Tseung Kwan O Extension and East Rail Line/Kowloon Southern Link Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, are to be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the HKSAR Government Consent Schemes and development agreements. Any balance remaining is to be released for distribution only after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the Group's and the Company's statements of financial position. Movements in the stakeholding funds during the year are as follows:

The Group and The Company

in HK$ million	2016	2015
Balance as at 1 January	**6,775**	8,178
Stakeholding funds received	**3,286**	15,194
Add: Interest earned thereon	**23**	23
	10,084	23,395
Disbursements during the year	**(4,670)**	(16,620)
Balance as at 31 December	**5,414**	6,775
Represented by :		
Balances in designated bank accounts as at 31 December	**5,414**	6,773
Retention receivable	**–**	2
	5,414	6,775

D West Rail Property Development

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company can receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company can receive 10% of the net profits accrued under the development agreement. The Company can also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During the year ended 31 December 2016, HK$48 million (2015: HK$30 million) agency fee and other income in respect of West Rail property development was recognised (note 11). During the year ended 31 December 2016, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$95 million (2015: HK$88 million).

26 Deferred Expenditure

The Group and The Company

in HK$ million	2016	2015
Balance at 1 January	**288**	64
Expenditure during the year	**175**	224
Balance at 31 December	**463**	288

27 Investments in Subsidiaries

The Company

in HK$ million	2016	2015
Unlisted shares, at cost	**1,402**	1,271

The following list contains details of subsidiaries as at 31 December 2016 which have been consolidated into the Group's accounts.

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Subsidiaries held throughout 2016						
Glory Goal Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
Hanford Garden Property Management Company Limited	HK$10,000	100%	100%	–	Hong Kong	Property investment and management
MTR (Estates Management) Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding and property management
MTR (Shanghai Project Management) Limited^	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Australia Investment Holdings (Hong Kong) Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Beijing Line 4 Investment Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Building Works Company Limited	HK$2	100%	100%	–	Hong Kong	General building, maintenance and engineering works
MTR China Commercial Management No. 1 Holdings Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR China Consultancy Company Limited	HK$1,000	100%	100%	–	Hong Kong	Railway consultancy services
MTR China Property Holdings Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR China Property Limited	HK$1,000	100%	100%	–	Hong Kong	Property management and other consultancy services
MTR China Services Holding (Hong Kong) Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
MTR Engineering Services Limited	HK$1,000	100%	100%	–	Hong Kong	Engineering and other consultancy services
MTR Hangzhou Line 1 Investment Company Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Information Solutions Company Limited	HK$1,000	100%	100%	–	Hong Kong	License MTR software to MTR's subsidiaries and associates
MTR Macau Investment Holdings (Hong Kong) Limited (Formerly MTR Shenyang Investment Holdings Limited)	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Northwest Rapid Transit (Sydney) Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Property Agency Co. Limited	HK$2	100%	100%	–	Hong Kong	Property broking and administrative services
MTR Property (Beijing) No. 1 Company Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Property (Shenzhen) Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding

27 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
MTR Property (Tianjin) No. 1 Company Limited	HK$1	100%	–	100%	Hong Kong	Investment holding
MTR Property (Tianjin) No. 2 Company Limited^	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Shenzhen Investment Holding Limited	HK$400,000	100%	100%	–	Hong Kong	Investment holding
MTR Shenzhen Line 6 Investment Holding (Hong Kong) Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services
MTR Travel Limited	HK$2,500,000	100%	100%	–	Hong Kong	Tourist services
Ngong Ping 360 Limited	HK$2	100%	100%	–	Hong Kong	Operate the Tung Chung to Ngong Ping cable car system and Theme Village in Ngong Ping
Pierhead Garden Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property investment
Royal Ascot Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
Sun Tuen Mun Centre Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property investment and management
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network and related services
V-Connect Limited	HK$1,000	100%	100%	–	Hong Kong	Mobile telecommunication services
360 Holidays Limited	HK$500,000	100%	–	100%	Hong Kong	Guided tour services
Metro Trains Melbourne Pty. Ltd.*	AUD16,249,900	60% on ordinary shares; 30% on Class A shares	–	100% on ordinary shares; 100% on Class A shares	Australia	Railway operations and maintenance
Metro Trains Sydney Pty. Limited*	AUD100	60%	–	60%	Australia	Pre-operation mobilisation activities, including design approvals and transition planning for the operation and maintenance of the Sydney Metro Northwest
MTR Corporation (Australia) Pty. Limited*	AUD2	100%	100%	–	Australia	Railway related consultancies and business
MTR Corporation (Sydney) NRT Pty Limited	AUD2	100%	–	100%	Australia	Design and delivery of railway related systems
A.C.N. 164 058 002 Pty Ltd (Formerly Sunstone Resources Pty. Ltd.)^ *	AUD10	60%	–	100%	Australia	Labour support for railway operations and maintenance
Fasttrack Insurance Ltd.	HK$77,500,000	100%	100%	–	Bermuda	Insurance underwriting

27 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Candiman Limited*	US$1	100%	100%	–	British Virgin Islands	Investment holding
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Financing
MTR Finance Lease (001) Limited	US$1	100%	100%	–	Cayman Islands/ Hong Kong	Financing
MTR Consultadoria (Macau) Sociedade Unipessoal Lda.*	MOP25,000	100%	–	100%	Macau	Railway consultancy services
MTR Express (Sweden) AB	SEK10,050,000	100%	–	100%	Sweden	Railway operation and maintenance, property investment and management
MTR Nordic AB	SEK40,050,000	100%	–	100%	Sweden	Railway operations and maintenance through one or more subsidiaries, property investment and management
MTR Pendeltågen AB (Formerly MTR Gamma AB)	SEK10,050,000	100%	–	100%	Sweden	Railway operations, maintenance and station management
MTR Tech AB	SEK30,000,000	100%	–	100%	Sweden	Railway maintenance
MTR Tunnelbanan AB (Formerly MTR Stockholm AB)	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR (Beijing) Commercial Facilities Management Co. Ltd.	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR (Beijing) Property Services Company Limited*	RMB3,000,000	100%	100%	–	The People's Republic of China	Property management
MTR Commercial Management (Beijing) Co. Ltd.	HK$2,000,000	100%	–	100%	The People's Republic of China	Business management, business consultancy, commercial facilities strategy and consultancy services, and corporate training management
MTR Consultancy (Beijing) Co. Limited	HK$18,200,000	100%	100%	–	The People's Republic of China	Railway consultancy services, marketing and promotion
MTR Consulting (Shenzhen) Co. Ltd.	HK$1,000,000	100%	100%	–	The People's Republic of China	Railway consultancy services
MTR Corporation (Shenzhen) Limited	HK$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operations and management
MTR Corporation (Shenzhen) Training Centre*	RMB2,000,000	100%	–	100%	The People's Republic of China	Provision of rail transport training
MTR Enterprise Management (Shenzhen) Corporation Limited	RMB6,000,000	100%	–	100%	The People's Republic of China	Provision of operation support services
MTR Property Development (Shenzhen) Company Limited	HK$2,180,000,000	100%	–	100%	The People's Republic of China	Property development, operation, leasing, management and consultancy services
MTR Corporation (Crossrail) Limited	GBP1,000,000	100%	–	100%	United Kingdom	Railway operations and maintenance
MTR Corporation (London Overground) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Scotrail) Limited^*	GBP1	100%	–	100%	United Kingdom	Project bidding

27 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
MTR Corporation (Silverlink) Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
MTR Corporation (Cymru) Limited (Formerly MTR Corporation (TSGN) Limited)*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (UK) Limited	GBP29	100%	100%	–	United Kingdom	Provision of railway support services
MTR Corporation (UK) NRT Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
Subsidiary established during 2016						
MTR Academy Investment Holdings (HK) Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Academy (HK) Company Limited	HK$10,000	100%	–	100%	Hong Kong	Administering the operation of MTR Academy
MTR Hangzhou Line 5 Investment Holdings (Hong Kong) Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Qatar Transit (Hong Kong) Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
Metro Trains Australia Pty. Ltd.*	AUD16,249,905	60% on ordinary shares; 30% on Class A shares	–	60% on ordinary shares; 30% on Class A shares	Australia	Investment holding
MTR Corporation (Sydney) SMCSW Pty Limited	AUD1	100%	–	100%	Australia	Project bidding
MTR Zeta AB	SEK50,000	100%	–	100%	Sweden	Project bidding

^ Deregistration in progress

* Subsidiaries not audited by KPMG

On 15 February 2016, the Group acquired the remaining 50% of the shares and voting interests in Tunnelbanan Teknik Stockholm AB ("TBT") and obtained control of TBT. The consideration of the acquisition is SEK195 million (approximately HK$180 million) in cash to be paid in annual instalments from 2016 to 2024. As a result of the acquisition, goodwill of SEK67 million (HK$57 million) was recognised as at 31 December 2016. There was no gain or loss arising from the acquisition. TBT was renamed MTR Tech AB subsequent to the completion of the acquisition.

MTR Shenyang Holdings Limited, MTR Rail Transport Training (International) Company Limited and MTR Berlin GmbH were deregistered in February, October and November 2016 respectively.

28 Interests in Associates

in HK$ million	The Group 2016	The Group 2015	The Company 2016	The Company 2015
Unlisted shares, at cost	**–**	–	**24**	24
Share of net assets	**7,015**	5,912	**–**	–
	7,015	5,912	**24**	24

28 Interests in Associates *(continued)*

The Group and the Company had interests in the following major associates as at 31 December 2016:

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest			Place of incorporation/ establishment and operation	Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary		
Associates held throughout 2016						
Octopus Holdings Limited (note 54B(ii))	HK$42,000,000	57.4%	57.4%	–	Hong Kong	Investment holding
NRT Holdings 2 Pty Ltd*	–**	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
NRT Holdings Pty Ltd*	AUD100	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
NRT Pty Ltd*	AUD100	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
Emtrain AB (Formerly MTR Beta AB)#	SEK1,000,000	50%	–	50%	Sweden	Railway maintenance
Beijing MTR Corporation Limited	RMB3,480,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Beijing MTR L16 Corporation Limited	RMB885,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction and operations
Hangzhou MTR Corporation Limited*	RMB4,540,000,000	49%	–	49%	The People's Republic of China	Railway operations and management
Tianjin TJ – Metro MTR Construction Company Limited*	RMB2,273,000,000	49%	–	49%	The People's Republic of China	Property development
London Overground Rail Operations Ltd*	GBP2	50%	–	50%	United Kingdom	Railway operations and management
Associate established during 2016						
First MTR South Western Trains Limited	GBP100	30%	–	30%	United Kingdom	Project bidding

\# The Group sold 50% of the shares and voting interest in Emtrain AB, originally a wholly owned subsidiary, to EuroMaint Rail AB on 12 September 2016. The company consequently became an associate of the Group.

* Companies not audited by KPMG

** The Group's share of investment in NRT Holdings 2 Pty Ltd is expected to represent equity contribution of approximately AUD27.8 million and loans to NRT Holdings 2 Pty Ltd of approximately AUD34.8 million.

All the associates are accounted for using the equity method in the consolidated accounts and considered to be not individually material.

The summary financial information of the Group's effective interests in associates is as follows:

in HK$ million	2016	2015
Assets	**21,682**	13,257
Liabilities	**(14,667)**	(7,345)
Net assets	**7,015**	5,912
Income	**5,251**	4,426
Expenses and others	**(4,575)**	(3,944)
Profit before taxation	**676**	482
Income tax	**(141)**	(121)
Net profit	**535**	361
Other comprehensive income	**(508)**	(240)
Total comprehensive income	**27**	121

28 Interests in Associates *(continued)*

In November 2014, Beijing MTR Corporation Limited ("Beijing MTR") signed a concession agreement with the Beijing Municipal Government for the public-private-partnership ("PPP") project for the investment, construction and operations of Beijing Metro Line 14. Total capital cost of Beijing Metro Line 14 is approximately RMB50 billion. Beijing Infrastructure Investment Corporation Limited, the other investor of Beijing MTR, undertakes the project's civil construction, which represents about 70% of the total capital cost. Beijing MTR is responsible for the electrical and mechanical systems as well as rolling stock with an investment of approximately RMB15 billion or 30% of the total capital cost. The Group's equity contribution to Beijing MTR in respect of Beijing Metro Line 14 is RMB2.45 billion. The Group contributed equity of RMB49 million, RMB740 million and RMB240 million to Beijing MTR in respect of Beijing Metro Line 14 in June 2015, January 2016 and February 2016 respectively. The first three phases of Beijing Metro Line 14 opened in May 2013, December 2014 and December 2015 respectively. One more station, at Chaoyang Park, was opened in December 2016. In accordance with the Operation & Maintenance Service Agreement, Beijing MTR is assigned the rights to operate Beijing Metro Line 14 from May 2013 to 30 December 2015. As part of the concession agreement, Beijing MTR would also undertake the operations and maintenance of Beijing Metro Line 14 for a term of 30 years effective 31 December 2015.

In July 2015, Beijing MTR has established a wholly owned subsidiary, Beijing MTR L16 Corporation Limited for the investment of Beijing Metro Line 16 with the registered capital of RMB5 billion. In November 2015, Beijing MTR L16 Corporation Limited signed the Concession Agreement for the Beijing L16 PPP project with the Beijing Municipal Government. The Line 16 project has a total capital cost of about RMB47.4 billion. The project is divided into Parts A and B. Part A is for the line's civil construction and the work is being undertaken by Beijing Infrastructure Investment Corporation Limited. Under the PPP arrangement, Beijing MTR L16 Corporation Limited will be responsible for Part B which covers electrical and mechanical systems as well as rolling stock. Part B takes up about 30% or approximately RMB15 billion of the project's capital cost. Under the Concession Agreement, Beijing MTR L16 Corporation Limited will undertake the operations and maintenance of Line 16 for a term of 30 years. The first phase of Line 16 opened in December 2016, while full line operation is targeted after 2018.

In February 2013, London Overground Rail Operations was awarded by Transport for London a two-year extension of the franchise to operate and maintain the London Overground in Greater London until November 2016 after completion of the original seven-year franchise period ended in November 2014. The management of the network was handed over to a new operator in November 2016.

In August 2013, Tianjin TJ – Metro MTR Construction Company Limited ("Tianjin TJ – Metro MTR"), a company formed by the Company's subsidiary, MTR Property (Tianjin) No.1 Company Limited (49%), and Tianjin Metro (Group) Company Limited (51%), won the bidding for the land use right for a site at Beiyunhe Station on Tianjin Metro Line 6 at a price of RMB2,075 million. Tianjin TJ – Metro MTR was set up on 15 July 2013 with a registered capital of RMB1,800 million, of which 49% is borne by the Group. In January 2014, Tianjin TJ – Metro MTR Construction Company Limited increased its registered capital to RMB2,273 million and the Group had made a further equity contribution of RMB232 million (HK$294 million) to the associate.

