Connecting Communities

Annual Report 2018

Stock Code: 66

In the 40 years since our service operations started, MTR has grown with the people of Hong Kong to become a critical component of the transport infrastructure, as well as the creator of new integrated communities above and near stations. From a single line that opened in 1979, we now operate 12 lines, 256.6 km of route length in Hong Kong that in 2018 carried over 2.0 billion passengers, together with a wide range of businesses including the development of residential and commercial properties, property leasing and management, advertising, telecommunication services and railway consultancy services. Since 2007, we have been building a portfolio of railway operations in Mainland of China, Europe and Australia.

Connecting Together

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

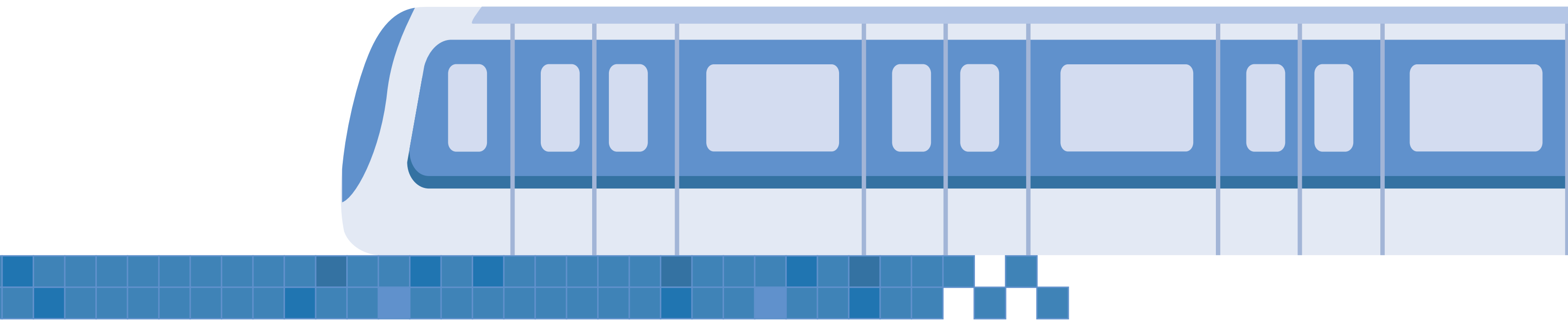
CONTENTS

Overview

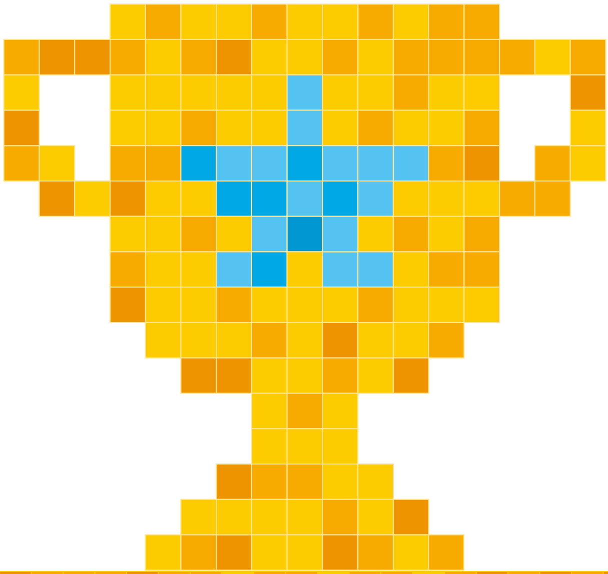
Business Review and Analysis

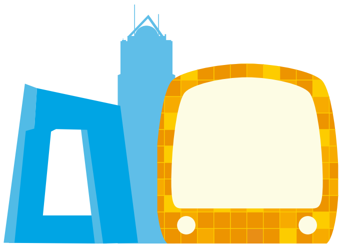
Corporate Governance

Financials and Other Information



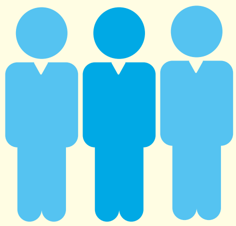
PERFORMANCE





High Speed Rail

commenced service in September



Over

2.0 billion

Total patronage in Hong Kong

Shatin to Central Link
88.7% complete

Awarded 3
property packages

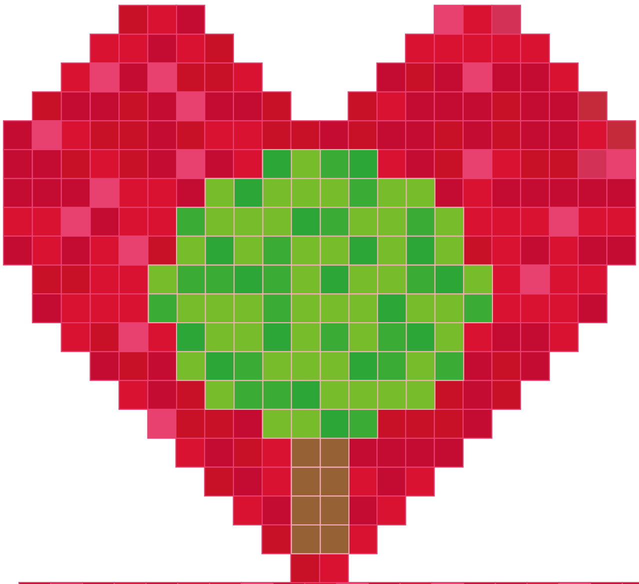
99.9%
Passenger Journeys on-time

8%
fewer reportable events on our heavy rail network

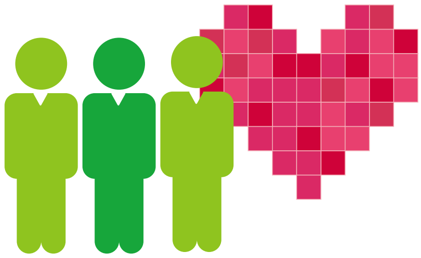
Awarded
Macau Light Rapid Transit Taipa Line