In September 2014, NRT Pty. Limited entered into a contract with New South Wales Government in Australia for the Operations, Trains and Systems ("OTS") contract of the Sydney Metro Northwest. The OTS contract is a PPP project covering major parts of the design, construction and financing of the Sydney Metro Northwest as well as the operations and maintenance of the new line for a period of 15 years. NRT Pty. Limited sub-contracted the design and delivery of electrical and mechanical systems and rolling stock to a joint operation in which MTR Corporation (Sydney) NRT Pty. Limited, a wholly owned subsidiary of the Group, has 60% interest. In addition, NRT Pty. Limited sub-contracted the operations and maintenance of the Sydney Metro Northwest to Metro Trains Sydney Pty. Limited, a 60%-owned subsidiary of the Group.

In November 2015, a 5.7-kilometre 3-station extension of Hangzhou Metro Line 1 ("HZL1") commenced passenger service. After the opening of HZL1 extension, HZL1 now has 34 stations covering 54 km. Hangzhou MTR Corporation Limited ("Hangzhou MTR") was granted the operation and maintenance concession of HZL1 for a period of 25 years.

In January 2016, the Group entered into an agreement to acquire the remaining 50% interests in Tunnelbanan Teknik Stockholm AB ("TBT") from Mantena AS, being the shareholder of the 50% interest in TBT, at a consideration of SEK195 million (approximately HK$180 million). The consideration will be paid in annual instalments from 2016 to 2024, of which SEK33 million (approximately HK$30 million) was paid in 2016. TBT became a wholly owned subsidiary of the Group and was renamed MTR Tech AB subsequent to the completion of the acquisition.

During the year ended 31 December 2016, the Group provided staff secondment and other support services to Beijing MTR at a total amount of HK$48 million (2015: HK$48 million). MTR Corporation (Sydney) NRT Pty. Limited, through its joint operation, provided services in respect of the design and delivery of electrical and mechanical systems and rolling stock to NRT Pty. Limited at a total amount of AUD114 million (HK$657 million) (2015: AUD81 million or HK$468 million). Metro Trains Sydney Pty. Limited also provided mobilisation services in respect of Sydney Metro Northwest to NRT Pty. Limited at a total amount of AUD7 million (HK$40 million) (2015: AUD4 million or HK$21 million). London Overground Rail Operations Limited ("LOROL") distributed GBP5 million (HK$47 million) (2015: GBP3 million or HK$35 million) of dividends to the Group and the Group provided management services to LOROL at a total amount of HK$15 million (2015: HK$17 million). In 2015, the Group provided services in respect of software maintenance to Hangzhou MTR at a total amount of HK$1 million.

During the year ended 31 December 2016, the Group incurred HK$147 million (2015: HK$141 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly owned subsidiary of Octopus Holdings Limited ("OHL"). OCL incurred HK$41 million (2015: HK$40 million) of expenses for the load agent and Octopus card issuance and refund services, computer equipment and relating services as well as warehouse storage space provided by the Group. During the year, OHL distributed HK$161 million (2015: HK$143 million) of dividends to the Group.

29 Investments in Securities

Investments in securities, representing trading securities held by the overseas insurance underwriting subsidiary, comprise:

The Group

in HK$ million	2016	2015
Trading securities listed overseas, at fair value		
– maturing within 1 year	**78**	86
– maturing after 1 year	**292**	250
	370	336

30 Properties Held for Sale

The Group

in HK$ million	2016	2015
Properties held for sale		
– at cost	**1,068**	625
– at net realisable value	**326**	514
	1,394	1,139

The Company

in HK$ million	2016	2015
Properties held for sale		
– at cost	**659**	625
– at net realisable value	**326**	514
	985	1,139

Properties held for sale of the Group at 31 December 2016 comprise properties from property development in Hong Kong and Mainland of China.

For Hong Kong property development, they comprise mainly residential units and/or car parking spaces at The Riverpark at Che Kung Temple Station, Lake Silver at Wu Kai Sha Station, The Palazzo at Ho Tung Lau and Hemera at LOHAS Park Station. They represent either properties received by the Company as sharing in kind or as part of the profit distribution upon completion of the development. The properties are stated on the statement of financial position at the lower of cost, which is deemed to be their fair value upon initial recognition as determined by reference to an independent open market valuation at the date of receipt (notes 2L(iii) and (v)), and their net realisable value at the end of reporting period. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. The net realisable values as at 31 December 2016 and 2015 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors.

For Mainland of China property development, they relate to properties at the Shenzhen Longhua Line Depot property development. The properties are stated on the statement of financial position at the lower of cost, which is determined by apportionment of the development costs attributable to the unsold properties, and their net realisable value at the end of the reporting period. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

Properties held for sale at net realisable value of the Group and the Company are stated net of provision of HK$47 million (2015: HK$44 million) made in order to state these properties at the lower of their cost and estimated net realisable value. Leasehold land in Hong Kong included under properties held for sale are held under medium-term leases.

31 Derivative Financial Assets and Liabilities

A Fair Value

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of derivative financial instruments outstanding are as follows:

The Group and The Company

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2016							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– fair value hedges :	1,317	1					
– inflow			1,318	–	–	–	1,318
– outflow			(1,317)	–	–	–	(1,317)
Cross currency swaps							
– fair value hedges :	2,326	17					
– inflow			16	471	4	705	1,196
– outflow			(6)	(465)	–	(698)	(1,169)
– cash flow hedges :	4,699	81					
– inflow			128	130	391	5,402	6,051
– outflow			(118)	(119)	(356)	(5,344)	(5,937)
Net settled:							
Interest rate swaps							
– fair value hedges	600	27	20	22	–	–	42
– cash flow hedges	1,350	57	–	9	47	5	61
	10,292	183	41	48	86	70	245
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges :	2,174	3					
– inflow			2,171	–	–	–	2,171
– outflow			(2,174)	–	–	–	(2,174)
– cash flow hedges :	324	15					
– inflow			158	53	76	22	309
– outflow			(167)	(55)	(79)	(23)	(324)
– not qualified for hedge accounting :	197	11					
– inflow			152	–	35	–	187
– outflow			(161)	–	(36)	–	(197)
Cross currency swaps							
– fair value hedges :	1,194	137					
– inflow			1,069	–	–	–	1,069
– outflow			(1,200)	–	–	–	(1,200)
– cash flow hedges :	2,670	366					
– inflow			75	75	227	3,017	3,394
– outflow			(100)	(100)	(300)	(3,282)	(3,782)
Net settled:							
Interest rate swaps							
– fair value hedges	2,701	32	5	(4)	(23)	(7)	(29)
– cash flow hedges	600	5	(5)	(6)	–	–	(11)
	9,860	569	(177)	(37)	(100)	(273)	(587)
Total	20,152						

31 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2015							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– not qualified for hedge accounting :	60	–					
– inflow			60	–	–	–	60
– outflow			(60)	–	–	–	(60)
Cross currency swaps							
– fair value hedges :	2,326	10					
– inflow			34	405	466	306	1,211
– outflow			(23)	(399)	(465)	(310)	(1,197)
– cash flow hedges :	277	16					
– inflow			11	12	35	343	401
– outflow			(7)	(8)	(22)	(352)	(389)
Net settled:							
Interest rate swaps							
– fair value hedges	1,400	55	27	20	24	–	71
	4,063	81	42	30	38	(13)	97
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges :	3,491	11					
– inflow			–	3,480	–	–	3,480
– outflow			–	(3,491)	–	–	(3,491)
– cash flow hedges :	313	21					
– inflow			132	49	74	35	290
– outflow			(147)	(51)	(76)	(37)	(311)
– not qualified for hedge accounting :	180	5					
– inflow			173	2	–	–	175
– outflow			(178)	(2)	–	–	(180)
Cross currency swaps							
– fair value hedges :	1,193	133					
– inflow			18	598	2	379	997
– outflow			(12)	(810)	–	(388)	(1,210)
– cash flow hedges :	2,437	623					
– inflow			67	67	199	2,490	2,823
– outflow			(92)	(92)	(277)	(3,091)	(3,552)
Net settled:							
Interest rate swaps							
– fair value hedges	2,200	17	1	3	(10)	(9)	(15)
– cash flow hedges	600	17	(9)	(6)	(7)	–	(22)
– not qualified for hedge accounting	100	3	(2)	(1)	(1)	1	(3)
	10,514	830	(49)	(254)	(96)	(620)	(1,019)
Total	14,577						

31 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps entered into exclusively by the Company, and the relevant interest rate swap curves as of 31 December 2016 and 2015 were used to discount the cash flows of financial instruments. Interest rates used ranged from 0.619% to 2.790% (2015: 0.093% to 2.218%) for Hong Kong dollars, 0.723% to 2.496% (2015: 0.619% to 2.477%) for US dollars, 1.640% to 3.215% (2015: 2.246% to 3.436%) for Australian dollars and -0.085% to 0.444% (2015: 0.039% to 0.760%) for Japanese yen.

The table above details the remaining contractual maturities at the end of reporting period of the Company's derivative financial assets and liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Company can be required to pay. The details of the fair value measurement are disclosed in note 46.

B Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") for the Company is an integral part of its risk management policies. The Model specifies, amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Company's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management policies and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Company are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient cash balance and/or undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 12 to 24 months of projected cash requirements at the parent company level as specified in the Model. The Company also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

The following table details the remaining contractual maturities at the end of reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

	2016				2015			
in HK$ million	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	**18,617**	**1,551**	**1,088**	**21,256**	7,415	2,687	1,114	11,216
Amounts repayable within a period of between 2 and 5 years	**2,848**	**14,361**	**142**	**17,351**	3,546	1,775	145	5,466
Amounts repayable within a period of between 1 and 2 years	**1,725**	**1,043**	**45**	**2,813**	5,390	469	44	5,903
Amounts repayable within 1 year	**5,619**	**1,803**	**40**	**7,462**	1,646	2,138	32	3,816
	28,809	**18,758**	**1,315**	**48,882**	17,997	7,069	1,335	26,401

31 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Company

	2016				2015			
in HK$ million	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	**2,743**	**–**	**625**	**3,368**	1,583	–	605	2,188
Amounts repayable within a period of between 2 and 5 years	**144**	**13,705**	**–**	**13,849**	590	507	3	1,100
Amounts repayable within a period of between 1 and 2 years	**553**	**816**	**3**	**1,372**	69	9	–	78
Amounts repayable within 1 year	**86**	**1,568**	**–**	**1,654**	69	1,655	–	1,724
	3,526	**16,089**	**628**	**20,243**	2,311	2,171	608	5,090

Others represent obligations under lease out/lease back transaction (note 20F).

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities at the parent company level (including its financing vehicles). Borrowings based on fixed and floating rates expose the Group to fair value and cash flow interest rate risk respectively due to fluctuations in market interest rates. The Group manages and controls its interest rate risk exposure at the parent company level by maintaining a level of fixed rate debt between 40% and 70% (2015: 55% and 75%) of total debt outstanding as specified by the Model. Should the actual fixed rate debt level deviate substantially from the Model, derivative financial instruments such as interest rate swaps would be procured to align the fixed and floating mix with the Model. As at 31 December 2016, 48% (2015: 56%) of the Company's (including financing vehicles) total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps. Interest rate risk at subsidiary and associate companies are managed separately based on their own borrowing requirement, circumstances and market practice.

The Group's exposure due to its floating rate borrowings is offset by the floating rate interest income it earns from its cash balances, bank deposits and other investment instruments. As at 31 December 2016, the Group had total cash, bank balances and deposits of HK$18,547 million (2015: HK$10,961 million) from which it derived floating rate interest income, compared with total floating rate borrowings of HK$22,110 million (2015: HK$11,002 million).

As at 31 December 2016, it is estimated that a 100 basis points increase / 100 basis points decrease in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately HK$89 million/HK$82 million. Other components of consolidated equity would increase/decrease by approximately HK$56 million/HK$57 million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The interest rate assumptions represent management's assessment of a reasonable possible change in interest rates over the period until the next annual financial period.

In 2015, a similar analysis was performed based on the assumption of a 100 basis points increase / 100 basis points decrease in interest rates, which would increase/decrease the Group's profit after tax and retained profits by approximately HK$82 million/HK$78 million. Other components of consolidated equity would increase/decrease by approximately HK$84 million/HK$93 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency other than the functional currency of the Group's companies to which they relate. For the Group, it arises principally from its borrowing as well as overseas investment and procurement activities.

The Group manages and controls its foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt at the parent company level as specified by the Model, and minimal foreign exchange open positions created by its investments and procurements overseas. Where the currency of a borrowing is not matched with that of the expected cash flows for servicing the debt, the Company would convert its foreign currency exposure resulting from the borrowing to Hong Kong dollar exposure through cross currency swaps. For investment and procurement in foreign currencies, the Group would purchase the foreign currencies in advance or enter into foreign exchange forward contracts to secure the necessary foreign currencies at pre-determined exchange rates for settlement.

The Company's exposure to US dollars due to its foreign currency borrowings is also offset by the amount of US dollar cash balances, bank deposits and investments that it maintains.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars, British Pound or Swedish Krona) or United States dollars (with which Hong Kong dollars are pegged) and most of its payment commitments denominated in foreign currencies are covered by foreign exchange forward contracts, management does not expect that there will be any significant currency risk associated with them.

31 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

(iv) Credit Risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from the deposits it maintains and the derivative financial instruments that it has entered into with various banks and counterparties as well as from the Defeasance Securities it procured under the lease out/lease back transaction (note 20F). The Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings or guarantee, and diversifying its exposure to various counterparties.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce counterparty risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits and investments are similarly subject to a separate maximum counterparty/issuer limit based on the respective counterparty/issuer's credit ratings and/or status as Hong Kong's note-issuing banks. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty or investment from an issuer based upon the counterparty/issuer's credit ratings. Deposit/investment outstanding and maturity profile are monitored regularly to ensure they are within the limits established for the counterparties/issuers. In addition, the Group actively monitors the credit default swap levels of counterparties/issuers and their daily changes, and may on the basis of the observed levels and other considerations adjust its exposure and/or maximum counterparty/issuer limit to the relevant counterparty.

As at the end of reporting period, the maximum exposure to credit risk of the Group with respect to derivative financial assets and bank deposits is represented respectively by the carrying amount of the derivative financial assets and the aggregate amount of deposits on its statement of financial position. As at the end of reporting period, there was no significant concentration risk to a single counterparty.

In addition, the Company also manages and controls its exposure to credit risks in respect of receivables as stated in note 33.

32 Stores and Spares

	The Group		The Company	
in HK$ million	**2016**	2015	**2016**	2015
Stores and spares expected to be consumed:				
– within 1 year	**1,012**	967	**742**	760
– after 1 year	**478**	413	**398**	348
	1,490	1,380	**1,140**	1,108
Less: Provision for obsolete stock	**(6)**	(7)	**(6)**	(7)
	1,484	1,373	**1,134**	1,101

Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

33 Debtors, Deposits and Payments in Advance

	The Group		The Company	
in HK$ million	**2016**	2015	**2016**	2015
Debtors, deposits and payments in advance relate to:				
– Property development projects	**588**	2,197	**588**	2,197
– Railway-related subsidiaries outside of Hong Kong	**1,281**	1,313	**–**	–
– Hong Kong operations and others	**2,204**	1,625	**1,184**	1,013
	4,073	5,135	**1,772**	3,210

33 Debtors, Deposits and Payments in Advance *(continued)*

The Group's credit policies in respect of receivables arising from its principal activities are as follows:

(i) The majority of fare revenue from Hong Kong transport operation is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.

(ii) Fare revenue from Shenzhen Metro Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTR Express is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month.

(iii) Franchise revenue in Melbourne is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue from operations in Stockholm is collected in the transaction month with the remainder being collected in the following month. Concession revenue for MTR Crossrail is collected once every 4 weeks.

(iv) Rentals, advertising and telecommunications service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

(v) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.

(vi) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.

(vii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.

(viii) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing of debtors is analysed as follows:

	The Group		The Company	
in HK$ million	**2016**	**2015**	**2016**	**2015**
Amounts not yet due	**2,362**	3,816	**1,291**	2,982
Overdue by 30 days	**430**	388	**322**	65
Overdue by 60 days	**52**	53	**11**	16
Overdue by 90 days	**16**	8	**6**	24
Overdue by more than 90 days	**42**	18	**19**	13
Total debtors	**2,902**	4,283	**1,649**	3,100
Deposits and payments in advance	**1,171**	852	**123**	110
	4,073	5,135	**1,772**	3,210

Included in amounts not yet due as at 31 December 2016 was HK$588 million (2015: HK$2,197 million) in respect of property development, comprising receivable on profits distributable based on the terms of the development agreements and sales and purchase agreements, receivable from certain stakeholding funds (note 25C) awaiting finalisation of the respective development accounts as well as other receivables on miscellaneous recoverable expenses.

As at 31 December 2016, all debtors, deposits and payments in advance were expected to be recovered within one year except for amounts relating to deposits and receivables of HK$227 million (2015: HK$543 million) and of HK$73 million (2015: HK$25 million) respectively in the Group and the Company which were expected to be recovered after more than one year. The nominal values less impairment losses for bad and doubtful debts are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors, deposits and payments in advance are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
in million	**2016**	**2015**	**2016**	**2015**
United States dollars	**10**	2	**10**	2

34 Amounts Due from Related Parties

in HK$ million	The Group 2016	The Group 2015	The Company 2016	The Company 2015
Amounts due from:				
– HKSAR Government	**2,092**	1,462	**2,092**	1,462
– KCRC	**15**	10	**15**	10
– associates	**64**	164	**43**	38
– subsidiaries (net of impairment losses)	**–**	–	**11,878**	10,769
	2,171	1,636	**14,028**	12,279

As at 31 December 2016, the amount due from HKSAR Government mainly related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the South Island Line (East) and Kwun Tong Line Extension projects, reimbursement of the fare revenue difference in relation to the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, agency fee receivables and reimbursable costs in respect of West Rail property development (note 25D), as well as receivables and retention for other entrustment and maintenance works.

The amount due from KCRC related to the recoverable cost for certain capital works and property enabling works in accordance with the agreements in relation to the Rail Merger.

The loan due from the associate Tianjin TJ – Metro MTR amounting to RMB80 million (HK$100 million) which bore an interest rate of 5.885% per annum was repaid during the year ended 31 December 2016.

All contract retentions on the entrusted works mentioned above were due for release within one year. All amounts due from the HKSAR Government and other related parties were expected to be received within 24 months. The nominal values of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

35 Cash, Bank Balances and Deposits

in HK$ million	The Group 2016	The Group 2015	The Company 2016	The Company 2015
Deposits with banks and other financial institutions	**14,265**	7,558	**12,475**	7,036
Cash at banks and on hand	**6,025**	4,760	**360**	268
Cash, bank balances and deposits	**20,290**	12,318	**12,835**	7,304
Less: Bank deposits with more than three months to maturity when placed or pledged (note 36E)	**(13,253)**	(6,041)	**(11,896)**	(5,829)
Less: Bank overdrafts (note 36A)	**–**	(50)	**–**	(50)
Cash and cash equivalents in the cash flow statement	**7,037**	6,227	**939**	1,425

Included in cash, bank balance and deposits in the statement of financial position are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	The Group 2016	The Group 2015	The Company 2016	The Company 2015
Australian dollars	**65**	59	**62**	57
Euros	**12**	7	**8**	7
Japanese yen	**58**	242	**58**	242
New Taiwan dollars	**17**	16	**17**	16
Pound sterling	**6**	10	**6**	10
Renminbi	**–**	2,460	**–**	2,460
United States dollars	**1,205**	286	**1,199**	284
Canadian dollars	**1**	–	**1**	–
Swiss franc	**1**	–	**1**	–

36 Loans and Other Obligations

A By Type

The Group

in HK$ million	2016 Carrying amount	2016 Fair value	2016 Repayable amount	2015 Carrying amount	2015 Fair value	2015 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2017 to 2046 (2015: due during 2017 to 2043)	**10,988**	**11,519**	**11,125**	5,198	5,518	5,307
Unlisted:						
Debt issuance programme notes due during 2017 to 2055 (2015: due during 2016 to 2055)	**9,689**	**10,675**	**10,274**	8,898	9,892	9,424
Total capital market instruments	**20,677**	**22,194**	**21,399**	14,096	15,410	14,731
Bank loans	**17,018**	**17,018**	**17,051**	4,145	4,145	4,147
Finance leases	**460**	**603**	**460**	508	655	508
Others	**434**	**524**	**434**	413	517	413
Loans and others	**38,589**	**40,339**	**39,344**	19,162	20,727	19,799
Bank overdrafts	**–**	**–**	**–**	50	50	50
Short-term loans	**1,350**	**1,350**	**1,350**	1,599	1,599	1,599
Total	**39,939**	**41,689**	**40,694**	20,811	22,376	21,448

The Company

in HK$ million	2016 Carrying amount	2016 Fair value	2016 Repayable amount	2015 Carrying amount	2015 Fair value	2015 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2043 to 2046 (2015: due in 2043)	**1,195**	**1,446**	**1,241**	647	843	698
Unlisted:						
Debt issuance programme notes due during 2018 to 2028 (2015: due during 2018 to 2028)	**796**	**897**	**857**	782	909	857
Total capital market instruments	**1,991**	**2,343**	**2,098**	1,429	1,752	1,555
Bank loans	**13,967**	**13,967**	**14,000**	498	498	500
Others	**434**	**524**	**434**	413	517	413
Loans and others	**16,392**	**16,834**	**16,532**	2,340	2,767	2,468
Bank overdrafts	**–**	**–**	**–**	50	50	50
Short-term loans	**1,350**	**1,350**	**1,350**	1,599	1,599	1,599
Total	**17,742**	**18,184**	**17,882**	3,989	4,416	4,117

Others include non-defeased obligations under lease out/lease back transaction (note 20F).

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that is available to the Group for similar financial instruments. The carrying amounts of short-term loans and bank overdrafts approximated their fair values. Details of the fair value measurement are disclosed in note 46.

36 Loans and Other Obligations *(continued)*

A By Type *(continued)*

The amounts of borrowings, denominated in a currency other than the functional currency of the entity to which they relate, before and after currency hedging activities are as follows:

The Group

in million	Before hedging activities 2016	Before hedging activities 2015	After hedging activities 2016	After hedging activities 2015
Australian dollars	**280**	280	**–**	–
Japanese yen	**15,000**	15,000	**–**	–
United States dollars	**1,450**	700	**–**	–

The Company

in million	Before hedging activities 2016	Before hedging activities 2015	After hedging activities 2016	After hedging activities 2015
Japanese yen	**5,000**	5,000	**–**	–
United States dollars	**220**	150	**–**	–

B By Repayment Terms

The Group

in HK$ million	2016 Capital market instruments	2016 Bank loans and overdrafts	2016 Finance leases	2016 Others	2016 Total	2015 Capital market instruments	2015 Bank loans and overdrafts	2015 Finance leases	2015 Others	2015 Total
Long-term loans and others										
Amounts repayable beyond 5 years	**13,400**	**1,831**	**335**	**431**	**15,997**	5,532	2,296	413	411	8,652
Amounts repayable within a period of between 2 and 5 years	**1,600**	**14,232**	**68**	**–**	**15,900**	2,815	1,311	66	2	4,194
Amounts repayable within a period of between 1 and 2 years	**1,215**	**744**	**39**	**3**	**2,001**	5,184	270	20	–	5,474
Amounts repayable within 1 year	**5,184**	**244**	**18**	**–**	**5,446**	1,200	270	9	–	1,479
	21,399	**17,051**	**460**	**434**	**39,344**	14,731	4,147	508	413	19,799
Bank overdrafts	**–**	**–**	**–**	**–**	**–**	–	50	–	–	50
Short-term loans	**–**	**1,350**	**–**	**–**	**1,350**	–	1,599	–	–	1,599
	21,399	**18,401**	**460**	**434**	**40,694**	14,731	5,796	508	413	21,448
Less: Unamortised discount/ premium/finance charges outstanding	**(125)**	**(33)**	**–**	**–**	**(158)**	(61)	(2)	–	–	(63)
Adjustment due to fair value change of financial instruments	**(597)**	**–**	**–**	**–**	**(597)**	(574)	–	–	–	(574)
Total carrying amount of debt	**20,677**	**18,368**	**460**	**434**	**39,939**	14,096	5,794	508	413	20,811

36 Loans and Other Obligations *(continued)*

B By Repayment Terms *(continued)*

The Company

in HK$ million	2016 Capital market instruments	2016 Bank loans and overdrafts	2016 Others	2016 Total	2015 Capital market instruments	2015 Bank loans and overdrafts	2015 Others	2015 Total
Long-term loans and others								
Amounts repayable beyond 5 years	**1,633**	**–**	**431**	**2,064**	1,090	–	411	1,501
Amounts repayable within a period of between 2 and 5 years	**–**	**13,500**	**–**	**13,500**	465	500	2	967
Amounts repayable within a period of between 1 and 2 years	**465**	**500**	**3**	**968**	–	–	–	–
Amounts repayable within 1 year	**–**	**–**	**–**	**–**	–	–	–	–
	2,098	**14,000**	**434**	**16,532**	1,555	500	413	2,468
Bank overdrafts	**–**	**–**	**–**	**–**	–	50	–	50
Short-term loans	**–**	**1,350**	**–**	**1,350**	–	1,599	–	1,599
	2,098	**15,350**	**434**	**17,882**	1,555	2,149	413	4,117
Less: Unamortised discount/premium/ finance charges outstanding	**(40)**	**(33)**	**–**	**(73)**	(34)	(2)	–	(36)
Adjustment due to fair value change of financial instruments	**(67)**	**–**	**–**	**(67)**	(92)	–	–	(92)
Total carrying amount of debt	**1,991**	**15,317**	**434**	**17,742**	1,429	2,147	413	3,989

The amounts repayable within 1 year in respect of capital market instruments and bank loans are included in long-term loans as these amounts are intended to be refinanced on a long-term basis.

C Bonds and Notes Issued and Redeemed

Notes issued during the years ended 31 December 2016 and 2015 comprise:

The Group

in HK$ million	2016 Principal amount	2016 Net consideration received	2015 Principal amount	2015 Net consideration received
Debt issuance programme notes	**7,868**	**7,809**	1,197	1,176

During the year ended 31 December 2016, notes of HK$2,050 million and USD680 million (or HK$5,275 million) (2015: HK$920 million and AUD50 million (or HK$277 million)) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited, while notes of USD70 million (or HK$543 million) were issued by the Company (2015: nil). The notes issued by the subsidiary are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the year ended 31 December 2016, the Group redeemed HK$1,200 million of its unlisted debt securities (2015: HK$500 million) and did not redeem any of its listed debt securities (2015: nil).

36 Loans and Other Obligations *(continued)*

D Obligations Under Finance Leases

At 31 December 2016 and 2015, the Group had obligations under finance leases repayable as follows:

in HK$ million	2016		2015	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	**18**	**40**	9	33
After 1 year but within 2 years	**39**	**84**	20	43
After 2 years but within 5 years	**68**	**135**	66	138
After 5 years	**335**	**362**	413	492
	442	**581**	499	673
	460	**621**	508	706
Less: Total future interest expenses		**(161)**		(198)
Present value of lease obligations		**460**		508

E Guarantees and Pledges

(i) There were no guarantees given by the HKSAR Government in respect of the loan facilities of the Group as at 31 December 2016 and 2015.

(ii) As at 31 December 2016, 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 RMB2,734 million (2015: RMB3,053 million) bank loan facility granted to it.

Save as disclosed above and those disclosed elsewhere in the accounts, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2016.

37 Creditors and Accrued Charges

in HK$ million	The Group 2016	The Group 2015	The Company 2016	The Company 2015
Creditors and accrued charges				
– Island Line Extension Project	**252**	989	**252**	989
– South Island Line (East) Project	**1,352**	443	**1,352**	443
– Kwun Tong Line Extension Project	**878**	600	**878**	600
– Shenzhen Metro Longhua Line Project	**159**	305	**–**	–
– Hong Kong property development projects	**2,314**	1,261	**2,314**	1,261
– Mainland of China property development project	**6,919**	5,527	**–**	–
– Railway subsidiaries outside of Hong Kong	**2,644**	2,120	**–**	–
– Hong Kong operations and others	**16,378**	11,615	**15,707**	11,113
	30,896	22,860	**20,503**	14,406

37 Creditors and Accrued Charges *(continued)*

The analysis of creditors by due dates is as follows:

	The Group		The Company	
in HK$ million	**2016**	2015	**2016**	2015
Due within 30 days or on demand	**5,000**	4,098	**2,491**	2,185
Due after 30 days but within 60 days	**4,147**	3,493	**4,101**	3,204
Due after 60 days but within 90 days	**1,272**	1,035	**811**	586
Due after 90 days	**10,494**	8,279	**3,376**	2,697
	20,913	16,905	**10,779**	8,672
Rental and other refundable deposits	**3,779**	2,818	**3,712**	2,745
Accrued employee benefits	**2,982**	3,137	**2,790**	2,989
Special dividend payable to other shareholders (note 15)	**3,222**	–	**3,222**	–
	30,896	22,860	**20,503**	14,406

Creditors and accrued charges were expected to be settled within one year except for HK$5,977 million (2015: HK$10,718 million) in the Group and HK$5,605 million (2015: HK$5,774 million) in the Company which were expected to be settled after one year. The amounts due after one year for the Group as at 31 December 2016 mainly relate to rental deposits received from investment property and station kiosk tenants and advance income received from telecommunication service operators, majority of which are due to be repaid within three years. The Group considers the effect of discounting these deposits would be immaterial.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

Included in creditors and accrued charges are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
in million	**2016**	2015	**2016**	2015
Australian dollars	**7**	7	**2**	2
Euros	**11**	18	**11**	18
Japanese yen	**101**	169	**78**	146
Pound sterling	**2**	3	**2**	3
Renminbi	**1**	–	**1**	–
Swiss franc	**1**	1	**1**	1
United States dollars	**12**	8	**3**	3

38 Contract Retentions

The Group

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2016			
Hong Kong railway extension projects	**172**	**17**	**189**
Hong Kong businesses	**155**	**392**	**547**
Mainland of China and international subsidiaries	**240**	**36**	**276**
	567	**445**	**1,012**
2015			
Hong Kong railway extension projects	120	181	301
Hong Kong businesses	139	289	428
Mainland of China and international subsidiaries	172	93	265
	431	563	994

38 Contract Retentions *(continued)*

The Company

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2016			
Hong Kong railway extension projects	**172**	**17**	**189**
Hong Kong businesses	**155**	**392**	**547**
	327	**409**	**736**
2015			
Hong Kong railway extension projects	120	181	301
Hong Kong businesses	139	289	428
	259	470	729

The effect of discounting these contract retentions is considered immaterial as these amounts are substantially due to be released within 24 months.