Over 2.1 billion
Total patronage outside of Hong Kong

CARING



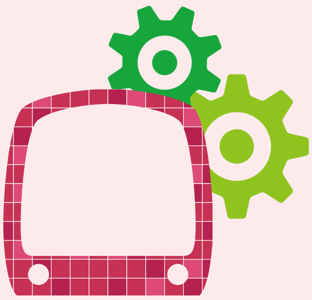
OUR PEOPLE



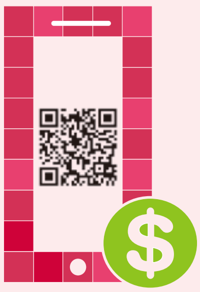
Fulfilling working environment for over

47,000
staff worldwide

OUR CUSTOMERS



93 New Trains and
40 Light Rail Vehicles



QR code
payment
for tickets
to be launched

About **20,000**
Residential Units
and **3 Shopping Malls**
Under Development

OUR COMMUNITY

over 12,000
young people joined youth programmes including
STEM Challenge

HK$28 million
community investment

5 Railway
Project Proposals Submitted

17-km
Shatin to Central Link in progress

3 New Lines
outside of Hong Kong to open

HIGHLIGHTS

2018 FINANCIALS

FINANCIAL PERFORMANCE

Total Revenue
HK$ **53.9** billion

Underlying Business Profit
HK$ **11.3** billion

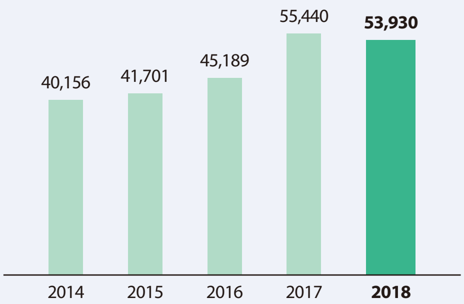
Net Assets
HK$ **180.6** billion

Net Debt-to-Equity Ratio
18.1 %

SUMMARY OF PAST PERFORMANCE

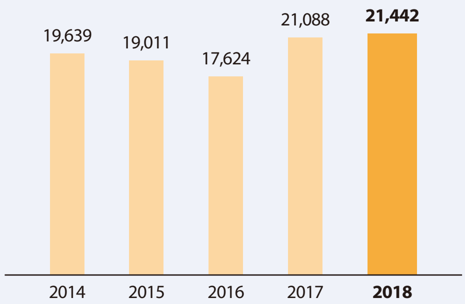
Total Revenue

(HK$ million)



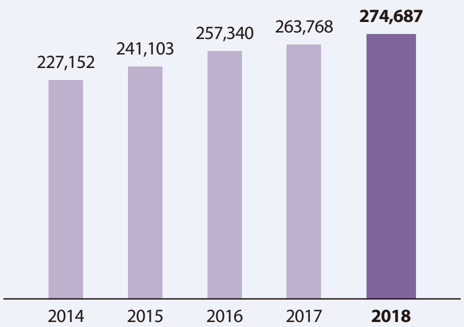
Operating Profit Before Depreciation, Amortisation and Variable Annual Payment

(HK$ million)



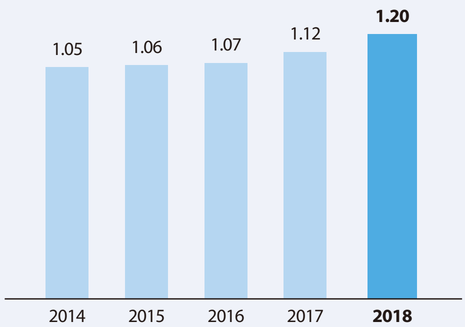
Total Assets

(HK$ million)



Ordinary Dividend per Share

(HK$)



KEY FIGURES

	2018	2017	Inc./(Dec.) %
Financial highlights *(in HK$ million)*			
Revenue			
– Hong Kong transport operations	**19,490**	18,201	7.1
– Hong Kong station commercial businesses	**6,458**	5,975	8.1
– Hong Kong property rental and management businesses	**5,055**	4,900	3.2
– Mainland of China and international railway, property rental and management subsidiaries	**20,877**	17,194	21.4
– Mainland of China property development	**60**	6,996	(99.1)
– Other businesses	**1,990**	2,174	(8.5)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	**18,868**	19,991	(5.6)
Profit on Hong Kong property development	**2,574**	1,097	134.6
Operating profit before depreciation, amortisation and variable annual payment	**21,442**	21,088	1.7