39 Amounts Due to Related Parties

	The Group		The Company	
in HK$ million	**2016**	2015	**2016**	2015
Amounts due to:				
– HKSAR Government	**9,798**	25	**9,798**	25
– KCRC	**1,852**	1,714	**1,852**	1,714
– associates	**133**	119	**–**	–
– subsidiaries	**–**	–	**19,234**	13,100
	11,783	1,858	**30,884**	14,839

The amount due to the HKSAR Government as at 31 December 2016 relates to the second tranche of special dividend payable (note 15) amounting to HK$9,756 million (2015: nil) and land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2016 mainly relates to the accrued portion of the fixed annual payment and variable annual payment that is expected to be settled within 12 months.

The amount due to associates mainly related to the amount payable for the equity contribution to NRT Holdings 2 Pty Ltd.

The amount due to the Company's subsidiaries included HK$18,802 million (2015: HK$12,746 million) due to MTR Corporation (C.I.) Limited in respect of the proceeds from and accrued interest on bonds and notes issued by the subsidiary and on-lent to the Company for its general corporate purposes with specified repayment dates and interest rates (note 36C). The remaining balance of the amount due to subsidiaries is non-interest bearing and has not been discounted as it does not have any fixed repayment terms and is not material. Out of the total amount due to subsidiaries as at 31 December 2016, HK$13,744 million (2015: HK$11,463 million) is expected to be settled after one year.

40 Obligations under Service Concession

Movements of the Group's and the Company's obligations under service concessions are as follows:

	The Group		The Company	
in HK$ million	**2016**	2015	**2016**	2015
Balance as at 1 January	**10,564**	10,614	**10,392**	10,438
Add: Net increase in interest payable	**3**	3	**–**	–
Less: Amount repaid/payable during the year	**(49)**	(45)	**(49)**	(46)
Exchange difference	**(11)**	(8)	**–**	–
Balance as at 31 December	**10,507**	10,564	**10,343**	10,392

40 Obligations under Service Concession *(continued)*

The outstanding balances as at 31 December 2016 and 2015 are repayable as follows:

The Group

	2016			2015		
in HK$ million	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	**10,210**	**17,019**	**27,229**	10,286	17,720	28,006
Amounts repayable within a period of between 2 and 5 years	**190**	**2,077**	**2,267**	177	2,091	2,268
Amounts repayable within a period of between 1 and 2 years	**55**	**700**	**755**	52	704	756
Amounts repayable within 1 year	**52**	**704**	**756**	49	707	756
	10,507	**20,500**	**31,007**	10,564	21,222	31,786

The Company

	2016			2015		
in HK$ million	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	**10,047**	**16,890**	**26,937**	10,114	17,573	27,687
Amounts repayable within a period of between 2 and 5 years	**189**	**2,061**	**2,250**	177	2,073	2,250
Amounts repayable within a period of between 1 and 2 years	**55**	**695**	**750**	52	698	750
Amounts repayable within 1 year	**52**	**698**	**750**	49	701	750
	10,343	**20,344**	**30,687**	10,392	21,045	31,437

41 Loan from Holders of Non-controlling Interests

Loan from holders of non-controlling interests represents that portion of total shareholder loan of AUD48.75 million (HK$273 million) granted to Metro Trains Melbourne Pty. Ltd. ("MTM") by the holders of its non-controlling interests. The loan carries an interest rate of 7.5% (2015: 7.5%) per annum and is repayable at the discretion of MTM or on the expiry of the operation and maintenance franchise on 29 November 2017, whichever is earlier.

42 Deferred Income

Movements of deferred income are as follows:

The Group

in HK$ million	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange difference	Balance at 31 December
2016						
Deferred income on property development (note 25B)	**19**	**–**	**(2)**	**–**	**–**	**17**
Deferred income on transfer of assets from customers	**150**	**55**	**–**	**(24)**	**–**	**181**
Deferred income on government subsidy for Shenzhen Metro Longhua Line operation	**574**	**625**	**–**	**(625)**	**(51)**	**523**
	743	**680**	**(2)**	**(649)**	**(51)**	**721**
2015						
Deferred income on property development (note 25B)	26	–	(7)	–	–	19
Deferred income on transfer of assets from customers	174	3	–	(27)	–	150
Deferred income on government subsidy for Shenzhen Metro Longhua Line operation	565	653	–	(609)	(35)	574
	765	656	(7)	(636)	(35)	743

The Company

in HK$ million	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange difference	Balance at 31 December
2016						
Deferred income on property development (note 25B)	**19**	**–**	**(2)**	**–**	**–**	**17**
2015						
Deferred income on property development (note 25B)	26	–	(7)	–	–	19

43 Income Tax in the Statements of Financial Position

A Current taxation in the consolidated statement of financial position comprises provision for Hong Kong Profits Tax for the Company and certain subsidiaries for the year ended 31 December 2016, chargeable at Hong Kong Profits Tax Rate at 16.5% (2015: 16.5%) and after netting off provisional tax paid, and Mainland of China and overseas tax chargeable at the appropriate current rates of taxation ruling in the relevant countries.

	The Group		The Company	
in HK$ million	**2016**	2015	**2016**	2015
Provision for Hong Kong Profits Tax for the year (note 14)	**989**	1,791	**940**	1,745
Hong Kong Provisional Profits Tax paid	**(1,345)**	(877)	**(1,303)**	(844)
	(356)	914	**(363)**	901
Balance relating to Mainland of China and overseas tax	**117**	39	**1**	1
	(239)	953	**(362)**	902
Representing:				
Tax recoverable	**(362)**	–	**(362)**	–
Current Taxation	**123**	953	**–**	902
	(239)	953	**(362)**	902

43 Income Tax in the Statements of Financial Position *(continued)*

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the statements of financial position and the movements during the year are as follows:

The Group

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2016						
Balance as at 1 January 2016	**11,024**	**574**	**(372)**	**(43)**	**(65)**	**11,118**
Charged to consolidated profit and loss account	**771**	**–**	**33**	**–**	**49**	**853**
Charged to reserves	**–**	**25**	**26**	**75**	**–**	**126**
Exchange difference	**–**	**–**	**(1)**	**–**	**4**	**3**
Balance as at 31 December 2016	**11,795**	**599**	**(314)**	**32**	**(12)**	**12,100**
2015						
Balance as at 1 January 2015	10,592	520	(139)	(15)	(31)	10,927
Charged/(credited) to consolidated profit and loss account	435	–	(120)	–	(36)	279
Charged/(credited) to reserves	–	54	(114)	(28)	–	(88)
Exchange difference	(3)	–	1	–	2	–
Balance as at 31 December 2015	11,024	574	(372)	(43)	(65)	11,118

The Company

	Deferred tax arising from				
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Total
2016					
Balance as at 1 January 2016	**10,960**	**574**	**(347)**	**(43)**	**11,144**
Charged to profit and loss account	**770**	**–**	**7**	**–**	**777**
Charged to reserves	**–**	**25**	**24**	**75**	**124**
Balance as at 31 December 2016	**11,730**	**599**	**(316)**	**32**	**12,045**
2015					
Balance as at 1 January 2015	10,535	520	(147)	(19)	10,889
Charged/(credited) to profit and loss account	425	–	(86)	–	339
Charged/(credited) to reserves	–	54	(114)	(24)	(84)
Balance as at 31 December 2015	10,960	574	(347)	(43)	11,144

	The Group		The Company	
in HK$ million	**2016**	2015	**2016**	2015
Net deferred tax assets	**(25)**	(91)	**–**	–
Net deferred tax liabilities	**12,125**	11,209	**12,045**	11,144
	12,100	11,118	**12,045**	11,144

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$270 million (2015: HK$70 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities.

44 Share Capital, Shares Held for Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management

A Share Capital

	2016		2015	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**5,858,228,236**	**46,317**	5,826,534,347	45,280
Shares issued in respect of scrip dividend of 2015/2014 final ordinary dividend	**15,683,803**	**566**	6,468,200	242
Shares issued in respect of scrip dividend of 2016/2015 interim ordinary dividend	**2,382,026**	**101**	4,191,789	145
Vesting of shares of Share Incentive Scheme	**–**	**1**	–	–
Shares issued under share option schemes	**28,996,000**	**944**	21,033,900	650
At 31 December	**5,905,290,065**	**47,929**	5,858,228,236	46,317

In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the ordinary shares of the Company do not have a par value.

B Shares Held for Share Incentive Scheme

During the year ended 31 December 2016, the Company awarded Performance Shares and Restricted Shares under the Company's 2014 Share Incentive Scheme to certain eligible employees of the Company (note 47 (ii)). In this regard, a total of 187,200 Performance Shares (2015: 1,681,050 Performance Shares) and 2,472,578 Restricted Shares (2015: 2,348,150 Restricted Shares) were awarded and accepted by the grantees on 8 April 2016 and 19 August 2016 (2015: 27 April 2015). The fair values of these Award Shares were HK$38.65 and HK$42.50 per share in 2016 (2015: HK$38.60).

During the year ended 31 December 2016, the Trustee of the 2014 Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the 2014 Share Incentive Scheme, purchased on Hong Kong Stock Exchange a total of 2,588,350 Ordinary Shares of the Company (2015: 4,029,200 Ordinary Shares) for a total consideration of approximately HK$99 million (2015: HK$150 million). During the year ended 31 December 2016, 167,743 Ordinary Shares of the Company (2015: 40,903 Ordinary Shares) were issued to 2014 Share Incentive Scheme in relation to scrip dividend issued amounting to HK$7 million (2015: HK$1 million).

During the year ended 31 December 2016, 795,860 shares were transferred to the awardees under 2014 Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$30 million. During the year ended 31 December 2016, HK$1 million was credited to share capital in respect of vesting of shares whose fair values at the grant date were higher than the costs of the vested shares. During the year ended 31 December 2016, 270,919 award shares were forfeited.

C New shares issued and fully paid up during the year comprise:

	Number of shares	Weighted average exercise price HK$
Employee share options exercised:		
– 2007 Share Option Scheme	**28,996,000**	**29.13**

An analysis of the Company's outstanding share options as at 31 December 2016 is disclosed in note 47.

44 Share Capital, Shares Held for Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management *(continued)*

D The fixed assets revaluation reserve is used to deal with the surpluses or deficits arising from the revaluation of self-occupied land and buildings (note 2F(ii)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as explained in note 2T(ii).

The employee share-based capital reserve comprises the fair value of share options granted which are yet to be exercised, as explained in the accounting policy under note 2U(iii). The amount will either be transferred to the share capital account when the option is exercised, or be released directly to retained profits if the option is lapsed or forfeited.

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign enterprises. The reserve is dealt with in accordance with the accounting policy set out in note 2CC.

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties of HK$48,803 million (2015: HK$48,023 million) included in retained profits are non-distributable as they do not constitute realised profits. As at 31 December 2016, the Company considers that the total amount of reserves available for distribution to shareholders amounted to HK$47,448 million (2015: HK$70,478 million).

Included in the Group's retained profits as at 31 December 2016 is an amount of HK$1,205 million (2015: HK$877 million), being the retained profits attributable to the associates.

E Capital Management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide an adequate return to its shareholders.

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of the HKSAR Government is the majority shareholder of the Company holding 4,434,552,207 shares as at 31 December 2016, representing 75.1% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt-to-equity ratio, which is calculated on net borrowings as a percentage of the total equity, where net borrowings are represented by the aggregate of loans and other obligations, bank overdrafts, obligations under service concession and loan from holders of non-controlling interests net of cash and cash equivalents and bank medium term notes. The Group's net debt-to-equity ratios over the past years had been trending downward since the Rail Merger from 46.5% at 31 December 2007 to 11.3% at 31 December 2015 and increased to 20.2% at 31 December 2016.

Fasttrack Insurance Ltd. is required to maintain a minimum level of shareholders' fund based on the Bermuda Insurance Act. MTR Corporation (Shenzhen) Limited is required to maintain a registered capital at or above 40% of the total investment for the Shenzhen Metro Longhua Line project in accordance with the concession agreement. MTR Property Development (Shenzhen) Company Limited is required to maintain a registered capital at or above 33% of the total investment based on Jianfang [2015] No. 122. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. MTR Express (Sweden) AB, MTR Nordic AB, MTR Pendeltågen AB, MTR Tech AB, MTR Tunnelbanan AB and MTR Zeta AB are required to maintain total shareholders' fund at or above 50% of their respective registered share capital based on the Swedish Companies Act. MTR Travel Limited is required to maintain a certain level of paid-up capital in order to maintain membership of the Travel Industry Council of Hong Kong. As at 31 December 2016, all these capital requirements were met. Apart from these, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

44 Share Capital, Shares Held for Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management *(continued)*

F Company-level Movements in Components of Equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

in HK$ million	Note	Share Capital	Shares held for Share Incentive Scheme	Other reserves: Fixed assets revaluation reserve	Other reserves: Hedging reserve	Other reserves: Employee share-based capital reserve	Retained profits	Total equity
2016								
Balance as at 1 January 2016	53	**46,317**	**(151)**	**2,912**	**(225)**	**210**	**118,726**	**167,789**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**9,379**	**9,379**
Other comprehensive income for the year		**–**	**–**	**131**	**375**	**–**	**125**	**631**
Total comprehensive income for the year		**–**	**–**	**131**	**375**	**–**	**9,504**	**10,010**
Special Dividend		**–**	**–**	**–**	**–**	**–**	**(25,902)**	**(25,902)**
2015 final ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(4,758)**	**(4,758)**
Shares issued in respect of scrip dividend of 2015 final ordinary dividend		**566**	**(5)**	**–**	**–**	**–**	**–**	**561**
2016 interim ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(1,473)**	**(1,473)**
Shares issued in respect of scrip dividend of 2016 interim ordinary dividend		**101**	**(2)**	**–**	**–**	**–**	**–**	**99**
Shares purchased for Share Incentive Scheme		**–**	**(99)**	**–**	**–**	**–**	**–**	**(99)**
Vesting of award shares of Share Incentive Scheme		**1**	**30**	**–**	**–**	**(31)**	**–**	**–**
Award shares of Share Incentive Scheme forfeited		**–**	**–**	**–**	**–**	**(7)**	**3**	**(4)**
Employee share-based payments		**–**	**–**	**–**	**–**	**110**	**–**	**110**
Employee share options exercised		**944**	**–**	**–**	**–**	**(99)**	**–**	**845**
Employee share options forfeited		**–**	**–**	**–**	**–**	**(1)**	**1**	**–**
Balance as at 31 December 2016	53	**47,929**	**(227)**	**3,043**	**150**	**182**	**96,101**	**147,178**
2015								
Balance as at 1 January 2015		45,280	–	2,641	(102)	214	112,681	160,714
Profit for the year		–	–	–	–	–	12,758	12,758
Other comprehensive income for the year		–	–	271	(123)	–	(580)	(432)
Total comprehensive income for the year		–	–	271	(123)	–	12,178	12,326
2014 final ordinary dividend		–	–	–	–	–	(4,673)	(4,673)
Shares issued in respect of scrip dividend of 2014 final ordinary dividend		242	–	–	–	–	–	242
Shares purchased for Share Incentive Scheme		–	(150)	–	–	–	–	(150)
2015 interim ordinary dividend		–	–	–	–	–	(1,461)	(1,461)
Shares issued in respect of scrip dividend of 2015 interim ordinary dividend		145	(1)	–	–	–	–	144
Employee share-based payments		–	–	–	–	78	–	78
Employee share options exercised		650	–	–	–	(81)	–	569
Employee share options forfeited		–	–	–	–	(1)	1	–
Balance as at 31 December 2015	53	46,317	(151)	2,912	(225)	210	118,726	167,789

45 Cash Generated from Operations

Reconciliation of the Group's operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment to cash generated from operations is as follows:

in HK$ million	2016	2015
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	**17,313**	16,120
Adjustments for:		
– Loss on disposal of fixed assets	**65**	44
– Amortisation of deferred income from transfers of assets from customers	**(24)**	(27)
– Increase in fair value of derivative instruments	**(38)**	(30)
– Unrealised loss on revaluation of investment in securities	**–**	1
– Employee share-based payment expenses	**106**	78
– Exchange loss	**53**	–
Operating profit before working capital changes	**17,475**	16,186
Increase in debtors, deposits and payments in advance	**(645)**	(513)
Increase in stores and spares	**(115)**	(35)
Increase in creditors and accrued charges	**2,421**	819
Cash generated from operations	**19,136**	16,457

46 Fair Value Measurement

In accordance with HKFRS 13, *Fair Value Measurement*, the level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3: Fair value measured using significant unobservable inputs

A Fair Value Measurements of Fixed Assets

All of the Group's investment properties measured at fair value on a recurring basis are categorised as Level 3 of the fair value hierarchy.

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 in respect of the Group's investment properties and self-occupied land and buildings. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All the Group's investment properties and self-occupied land and buildings were revalued as at 31 December 2016 and 2015 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The Group's senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The fair value of all the Group's self-occupied land and buildings is determined on a recurring basis using primarily the direct comparison approach assuming sale of properties in their existing state with vacant possession.

The property interests of all the shopping malls and office accommodation held by the Group as investment properties have been valued using the income capitalisation approach. Under this approach, the market value is derived from the capitalisation of the rental revenue to be received under existing tenancies and the estimated full market rental value to be received upon expiry of the existing tenancies with reference to the market rental levels prevailing as at the date of valuation by an appropriate single market yield rate. The range of market yield rate adopted for the valuation of major investment properties as at 31 December 2016 was 3.90% – 7.00% (2015: 4.25% – 7.50%) with a weighted average of 5.3% (2015: 5.4%). The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2016 are shown in note 19. All the fair value adjustment related to investment properties held as at 31 December 2016 and was recognised under investment property revaluation in the consolidated profit and loss account.

46 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments

(i) Financial Assets and Liabilities Carried at Fair Value

The level of fair value hierarchy within which the recurring fair value measurements are categorised is analysed below:

The Group

in HK$ million	Fair value at 31 December 2016	Fair value measurements as at 31 December 2016	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**1**	**–**	**1**
– Cross currency swaps	**98**	**–**	**98**
– Interest rate swaps	**84**	**–**	**84**
	183	**–**	**183**
Investments in securities	**370**	**370**	**–**
	553	**370**	**183**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**29**	**–**	**29**
– Cross currency swaps	**503**	**–**	**503**
– Interest rate swaps	**37**	**–**	**37**
	569	**–**	**569**

in HK$ million	Fair value at 31 December 2015	Fair value measurements as at 31 December 2015	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Cross currency swaps	26	–	26
– Interest rate swaps	55	–	55
	81	–	81
Investments in securities	336	336	–
	417	336	81
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	37	–	37
– Cross currency swaps	756	–	756
– Interest rate swaps	37	–	37
	830	–	830

46 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

The Company

in HK$ million	Fair value at 31 December 2016	Fair value measurements as at 31 December 2016	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**1**	**–**	**1**
– Cross currency swaps	**98**	**–**	**98**
– Interest rate swaps	**84**	**–**	**84**
	183	**–**	**183**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**29**	**–**	**29**
– Cross currency swaps	**503**	**–**	**503**
– Interest rate swaps	**37**	**–**	**37**
	569	**–**	**569**

in HK$ million	Fair value at 31 December 2015	Fair value measurements as at 31 December 2015	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Cross currency swaps	26	–	26
– Interest rate swaps	55	–	55
	81	–	81
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	37	–	37
– Cross currency swaps	756	–	756
– Interest rate swaps	37	–	37
	830	–	830

There are no Level 3 measurements of financial instruments. During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments. For interest rate swaps, cross currency swaps and foreign exchange forward contracts, the discount rates used were derived from the swap curves of the respective currencies and the cross currency basis curves of the respective currency pairs at the end of reporting period. Closing exchange rates at the end of reporting period were used to convert value in foreign currency to local currency.

46 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

(ii) Financial Assets and Liabilities Not Carried at Fair Value

The carrying amounts of the Group's and the Company's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 31 December 2016 and 2015 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

The Group

	At 31 December 2016		At 31 December 2015	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**20,677**	**22,194**	14,096	15,410
Other obligations	**894**	**1,127**	921	1,172

The Company

	At 31 December 2016		At 31 December 2015	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**1,991**	**2,343**	1,429	1,752
Other obligations	**434**	**524**	413	517

The above fair value measurement is categorised as Level 2. The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's capital market instruments and other obligations. The discount rates used were derived from the swap curves of the respective currencies at the end of reporting period. Closing exchange rates at the end of reporting period were used to convert value in foreign currency to local currency.

47 Share-based Payments

Equity-settled Share-based Payments

The Group granted share options under share option scheme and share awards under share incentive scheme to its Members of the Executive Directorate and certain employees. As at 31 December 2016, the Company maintained the 2007 Share Option Scheme and 2014 Share Incentive Scheme. Details of the schemes are as follows:

(i) 2007 Share Option Scheme

Following the expiry of the New Joiners Share Option Scheme (the "New Option Scheme") in May 2007, the 2007 Share Option Scheme (the "2007 Option Scheme") was submitted and approved at the 2007 Annual General Meeting to enhance the Company's ability to attract the best available personnel, to retain and motivate critical and key employees, to align their interest to the long-term success of the Company and to provide them with fair and market competitive remuneration. Under the Rules of the 2007 Option Scheme, a maximum of 277,461,072 shares, may be issued pursuant to the exercise of options granted after 7 June 2007 under all share option schemes of the Company including the 2007 Option Scheme. Options granted will be vested in respect of their underlying shares not less than 1 year from the date on which the relevant option is offered. The exercise price of any option granted under the 2007 Option Scheme is to be determined by the Company upon the offer of grant of the option and the exercise price should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option; (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day; and (iii) the nominal value of an MTR share.

Subject to the rules of the 2007 Option Scheme, the Company may, from time to time during the scheme period, offer to grant share options to any eligible employees at its absolute discretion. Under the 2007 Option Scheme, the date of grant is defined as the date of acceptance of the offer to grant the option. The 2007 Option Scheme expired in June 2014.

47 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

As at 31 December 2016, the following awards of share options were offered to Members of the Executive Directorate and selected employees of the Company under the 2007 Option Scheme:

Awards of share options	Date of offer	Number of share options offered and accepted	Date of acceptance
2008 Award	10 December 2007 26 March 2008	8,273,000 2,749,000	11 December 2007 to 7 January 2008 28 March 2008 to 23 April 2008
2009 Award	8 December 2008 12 June 2009	12,712,000 345,000	8 December 2008 to 30 December 2008 18 June 2009 to 9 July 2009
2010 Award	8 December 2009 28 June 2010	15,718,000 355,000	9 December 2009 to 22 December 2009 21 July 2010
2011 Award	16 December 2010 27 June 2011	15,546,500 215,000	16 December 2010 to 23 December 2010 7 July 2011
2012 Award	23 March 2012	16,917,000	30 March 2012
2013 Award	26 April 2013 25 October 2013	21,605,000 384,500	6 May 2013 1 November 2013
2014 Award	23 May 2014	19,895,500	30 May 2014

The following table summarises the outstanding share options as at 31 December 2016 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2010 Award			
21 July 2010	45,000	27.73	on or prior to 28 June 2017
2011 Award			
17 December 2010	594,000	28.84	on or prior to 16 December 2017
18 December 2010	225,500	28.84	on or prior to 16 December 2017
20 December 2010	552,500	28.84	on or prior to 16 December 2017
21 December 2010	485,000	28.84	on or prior to 16 December 2017
22 December 2010	308,000	28.84	on or prior to 16 December 2017
23 December 2010	33,000	28.84	on or prior to 16 December 2017
2012 Award			
30 March 2012	3,362,000	27.48	on or prior to 23 March 2019
2013 Award			
6 May 2013	7,182,000	31.40	on or prior to 26 April 2020
1 November 2013	24,500	29.87	on or prior to 25 October 2020
2014 Award			
30 May 2014	12,793,500	28.65	on or prior to 23 May 2021

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2016		2015	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**55,034,500**	**29.200**	76,785,400	28.624
Exercised during the year	**(28,996,000)**	**29.131**	(21,033,900)	27.074
Forfeited during the year	**(388,500)**	**29.110**	(717,000)	29.860
Lapsed during the year	**(45,000)**	**26.850**	–	–
Outstanding at 31 December	**25,605,000**	**29.284**	55,034,500	29.200
Exercisable at 31 December	**19,755,500**	**29.471**	35,900,500	28.997

The weighted average closing price in respect of the share options exercised during the year was HK$38.883 (2015: HK$36.244).

47 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

Share options outstanding at 31 December 2016 had the following exercise prices and remaining contractual lives:

Exercise price	2016		2015	
	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$26.85	–	–	4,504,000	1
HK$27.73	**45,000**	**1**	106,000	1
HK$28.84	**2,198,000**	**1**	6,807,000	2
HK$26.96	–	–	35,000	2
HK$27.48	**3,362,000**	**2**	8,328,500	3
HK$31.40	**7,182,000**	**3**	16,910,500	4
HK$29.87	**24,500**	**4**	384,500	5
HK$28.65	**12,793,500**	**4**	17,959,000	5
	25,605,000		55,034,500	

During the year ended 31 December 2016, the equity-settled share-based payments relating to the 2007 Share Option Scheme recognised as an expense amounted to HK$9 million (2015: HK$25 million).

(ii) 2014 Share Incentive Scheme

On 15 August 2014, the Board of the Company approved the adoption of the 2014 Share Incentive Scheme ("2014 Scheme"), following the expiry of the 2007 Option Scheme on 6 June 2014. The purposes of the 2014 Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company. The 2014 Scheme took effect on 1 January 2015 for a term of 10 years, under which an award holder may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded on the basis of individual performance. Performance Shares are awarded which vest subject to the performance of the Company, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions.

Subject to the Scheme Rules, the Remuneration Committee shall determine from time to time the vesting criteria and conditions or periods for the Award Shares to be vested. An award of Restricted Shares will vest rateably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved. The 2014 Scheme will be administered by the Company in accordance with the Scheme Rules and the Company has entered into a Trust deed with the Trustee for the purpose of implementing the Scheme. The number of Award Shares will be acquired in the market at the cost of the Company by the Trustee. Award Shares will be held on trust by the Trustee until the end of each vesting period.

As at 31 December 2016, the following awards of shares were offered to Members of the Executive Directorate and selected employees of the Company under the 2014 Share Incentive Scheme:

Date of award	Number of Award Shares granted		Average fair value per share	Vesting period
	Restricted Shares	Performance Shares	HK$	
27 April 2015	2,348,150	1,681,050	38.60	20 April 2015 to 20 April 2018
8 April 2016	**2,401,150**	**187,200**	**38.65**	**1 April 2016 to 1 April 2019**
19 August 2016	**71,428**	**–**	**42.50**	**15 August 2016 to 15 August 2019**

47 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

Movement in the number of Award Shares outstanding was as follows:

	2016 Number of Award Shares	2015 Number of Awarded Shares
Outstanding at 1 January	**3,931,600**	–
Awarded during the year	**2,659,778**	4,029,200
Vested during the year	**(795,860)**	(8,533)
Forfeited during the year	**(270,919)**	(89,067)
Outstanding at 31 December	**5,524,599**	3,931,600

Award Shares outstanding at 31 December 2016 had the following remaining vesting periods:

Award Shares	Remaining vesting period years	Number of Award Shares
Restricted Shares		
27 April 2015	1.30	1,411,521
8 April 2016	**2.25**	**2,330,700**
19 August 2016	**2.62**	**71,428**
Performance Shares		
27 April 2015	1.30	1,523,750
8 April 2016	**2.25**	**187,200**

The details of the 2014 Scheme are also disclosed in the Remuneration Report.

During the year ended 31 December 2016, the equity-settled share-based payments relating to the 2014 Share Incentive Scheme recognised as an expense amounted to HK$97 million (2015: HK$53 million).

48 Retirement Schemes

The Group operates a number of retirement schemes in Hong Kong, the Mainland of China, United Kingdom, Sweden and Australia. The assets of these schemes are held under the terms of separate trust arrangements so that the assets are kept separate from those of the Group. The majority of the Group's employees are covered by the retirement schemes operated by the Company.