Profit attributable to shareholders of the Company arising from underlying businesses	**11,263**	10,515	7.1
Total assets	**274,687**	263,768	4.1
Loans, other obligations and bank overdrafts	**40,205**	42,043	(4.4)
Obligations under service concession	**10,409**	10,470	(0.6)
Total equity attributable to shareholders of the Company	**180,447**	166,304	8.5
Financial ratios			
Operating margin *(in %)*	**35.0**	36.1	(1.1%) pts.
Operating margin (excluding Mainland of China and international subsidiaries) *(in %)*	**54.5**	53.5	1.0% pt.
Net debt-to-equity ratio* *(in %)*	**18.1**	20.6#	(2.5%) pts.
Return on average equity attributable to shareholders of the Company arising from underlying businesses *(in %)*	**6.5**	6.7	(0.2%) pt.
Interest cover *(times)*	**13.6**	15.0	(1.4) times
Share information			
Basic earnings per share *(in HK$)*	**2.64**	2.83	(6.7)
Basic earnings per share arising from underlying businesses *(in HK$)*	**1.86**	1.77	5.1
Ordinary dividend per share *(in HK$)*	**1.20**	1.12	7.1
Share price at 31 December *(in HK$)*	**41.20**	45.80	(10.0)
Market capitalisation at 31 December *(HK$ million)*	**252,947**	275,156	(8.1)
Operations highlights			
Total passenger boardings in Hong Kong *(million)*			
– Domestic Service	**1,670.0**	1,637.9	2.0
– Cross-boundary Service	**117.4**	112.5	4.4
– High Speed Rail (Hong Kong Section)	**5.3@**	–	N/A
– Airport Express	**17.7**	16.6	6.5
– Light Rail and Bus	**230.4**	229.2	0.5
Average number of passengers *(thousand)*			
– Domestic Service *(weekday)*	**4,862**	4,772	1.9
– Cross-boundary Service *(daily)*	**321.8**	308.4	4.4
– High Speed Rail (Hong Kong Section) *(daily)*	**53.0^**	–	N/A
– Airport Express *(daily)*	**48.5**	45.5	6.5
– Light Rail and Bus *(weekday)*	**652.9**	649.2	0.6
Fare revenue per passenger *(in HK$)*			
– Domestic Service	**7.92**	7.84	1.1
– Cross-boundary Service	**29.56**	29.11	1.6
– High Speed Rail (Hong Kong Section)	**89.44**	–	N/A
– Airport Express	**65.25**	64.75	0.8
– Light Rail and Bus	**3.14**	3.08	1.8
Proportion of franchised public transport boardings *(in %)*	**49.3**	49.1	0.2% pt.