A Retirement Schemes Operated by the Company in Hong Kong

The Company operated four retirement schemes under trust in Hong Kong during the year ended 31 December 2016, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme".

Currently, new eligible employees can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme while the MTR MPF Scheme covers employees who did not opt for or who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted with an MPF Exemption by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management, employee representatives and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2016, the total membership was 4,094 (2015: 4,276). In 2016, members contributed HK$75 million (2015: HK$75 million) and the Company contributed HK$480 million (2015: HK$208 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contributions as at 31 December 2016 was HK$8,413 million (2015: HK$8,131 million).

48 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

The actuarial valuations as at 31 December 2015 and 2016 to determine the accounting obligations in accordance with HKAS 19, *Employee benefits*, were carried out by an independent actuarial consulting firm, Willis Towers Watson, using the Projected Unit Credit Method. The results of the valuation are shown in note 49.

The actuarial valuations as at 31 December 2015 and 2016 to determine the cash funding requirements were also carried out by Willis Towers Watson using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2016 included a long-term rate of investment return net of salary increases of 0.6% (2015: 1.0%) per annum, together with appropriate allowances for expected rates of mortality, turnover and retirement. Willis Towers Watson confirmed that, as at the valuation date of 31 December 2016:

(a) the MTR Retirement Scheme was insolvent, covering 94.8% of the aggregate vested liability had all members left service with their leaving service benefits secured, resulting in a solvency deficit of HK$473 million; and

(b) in the normal course of events, and provided that the MTR Retirement Scheme is funded in accordance with the minimum contribution level required by the Company as determined by the actuarial review as at 31 December 2016, together with the members' contributions, it is expected that the Scheme's assets would be sufficient to meet the aggregate vested liability and the aggregate past service liability within a period of three years from the valuation date.

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted an MPF Exemption by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

As at 31 December 2016, the total number of employees participating in the MTR Provident Fund Scheme was 9,309 (2015: 8,688). In 2016, total members' contributions were HK$114 million (2015: HK$100 million) and total contributions from the Company were HK$292 million (2015: HK$262 million). The net asset value as at 31 December 2016 was HK$5,252 million (2015: HK$4,798 million).

(iii) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

As at 31 December 2016, the total number of employees participating in the MTR MPF Scheme was 6,400 (2015: 5,951). In 2016, total members' contributions were HK$53 million (2015: HK$50 million) and total contribution from the Company were HK$58 million (2015: HK$55 million).

(iv) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF Scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPFSO.

As at 31 December 2016, the total number of employees participating in the KCRC MPF Scheme was 582 (2015: 642). In 2016, total members' contributions were HK$6 million (2015: HK$6 million) and total contribution from the Company were HK$7 million (2015: HK$7 million).

B Retirement Schemes for Employees of Mainland of China and Overseas Offices and Subsidiaries

Employees not eligible for joining the retirement schemes operated by the Company in Hong Kong are covered by the retirement schemes established by their respective subsidiary companies or in accordance with respective applicable labour regulations.

Certain employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2016, total number of the Group's employees participating in this scheme was 662 (2015: 701). In 2016, total members' contributions were HK$27 million (2015: HK$28 million) and total contribution from the Group was HK$36 million (2015: HK$37 million).

Certain employees of the Group's MTR Crossrail subsidiary are entitled to join the MTR Corporation (Crossrail) section of the Railway Pension Scheme in the United Kingdom. The scheme is a shared cost arrangement whereby the Group is only responsible for a share of the cost. The benefits amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any net defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation for any deficit in the value of the scheme. Its only obligation is to pay contributions as they fall due. As at 31 December 2016, total number of the Group's employees participating in this scheme was 261 (2015: 221). In 2016, total members' contributions were HK$8 million (2015: HK$5 million) and total contribution from the Group was HK$12 million (2015: HK$7 million). Pension expense of HK$10 million (2015: HK$7 million) was recognised in profit and loss and actuarial loss of HK$2 million (2015: nil) was recognised in the statement of other comprehensive income.

48 Retirement Schemes *(continued)*

B Retirement Schemes for Employees of Mainland of China and Overseas Offices and Subsidiaries *(continued)*

Except for the retirement schemes described above, all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland of China or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPFSO in Hong Kong. For the Mainland of China or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2016, the total number of employees of the Group participating in these schemes was 10,965 (2015: 9,297). In 2016, total members' contributions were HK$96 million (2015: HK$90 million) and total contribution from the Group was HK$336 million (2015: HK$326 million).

49 Defined Benefit Retirement Plan

During the year ended 31 December 2016, the Company makes contributions to and recognises defined benefit liabilities in respect of MTR Retirement Scheme which provides employees with benefits upon retirement or termination of services for other reasons (note 48). This defined benefit scheme exposes the Group to actuarial risks, such as interest rate, salary increase and investment risks. The information about the MTR Retirement Scheme is summarised as below:

A The amounts recognised in the consolidated statement of financial position are as follows:

The Group and The Company

in HK$ million	2016	2015
Present value of defined benefit obligations	**(10,455)**	(10,408)
Fair value of plan assets	**8,413**	8,131
Net liabilities	**(2,042)**	(2,277)

A portion of the above liabilities is expected to be paid after more than one year. However, it is not practicable to segregate this amount from the amounts to be paid in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK$670 million in contribution to the MTR Retirement Scheme in 2017.

B Plan assets consist of the following:

The Group and The Company

in HK$ million	2016	2015
Equity securities		
– Financial institutions	**832**	742
– Non-financial institutions	**3,598**	3,598
	4,430	4,340
Bonds		
– Government	**1,536**	1,513
– Non-government	**2,129**	2,097
	3,665	3,610
Cash	**462**	309
	8,557	8,259
Voluntary units	**(144)**	(128)
	8,413	8,131

The plan assets include an amount of HK$6 million invested in the ordinary shares of the Company as at 31 December 2016 (2015: HK$3 million). Other than this, there were no investment in other shares and debt securities of the Company as at 31 December 2016 and 2015. All of the equity securities and bonds have quoted prices in active markets.

An asset-liability modelling review is performed periodically to analyse the strategic investment policies of the MTR Retirement Scheme. Based on the latest study, the strategic asset allocation of the MTR Retirement Scheme is 52.5% in equities and 47.5% in bonds and cash as at 31 December 2016 (2015: 52.5% in equities and 47.5% in bonds and cash).

49 Defined Benefit Retirement Plan *(continued)*

C Movements in the Present Value of the Defined Benefit Obligations

The Group and The Company

in HK$ million	2016	2015
At 1 January	**10,408**	10,295
Remeasurements:		
– Actuarial (gains)/losses arising from changes in liability experience	**(53)**	(267)
– Actuarial losses/(gains) arising from changes in demographic assumptions	**1**	–
– Actuarial (gains)/losses arising from changes in financial assumptions	**(79)**	353
	(131)	86
Members' contributions paid to the scheme	**75**	75
Benefits paid by the scheme	**(499)**	(683)
Current service cost	**339**	315
Interest cost	**263**	320
At 31 December	**10,455**	10,408

The weighted average duration of the present value of the defined benefit obligations is 6.8 years (2015: 7.5 years).

D Movements in Plan Assets

The Group and The Company

in HK$ million	2016	2015
At 1 January	**8,131**	8,866
Company's contributions paid to the scheme	**480**	208
Members' contributions paid to the scheme	**75**	75
Benefits paid by the scheme	**(499)**	(683)
Administrative expenses paid from plan assets	**(5)**	(5)
Interest income	**211**	278
Return on plan assets, excluding interest income	**20**	(608)
At 31 December	**8,413**	8,131

E Expenses recognised in the profit and loss and other comprehensive income are as follows:

in HK$ million	2016	2015
Current service cost	**339**	315
Net interest on net defined benefit liability	**52**	42
Administrative expenses paid from plan assets	**5**	5
	396	362
Less: Amount capitalised	**(60)**	(55)
Net amount recognised in profit or loss	**336**	307
Actuarial (gains)/losses	**(131)**	86
Return on plan assets, excluding interest income	**(20)**	608
Amount recognised in other comprehensive income	**(151)**	694

The retirement scheme expense is recognised under staff costs and related expenses in the consolidated profit and loss account.

49 Defined Benefit Retirement Plan *(continued)*

F The significant actuarial assumptions (expressed as weighted average) and sensitivity analysis are as follows:

	2016	2015
Discount rate	**2.7%**	2.6%
Future salary increases	**4.4%**	4.5%
Unit value increase	**5.0%**	5.5%

The below analysis shows how the present value of the defined benefit obligations as at 31 December 2016 would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2016		2015	
	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million
Discount rate	**(174)**	**180**	(187)	193
Future salary increases	**161**	**(153)**	157	(147)
Unit value increase	**19**	**(15)**	37	(31)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

50 Interests in Joint Operations in Respect of Hong Kong Property Development

The Group has the following joint operations in respect of its awarded property development projects in Hong Kong as at 31 December 2016:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Hong Kong Station	Office/Retail/Hotel	415,894	Completed by phases from 1998–2005
Kowloon Station			
Package Three	Residential/Cross Border Bus Terminus	105,113	Completed in 2005
Package Four	Residential	128,845	Completed in 2003
Package Five, Six and Seven	Residential/Office/Retail/Hotel/ Service Apartment/Kindergarten	504,345	Completed by phases from 2006–2010
Olympic Station			
Package One	Residential/Office/Retail/ Indoor Sports Hall	309,069	Completed in 2000
Package Two	Residential/Retail/Market	268,650	Completed in 2001
Package Three	Residential/Kindergarten	104,452	Completed in 2006
Tsing Yi Station	Residential/Retail/Kindergarten	292,795	Completed in 1999
Tung Chung Station			
Package One	Residential/Office/Retail/Hotel/ Kindergarten	361,531	Completed by phases from 1999–2005
Package Two	Residential/Retail/Kindergarten	255,949	Completed by phases from 2002–2008
Package Three	Residential/Retail/Wet Market/ Kindergarten	413,154	Completed by phases from 2002–2008
Hang Hau Station	Residential/Retail	142,152	Completed in 2004
Tiu Keng Leng Station	Residential/Retail	253,765	Completed by phases from 2006–2007
Tseung Kwan O Station			
Area 55b	Residential/Retail	96,797	Completed in 2006
Area 57a	Residential/Retail	29,642	Completed in 2005
Area 56	Residential/Hotel/Retail/Office	163,130	Completed by phases from 2011–2012

50 Interests in Joint Operations in Respect of Hong Kong Property Development

(continued)

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Tseung Kwan O Area 86 (LOHAS Park)			
Package One	Residential/Retail/ Residential Care Home for the Elderly	139,840	Completed in 2008
Package Two	Residential/Kindergarten	310,496	Completed by phases from 2010–2012
Package Three	Residential/Kindergarten	129,544	Completed in 2014
Package Four	Residential	122,302	2020
Package Five	Residential	102,336	2020
Package Six	Residential	136,970	2021
Package Seven	Residential/Retail/Kindergarten	115,920	2022
Package Eight	Residential	97,000	2021
Package Nine	Residential/Kindergarten	104,920	2022
Package Ten	Residential	75,400	2022
Choi Hung Park-and-Ride	Residential/Retail	21,574	Completed in 2005
Che Kung Temple Station	Residential/Retail/Kindergarten	90,655	Completed in 2012
Austin Station			
Sites C & D	Residential	119,116	Completed in 2014
Tai Wai Station	Residential/Retail/Bicycle Park	252,480	2022
Tin Wing Stop	Residential/Retail	91,256	2021
Ho Man Tin Station			
Package One	Residential	69,000	2022

* Completion based on issuance of occupation permit

The Group's assets held in relation to these joint operations include various site foundation works and related staff and overhead costs, land costs, acquisition cost of development rights and interest expense. These are set off against any payments received from developers in relation to that development package, and the balance is shown on the statement of financial position either as property development in progress (note 25) or deferred income (note 42) as the case may be. As at 31 December 2016, total property development in progress in respect of these joint operations was HK$12,713 million (2015: HK$11,990 million) and total deferred income was HK$17 million (2015: HK$19 million).

During the year ended 31 December 2016, profits attributable to joint operations of HK$353 million (2015: HK$2,898 million) were recognised (note 11).

In connection with the Rail Merger, the Company entered into agreements with KCRC relating to the property development projects on the following three awarded sites:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Ho Tung Lau	Residential/Retail	122,900	Completed in 2008
Wu Kai Sha Station	Residential/Retail/Kindergarten	172,650	Completed in 2009
Tai Wai Maintenance Centre	Residential	313,955	Completed by phases from 2010–2011

* Completion based on issuance of occupation permit

Under these agreements, the Company was appointed as KCRC's agent to exercise the rights and to perform the obligations of KCRC as stipulated in the agreements. The Company received a right to share the net surplus from the sale of these property development projects.

51 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 75.1% of the Company's issued share capital on trust for the HKSAR Government, is the majority shareholder of the Company. Transactions between the Group and the HKSAR Government departments or agencies, or entities controlled by the HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised), *Related party disclosures*, and are identified separately in these accounts.

Members of the Board and Members of the Executive Directorate and parties related to them, including their close family members, are also considered to be related parties of the Group. Transactions with these parties, except for those involving a Member of the Board or his/her related parties where the relevant Member abstains from voting, are separately disclosed in the accounts.

Major related party transactions entered into by the Group which are relevant for the current year include:

A On 30 June 2000, the Company was granted by the HKSAR Government a franchise, for an initial period of 50 years, to operate the then existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company and the HKSAR Government entered into an Operating Agreement ("OA") which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. With the Rail Merger, the OA was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 51C below.

B On 14 July 2000, the Company received a comfort letter from the HKSAR Government pursuant to which the HKSAR Government agreed to extend the period of certain of the Company's land interests so that they are coterminous with the Company's franchise period. To prepare for the Rail Merger, on 3 August 2007, the HKSAR Government wrote to KCRC confirming that, subject to all necessary approvals being obtained, the period of certain of KCRC's land interests (which are the subject of the service concession under the Rail Merger) will be extended so that they are coterminous with the concession period of the Rail Merger.

C In connection with the Rail Merger (note 3), on 9 August 2007, the Company and the HKSAR Government entered into a new operating agreement ("new OA"), which is based on the then existing OA referred to in note 51A above. On the Appointed Day, the Company's then existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the then existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). The new OA detailed the design, construction, maintenance and operation of the railways under the expanded franchise. Pursuant to the terms of the new OA and the MTR Ordinance, the Company may apply for extensions of the franchise and the Secretary for Transport and Housing shall, subject to certain provisions, recommend to the Chief Executive in Council that the franchise should be extended for a further period of 50 years (from a date relating to certain capital expenditure requirements) if the Company has satisfied such capital expenditure requirements, at no additional payment for any such extension. If the franchise is not extended, it will expire on 1 December 2057. Following such expiry, the HKSAR Government has the right to take possession of railway property (and, where the HKSAR Government has taken possession of any such property which is not concession property, the Company may require the HKSAR Government to take possession of any other property which the HKSAR Government was entitled to take possession of, but did not take possession of), but must compensate the Company: (i) in the case of such property which is not concession property, at the higher of fair value and depreciated book value, and (ii) in the case of such property which is concession property, in an amount equal to the reimbursement described in note 3. The new OA also sets out a framework for the award of new railway projects in Hong Kong and introduces a fare adjustment mechanism which is subject to review periodically. A detailed description of the new OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger. Such transaction is considered to be a related party transaction and also constitute continuing connected transaction as defined under the Listing Rules.

D Other than the new OA described in note 51C above, the Company also entered into the following principal agreements with KCRC and the HKSAR Government in connection with the Rail Merger:

(i) Merger Framework Agreement, which was entered into on 9 August 2007, contains provisions for the overall structure and certain specific aspects of the Rail Merger;

(ii) Service Concession Agreement, which was entered into on 9 August 2007, contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company;

(iii) Sale and Purchase Agreement, which was entered into on 9 August 2007, sets out the terms pursuant to which the Company acquired certain assets and contracts from KCRC;

(iv) West Rail Agency Agreement, which was entered into on 9 August 2007, sets out the terms on which the Company was appointed to act as KCRC's agent to exercise certain rights and perform certain obligations relating to specified development sites along the West Rail;

(v) Property Package Agreements, which were entered into on 9 August 2007, set out the arrangements in respect of the acquisition of the property package; and

(vi) US Cross Border Lease ("CBL") Assumption Agreements, which were entered into with KCRC on 30 November 2007, and US CBL Allocation Agreement, which was entered into with KCRC and KCRC's subsidiaries on 2 December 2007, set out the terms on which the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs, and delineate and allocate the obligations and responsibility for risks relating to the CBLs. Details of the commitment of the Company in connection with these agreements are specified in note 52E.

The above transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" of the Report of the Members of the Board.

51 Material Related Party Transactions *(continued)*

E The Company entered into project agreements with the HKSAR Government for the design, construction, financing and operation of new railway extensions and, where applicable, the granting of land for commercial and residential property developments along these railway extensions. Project agreements on railway extensions that are still under construction or the property developments in respect of which have not been completed in the current year include:

(i) TKE Project Agreement in respect of the Tseung Kwan O Extension, which was signed on 4 November 1998 and includes the granting of property development rights at four sites along the extension;

(ii) Preliminary Project Agreement, which was signed on 6 February 2008, and Project Agreement, which was signed on 13 July 2009 (as amended by a supplemental agreement dated 23 December 2016) in respect of the Island Line Extension to the Western District. Pursuant to the agreements, the Company has received from the HKSAR Government a total of HK$12,652 million of government grant as funding support subject to a repayment mechanism (note 23A). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of the above agreement is contained under the paragraph "Continuing Connected Transactions" of the Report of the Members of the Board;

(iii) Project Agreement in respect of the SIL(E), which was signed on 17 May 2011 and includes the granting of property development rights at a site in Wong Chuk Hang (note 23B). The transaction constitutes a continuing connected transaction as defined under the Listing Rules. However it is exempt from the disclosure requirements under Chapter 14A of the Listing Rules pursuant to the waiver granted by The Stock Exchange of Hong Kong Limited on 21 December 2004 (as amended from time to time); and

(iv) Project Agreement in respect of the KTE, which was signed on 17 May 2011 and includes the granting of property development rights at a site in Ho Man Tin (note 23C). The transaction constitutes a continuing connected transaction as defined under the Listing Rules. However it is exempt from the disclosure requirements under Chapter 14A of the Listing Rules pursuant to the waiver granted by The Stock Exchange of Hong Kong Limited on 21 December 2004 (as amended from time to time).

F The Company entered into entrustment agreements with the HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of new railway extensions, pursuant to which the HKSAR Government funds the costs of such activities while the Company is paid a fee for its project management service. Entrustment agreements on railway extensions that are still under construction in the year ended 31 December 2016 include:

(i) The XRL Preliminary Entrustment Agreement, which was signed on 24 November 2008, and the XRL Entrustment Agreement, which was signed on 26 January 2010, in respect of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL"). The two agreements together entrust the Company with the project management of activities leading to the completion of XRL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2016 are provided in note 24A; and

(ii) The SCL Preliminary Entrustment Agreement, which was signed on 24 November 2008, the SCL Advance Works Entrustment Agreement, which was signed on 17 May 2011, and the SCL Entrustment Agreement, which was signed on 29 May 2012, in respect of the Shatin to Central Link ("SCL"). The three agreements together entrust the Company with the project management of activities leading to the completion of SCL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2016 are provided in note 24B.

On 30 November 2015, the HKSAR Government and the Company entered into the deed of agreement relating to the further funding and completion of XRL project. Detailed description of the agreement is provided in note 24A.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" of the Report of the Members of the Board.

G On 19 November 2003, the Company entered into a project agreement with the HKSAR Government to develop the Tung Chung Cable Car system together with a Theme Village at Ngong Ping on the Lantau Island under a franchise granted by the HKSAR Government for a period of 30 years commencing 24 December 2003. The project was completed with operation commencement on 18 September 2006.

H In connection with the construction of various railway projects, certain essential project works are embedded within the infrastructure works to be undertaken by the HKSAR Government or certain of its related parties. These works have been entrusted to the HKSAR Government and its related parties and are payable on an actual cost basis according to architectural certifications. The HKSAR Government and certain of its related parties, on the other hand, have entered into entrustment agreements with the Company for the construction of various other infrastructure works that are also reimbursable according to actual costs certified. Details of the amounts receivable and the amounts paid and payable as at 31 December 2016 are provided in notes 34 and 39 respectively.

I On 6 December 2016, the Company accepted an offer dated 7 November 2016 from Government for the purpose of the development of the Wong Chuk Hang Station and the Wong Chuk Hang Depot at Aberdeen Inland Lot No. 464 (which forms part of the South Island Line (East)) subject to payment of a land premium of HK$1,025 million and on the terms and conditions of the land grant by private treaty to be entered into between the Company and Government. The land grant was executed on 22 December 2016.

51 Material Related Party Transactions *(continued)*

J In connection with certain property developments along the railway system, the Company has been granted land lots by the HKSAR Government in respect of the following sites during the year:

Property development site	Land grant acceptance date	Total land premium in HK$ million	Land premium settlement date
Site J of the Remaining Portion of Tseung Kwan O Town Lot No. 70	5 January 2016	2,852	29 January 2016
Site I of the Remaining Portion of Tseung Kwan O Town Lot No. 70	16 March 2016	1,659	29 April 2016

K In January 2017, the Company accepted an offer from the HKSAR Government to proceed with the proposed Ho Man Tin Property Development at Kowloon Inland Lot No. 11264 (the "Lot") at a land premium of HK$6,282 million and on the terms and conditions of the land grant by private treaty of the Lot to be entered into between the Company and Government (the "Land Grant"). In February 2017, the Land Grant was executed by the Company.

L On 16 November 2011, the Company and KCRC entered into an Outsourcing Agreement pursuant to which the Company will provide certain administrative and financial activities to KCRC. The Agreement has no specific term but can be terminated by either party giving notice period specified in the Agreement. The fee payable pursuant to the Agreement and the scope of services are to be reviewed on an annual basis and amended upon the mutual agreement of the parties.

M On 5 July 2013, the Company renewed the maintenance agreement with the Hong Kong Airport Authority ("HKAA") in respect of the automatic people mover system serving the Hong Kong International Airport upon the expiry of the previous five-year agreement. The renewed agreement covers a period of seven years effective from 6 July 2013 ("New Maintenance Contract"). On 5 March 2015, the Company entered into a supplemental agreement to the New Maintenance Contract with the HKAA for carrying out the automated people mover service for the testing and commissioning works for track possession. In respect of the services provided, HK$78 million was recognised as consultancy income during the year ended 31 December 2016 (2015: HK$59 million). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules.

N Other than those stated in notes 51A to 51M, the Company has business transactions with the HKSAR Government, entities related to the HKSAR Government and the Company's associates in the normal course of business operations. Details of the transactions and the amounts involved for the reporting period are disclosed in notes 28, 34 and 39.

O The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 10A. In addition, Members of the Executive Directorate were granted share options under the Company's 2007 Share Option Scheme. Details of the terms of these options are disclosed in note 10B and the Report of the Members of the Board. Their gross remuneration charged to the profit and loss account is summarised as follows:

in HK$ million	2016	2015
Short-term employee benefits	**81.3**	63.7
Post-employment benefits	**9.6**	6.0
Equity compensation benefits	**15.5**	9.4
	106.4	79.1

The above remuneration is included in staff costs and related expenses disclosed in note 9A.

P During the year, the following dividends were paid to the Financial Secretary Incorporated of the HKSAR Government:

in HK$ million	2016	2015
Ordinary dividends paid in cash	**4,701**	4,656
Special dividend paid in cash	**9,756**	–
	14,457	4,656

52 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2016 not provided for in the accounts were as follows:

The Group

in HK$ million	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas operations	Total
2016					
Authorised but not yet contracted for	**7,654**	**–**	**2,323**	**10**	**9,987**
Authorised and contracted for	**14,339**	**370**	**6,198**	**74**	**20,981**
	21,993	**370**	**8,521**	**84**	**30,968**
2015					
Authorised but not yet contracted for	7,051	–	2,455	2	9,508
Authorised and contracted for	14,270	1,080	5,462	253	21,065
	21,321	1,080	7,917	255	30,573

The Company

in HK$ million	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Total
2016				
Authorised but not yet contracted for	**7,617**	**–**	**2,274**	**9,891**
Authorised and contracted for	**14,269**	**370**	**6,194**	**20,833**
	21,886	**370**	**8,468**	**30,724**
2015				
Authorised but not yet contracted for	7,033	–	2,435	9,468
Authorised and contracted for	14,269	1,080	5,459	20,808
	21,302	1,080	7,894	30,276

(ii) The commitments under Hong Kong transport, station commercial and other businesses comprise the following:

The Group

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
2016				
Authorised but not yet contracted for	**3,543**	**659**	**3,452**	**7,654**
Authorised and contracted for	**9,958**	**71**	**4,310**	**14,339**
	13,501	**730**	**7,762**	**21,993**
2015				
Authorised but not yet contracted for	3,728	499	2,824	7,051
Authorised and contracted for	10,179	156	3,935	14,270
	13,907	655	6,759	21,321

52 Commitments *(continued)*

A Capital Commitments *(continued)*

The Company

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
2016				
Authorised but not yet contracted for	**3,506**	**659**	**3,452**	**7,617**
Authorised and contracted for	**9,888**	**71**	**4,310**	**14,269**
	13,394	**730**	**7,762**	**21,886**
2015				
Authorised but not yet contracted for	3,710	499	2,824	7,033
Authorised and contracted for	10,178	156	3,935	14,269
	13,888	655	6,759	21,302

B Operating Lease Commitments

The Group had operating leases on office buildings, staff quarters, bus depot as well as a shopping centre in Beijing as at 31 December 2016. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
in HK$ million	**2016**	2015	**2016**	2015
Payable within one year	**139**	140	**25**	18
Payable after one but within five years	**27**	43	**26**	40
	166	183	**51**	58

In addition to the above, the Group has future operating lease commitments of HK$11,359 million (2015: HK$6,986 million) in respect of railway-related subsidiaries outside of Hong Kong over the respective franchise periods, of which HK$1,454 million (2015: HK$970 million) is payable within one year, HK$5,465 million (2015: HK$3,434 million) is payable after one but within five years and HK$4,440 million (2015: HK$2,582 million) is payable over five years. These railway-related subsidiaries generate franchise revenue to the Group.

C Liabilities and Commitments in respect of Property Management Contracts

The Group has, over the years, jointly developed with outside property developers certain properties above or adjacent to railway depots and stations. Under most of the development agreements, the Group retained the right to manage these properties after their completion. The Group, as manager of these properties, enters into service contracts with outside contractors for the provision of security, cleaning, maintenance and other services on behalf of the managed properties. The Group is primarily responsible for these contracts, but any contract costs incurred will be reimbursed by the owners and tenants of the managed properties from the management funds as soon as they are paid.

As at 31 December 2016, the Group had total outstanding liabilities and contractual commitments of HK$2,544 million (2015: HK$2,026 million) in respect of these works and services. Cash funds totalling HK$2,060 million (2015: HK$1,928 million) obtained through monthly payments of management service charges from the managed properties are held by the Group on behalf of those properties for settlement of works and services provided.

D Material Financial and Performance Guarantees

In respect of the debt securities issued by MTR Corporation (C.I.) Limited (note 36C), the Company has provided guarantees to the investors of approximately HK$21,399 million (in notional amount) as at 31 December 2016. The proceeds from the debts issued are on lent to the Company. As such, the primary liabilities have been recorded in the Company's statement of financial position.

In respect of the lease out/lease back transaction ("Lease Transaction") (note 20F), the Group has provided standby letters of credit ("standby LC's") to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms, and such standby LC's amounted to US$99 million (HK$765 million) as at 31 December 2016. The Group has also provided standby LC's to certain of the Investors under the Lease Transaction to replace some of the Defeasance Securities previously used to support the corresponding long-term lease payments as a result of credit rating downgrades of these securities, and such standby LC's amounted to US$51 million (HK$392 million) as at 31 December 2016.

In respect of the operating lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB12.5 million (HK$14 million) and a parent company guarantee of RMB52.5 million (HK$59 million) in respect of the quarterly rental payments to the landlord.

52 Commitments *(continued)*

D Material Financial and Performance Guarantees *(continued)*

In respect of the lease for premises and any storage licence, car parking licence or other rights ancillary to the lease in Sydney, the Group provided a rental guarantee of AUD0.1 million (HK$0.4 million) to the landlord.

In respect of the Melbourne Metropolitan Train Franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), have provided to the Public Transport Victoria a joint and several parent company guarantee of AUD87.92 million (HK$492 million) and a performance bond of AUD51.9 million (HK$290 million) for MTM's performance and other obligations under the franchise agreement, with each shareholder bearing its share of liability based on its shareholdings in MTM. In respect of the operating lease on the office premises, MTM has provided bank guarantees of AUD4.7 million (HK$26 million) for the monthly rental payments to the landlords. In respect of the project activities, MTM has provided a bank guarantee of AUD0.1 million (HK$0.4 million) to the contractor for contract payments.

In respect of the Stockholm Metro Franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$851 million), which can be called if the franchise is terminated early as a result of default by MTR Tunnelbanan AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the Stockholms pendeltåg Franchise, the Group has provided to the Stockholm transport authorities a guarantee of SEK1,000 million (HK$851 million), which can be called if the franchise is terminated early as a result of default by MTR Pendeltågen AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the London Overground Franchise, the Group has provided a performance bond of GBP6.3 million (HK$60 million) to Transport for London (TfL) which may be called by TfL if the franchise is terminated early as a result of default.