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

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

@ *High Speed Rail (Hong Kong Section) service commenced on 23 September 2018.*

^ *Average of 23 September 2018 to 31 December 2018.*

HONG KONG OPERATING NETWORK WITH FUTURE EXTENSIONS

LEGEND

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

EXISTING NETWORK

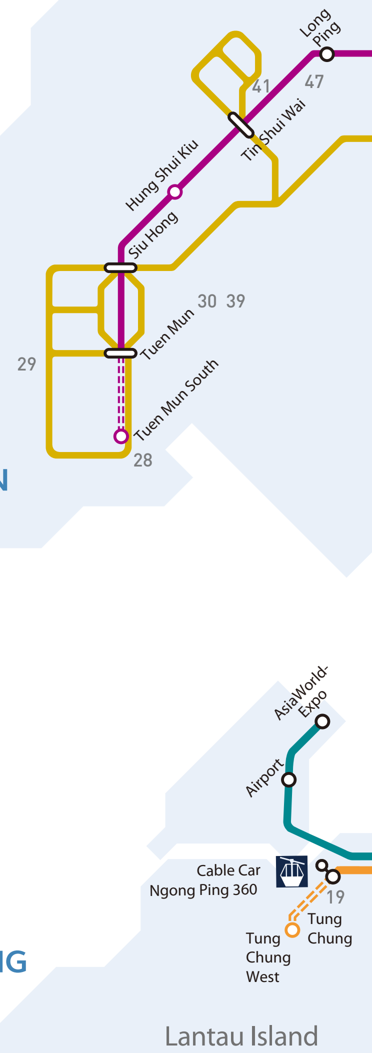
- Airport Express
- Disneyland Resort Line
- East Rail Line
- High Speed Rail
- Island Line
- Kwun Tong Line
- Light Rail
- Ma On Shan Line
- South Island Line
- Tseung Kwan O Line
- Tsuen Wan Line
- Tung Chung Line
- West Rail Line

PROJECTS IN PROGRESS

- Shatin to Central Link (Tai Wai to Hung Hom Section)
- Shatin to Central Link (Hung Hom to Admiralty Section)