In respect of the Shenzhen property development, the Group has provided a bank guarantee of RMB2.1 million (HK$2 million) in respect of facilities granted by certain banks relating to the mortgage loans for certain purchasers of properties and a payment guarantees of RMB63.1 million (HK$70 million) to the counterparties of the construction contracts.

In respect of the London Crossrail Franchise, the Group has provided to the Rail for London Limited a parent company guarantee of GBP80 million (HK$762 million) and a performance bond of GBP15 million (HK$143 million) for MTR Corporation (Crossrail) Limited's performance and other obligations under the franchise agreement.

In respect of the Sydney Metro Northwest Franchise, the Group has provided to NRT Pty. Limited, an associate of the Group, several parent company guarantees of AUD109.2 million (HK$611 million) for the design and construction contract as well as the operations and maintenance contract and a performance bond of AUD53.5 million (HK$300 million) for the performance and other obligations under the design and construction sub-contract. The Group has also provided standby letters of credit ("standby LC's") amounting to AUD50.1 million (HK$281 million) as at 31 December 2016 to cover the equity and preferred equity to be invested in the Sydney Metro Northwest project.

E US Cross Border Lease ("CBL") Agreements

In connection with the Rail Merger, the Company entered into a number of agreements ("US CBL Assumption Agreements") with respect to the CBLs that KCRC had entered into with its CBL counterparties in relation to certain of its property and equipment ("CBL Property") between 1998 and 2003. Pursuant to the US CBL Assumption Agreements, the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs.

In addition, the Company has entered into a US CBL Allocation Agreement with KCRC, whereby the rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between the Company and KCRC. Generally, the Company is responsible for operational matters, such as repair, maintenance and insurance of the CBL Property, and KCRC is responsible for all other obligations, including payment of periodic rents and collateral related obligations. Despite this allocation of obligations, the Company is prima facie jointly and severally liable to the CBL counterparties for any failure of KCRC to perform its obligations under the CBLs.

KCRC and the HKSAR Government have agreed to indemnify the Company for its reasonable costs incurred as a result of the due and proper performance by the Company of its obligations under the CBLs (unless such costs would have been incurred in any event). In addition, KCRC has agreed to indemnify the Company for losses and reasonable costs incurred arising from KCRC not complying with its obligations under the CBLs or from any breach of KCRC's representations, covenants and agreements provided for in relation to the CBLs.

The Company has agreed to indemnify each of the HKSAR Government and KCRC for losses and reasonable costs incurred arising from any breach of the Company's representations, covenants and agreements provided for in relation to the CBLs.

F Service Concession in respect of the Rail Merger

Pursuant to the Rail Merger, the Company is obliged under the Service Concession Agreement ("SCA") to pay an annual fixed payment of HK$750 million to KCRC over the period of the service concession. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds. Furthermore, under the SCA, the Company is obliged to maintain, repair, replace and/or upgrade the KCRC system over the period of the service concession which is to be returned at the expiry of the service concession.

53 Company-level Statement of Financial Position

in HK$ million	Note	At 31 December 2016	At 31 December 2015
Assets			
Fixed assets			
– Investment properties	19	**68,517**	66,900
– Other property, plant and equipment	20	**102,328**	78,264
– Service concession assets	21	**21,478**	20,040
		192,323	165,204
Property management rights	22	**27**	28
Railway construction in progress	23	**–**	19,064
Property development in progress	25A	**14,479**	14,046
Deferred expenditure	26	**463**	288
Investments in subsidiaries	27	**1,402**	1,271
Interests in associates	28	**24**	24
Properties held for sale	30	**985**	1,139
Derivative financial assets	31	**183**	81
Stores and spares	32	**1,134**	1,101
Debtors, deposits and payments in advance	33	**1,772**	3,210
Amounts due from related parties	34	**14,028**	12,279
Tax recoverable	43A	**362**	–
Cash, bank balances and deposits	35	**12,835**	7,304
		240,017	225,039
Liabilities			
Bank overdrafts	36A	**–**	50
Short-term loans	36A	**1,350**	1,599
Creditors and accrued charges	37	**20,503**	14,406
Current taxation	43A	**–**	902
Contract retentions	38	**736**	729
Amounts due to related parties	39	**30,884**	14,839
Loans and other obligations	36A	**16,392**	2,340
Obligations under service concession	40	**10,343**	10,392
Derivative financial liabilities	31	**569**	830
Deferred income	42	**17**	19
Deferred tax liabilities	43B	**12,045**	11,144
		92,839	57,250
Net assets		**147,178**	167,789
Capital and reserves			
Share capital	44	**47,929**	46,317
Shares held for Share Incentive Scheme	44	**(227)**	(151)
Other reserves	44	**99,476**	121,623
Total equity		**147,178**	167,789

Approved and authorised for issue by the Members of the Board on 7 March 2017

Frederick S H Ma
Chairman

Lincoln K K Leong
Chief Executive Officer

Herbert L W Hui
Finance Director

54 Accounting Estimates and Judgements

A Key sources of accounting estimates and estimation uncertainty include the following:

(i) Estimated Useful Life and Depreciation and Amortisation of Property, Plant and Equipment and Service Concession Assets

The Group estimates the useful lives of the various categories of property, plant and equipment and service concession assets on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives (note 2I).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at the end of each reporting period according to accounting policies set out in note 2H(ii). Long-lived assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount of an asset is the greater of the fair value less costs to sell and value in use. In estimating the value in use, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the MTR Retirement Scheme. The determination of the Group's obligation and expense for the defined benefit element of the plan is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 48A(i) and 49F.

(iv) Revenue Recognition on Hong Kong Property Development

Recognition of Hong Kong property development profits requires management's estimation of the final project costs upon completion, assessment of outstanding transactions and market values of unsold units and, in the case of sharing-in-kind properties, the properties' fair value upon recognition. The Group takes into account independent qualified surveyors' reports, past experience on sales and marketing costs when estimating final project costs on completion and makes reference to professionally qualified valuers' reports in determining the estimated fair value of sharing-in-kind properties.

(v) Properties Held for Sale

The Group values unsold properties at the lower of their costs and net realisable values (note 30) at the end of each reporting period. In ascertaining the properties' net realisable values, which are represented by the estimated selling prices less costs to be incurred in relation to the sales, the Group employs independent valuation professionals to assess the properties' estimated selling prices and makes estimations on further selling and property holding costs to be incurred based on past experience and with reference to general market practice.

(vi) Valuation of Investment Properties

The valuation of investment properties requires management's input of various assumptions and factors relevant to the valuation. The Group conducts semi-annual revaluation of its investment properties by independent professionally qualified valuers based on these assumptions agreed with the valuers prior to adoption.

(vii) Franchise in Hong Kong

The current franchise under which the Group is operating in Hong Kong allows the Group to run the mass transit railway system in Hong Kong until 1 December 2057. As set out in note 51C, pursuant to the terms stipulated in the new Operating Agreement with the HKSAR Government, the Company may apply for extensions of the franchise for further periods of 50 years. If the franchise is not extended, the HKSAR Government has the right to take possession of railway property (and, where the HKSAR Government has taken possession of any such property which is not concession property, the Company may require the HKSAR Government to take possession of any other property which the HKSAR Government was entitled to take possession of, but did not take possession of), but must compensate the Company, in the case of such property which is not concession property, at the higher of fair value and depreciated book value. The Group's depreciation policies (note 2I) for such property which is not concession property with assets' lives which extend beyond 2057 reflect the above.

(viii) Income Tax

Certain treatments adopted by the Group in its Hong Kong Profits Tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the 2016 accounts, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

(ix) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(x) Deferred Expenditure

As disclosed in note 2J(i), the Group capitalises proposed railway and property development project costs in deferred expenditure when the projects are at a detailed study stage and having been agreed based on a feasible financial plan. Such decision involves the Board's judgement on the outcome of the proposed project.

54 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following: *(continued)*

(xi) Fair Value of Derivatives and Other Financial Instruments

In determining the fair value of financial instruments, the Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For financial instruments that are not traded in active markets, the fair values were derived using the discounted cash flows method which discounts the future contractual cash flows at the current market interest or foreign exchange rates, as applicable, for similar financial instruments that were available to the Group at the time.

(xii) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

B Critical accounting judgements in applying the Group's accounting policies include the following:

(i) Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event (including in relation to those under entrustment arrangements), and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. As at 31 December 2016, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits from the Group.

(ii) Associates

The Group regards Octopus Holdings Limited and its subsidiaries (the "OHL Group") as associates. In determining whether the Group has control over these associates, the Group has taken into account its voting right conferred to it under the Shareholder's Agreement of OHL and the effective influence it may exercise over the decision of OHL's Board. Throughout the year ended 31 December 2016, the Group's appointees to OHL's board of directors have less than 50% of the voting rights at board meetings of OHL, despite an equity interest of 57.4%. As such, the OHL Group was accounted for as associates in the Group's accounts.

55 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2016

Up to the date of issue of these accounts, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2016 and have not been adopted in these accounts. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, *Statement of Cash Flow: Disclosure Initiative*	1 January 2017
Amendments to HKAS 12, *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017
Amendments to HKFRS 2, *Classification and Measurement of Shared-based Payment Transactions*	1 January 2018
HKFRS 15, *Revenue from Contracts with Customers*	1 January 2018
HKFRS 9, *Financial Instruments*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
Amendments to HKFRS 10 and HKAS 28, *Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture*	A date to be determined

The Group is in the process of making an assessment of what the impact of these new issues or amendments is expected to be in the period of initial application. So far, the Group considers that the adoption of them is unlikely to have a significant impact on the Group's accounts, except for HKFRS 16, *Leases*.

The application of HKFRS 16, *Leases*, is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the profit and loss account over the period of the lease.

The Group's operating lease commitments are disclosed in note 52B, some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted.

HKFRS 16 is not expected to impact significantly on the way that the Group accounts for its rights and obligations under a lease when it is the lessor under the lease.

56 Approval of Consolidated Accounts

The consolidated accounts were approved by the Board on 7 March 2017.

Glossary

Airport Express	Train Service provided between AsiaWorld-Expo Station and Hong Kong Station
Appointed Day or Merger Date	2 December 2007 when the Rail Merger was completed
Articles of Association	The articles of association of the Company
Board	The board of directors of the Company
Bus	Feeder bus services operated in support of West Rail Line, East Rail Line and Light Rail
Company or MTR Corporation	MTR Corporation Limited 香港鐵路有限公司, a company which was incorporated in Hong Kong under the Companies Ordinance on 26 April 2000
Companies Ordinance	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong or Chapter 32 of the Laws of Hong Kong (as the case may be))
Computershare	Computershare Hong Kong Investor Services Limited, the share registrar of the Company
Cross-boundary Service or Cross-boundary	Journeys with the destination to/commencing from Lo Wu and Lok Ma Chau stations
Customer Service Pledge	Annually published performance targets in accordance with the Operating Agreement
Director or Member of the Board	A member of the Board
Domestic Service	Collective name for Kwun Tong, Tsuen Wan, Island, South Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines
Express Rail Link	Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link
Fare Index	A measure of customer satisfaction for the fares charged for Domestic and Cross-boundary services, Airport Express, Light Rail and Bus based on satisfaction scores for different fare attributes weighted by the corresponding importance rating from the customer research
FSI	The Financial Secretary Incorporated, a corporation solely established under the Financial Secretary Incorporation Ordinance (Chapter 1015 of the Laws of Hong Kong)
Government	The Government of the Hong Kong SAR
Group	The Company and its subsidiaries
HKSE or Stock Exchange	The Stock Exchange of Hong Kong Limited
Heavy Rail	Collective name for Domestic Service, Cross-boundary Service and Airport Express
Hong Kong or Hong Kong SAR or HKSAR	The Hong Kong Special Administrative Region of the People's Republic of China
Intercity	Intercity passenger services operated between Hong Kong and six major cities in the Mainland of China such as Beijing, Shanghai and Guangzhou
Interest Cover	Operating profit before depreciation, amortisation and variable annual payment divided by gross interest and finance charges before capitalisation, utilisation of government subsidy for Shenzhen Metro Longhua Line operation and accreted interest on loan to a property developer

Glossary

KCRC	Kowloon-Canton Railway Corporation
Kowloon Southern Link	Project for extension of the West Rail Line from Nam Cheong Station to East Tsim Sha Tsui Station via Austin Station, providing direct access between the East Rail Line and West Rail Line after the completion of the project
Light Rail	Light rail system serving North West New Territories
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Mainland or Mainland China or Mainland of China	The People's Republic of China excluding Hong Kong SAR
MTR Ordinance	The Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)
Net Debt-to-equity Ratio	Loans and other obligations, bank overdrafts, short-term loans, obligations under service concession and loan from holders of non-controlling interests net of cash, bank balances and deposits, and investment in bank medium term notes in the consolidated balance sheet as a percentage of the total equity
Operating Agreement	The agreement entered into by the Company and the Government on 30 June 2000 for the operation of our rail services before the Rail Merger and a new agreement entered on 9 August 2007 for the operation of all of our rail and bus passenger services after the Rail Merger
Operating Margin	Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment as a percentage of turnover
Ordinary Shares	Ordinary shares in the capital of the Company
Rail Merger or Merger	The merger of the rail operations of MTR Corporation and KCRC and the acquisition of certain property interests by MTR Corporation from KCRC, full details of which are set out in the Rail Merger Circular. The Rail Merger was completed on 2 December 2007
Rail Merger Ordinance	The Rail Merger Ordinance (Ordinance No.11 of 2007)
Rail Merger Circular	Refers to the circular dated 3 September 2007 despatched to the Company's shareholders in connection with the Rail Merger
Return on Average Equity Attributable to Shareholders of the Company	Profit attributable to shareholders of the Company as a percentage of the average of the beginning and closing total equity attributable to shareholders of the Company of the period
Service Concession	A contract to provide services for a particular period which is awarded by a public sector entity to an operator; in the context of concession projects in Hong Kong, service concession refers to the concession granted or to be granted by KCRC and/or Government to the Company to operate, maintain and renew certain railway lines under the Service Concession Agreement or a Supplemental Service Concession Agreement, as more particularly described in the Rail Merger Circular; in the context of concession projects in the Mainland of China and Overseas, service concession refers to the concession granted by the government or relevant public sector entity to a subsidiary or associate of the Company to provide certain specified services for a specified period under a negotiated concession agreement
Service Quality Index	A measure of customer satisfaction for the services provided by Domestic and Cross-boundary services, Airport Express, Light Rail and Bus based on satisfaction scores for different service attributes (excluding fares) weighted by the corresponding importance rating from the customer research

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SHAREHOLDER SERVICES

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

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