POTENTIAL FUTURE EXTENSIONS UNDER RAILWAY DEVELOPMENT STRATEGY 2014

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



PROPERTIES OWNED / DEVELOPED / MANAGED BY THE CORPORATION

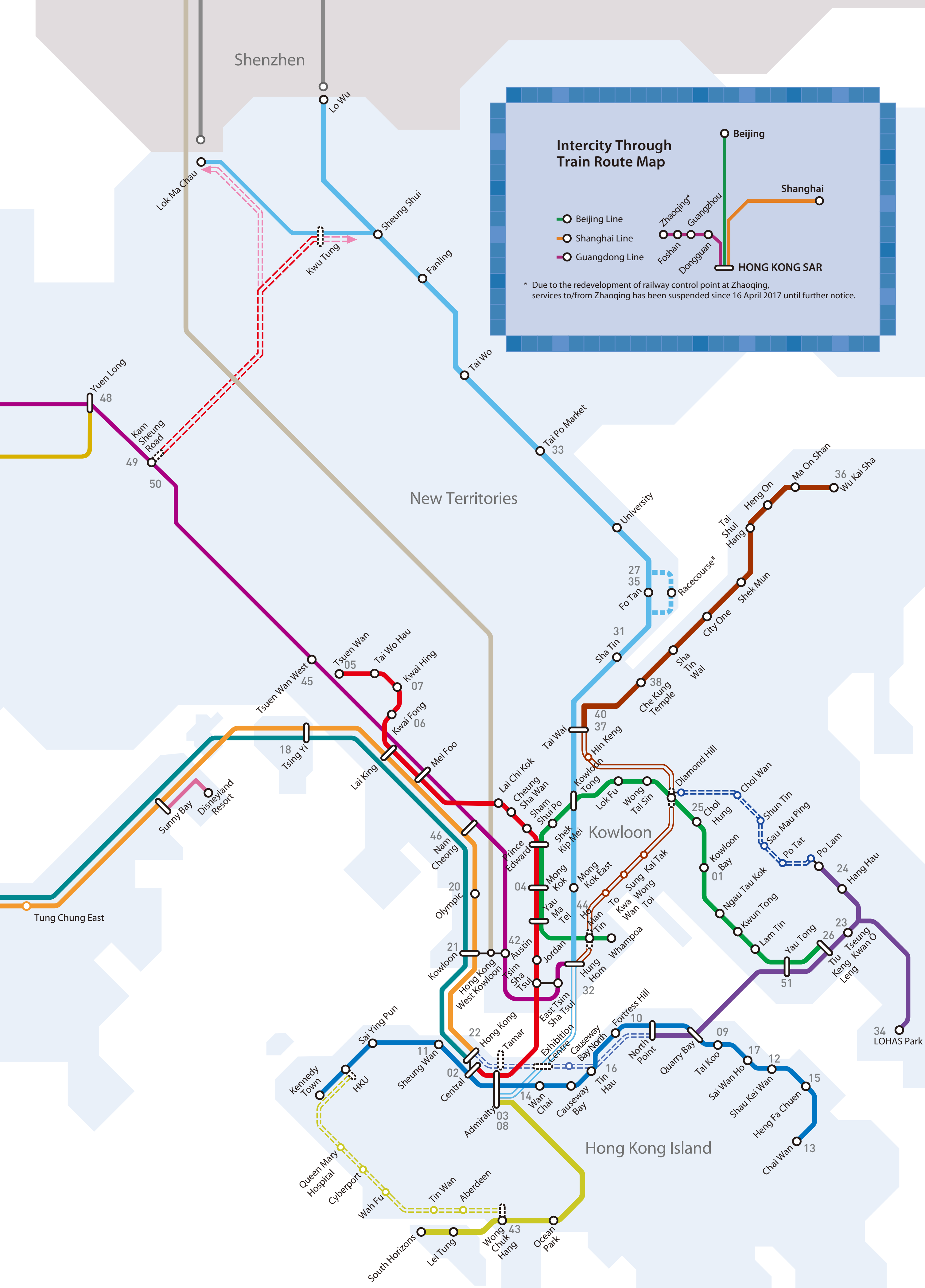
01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Tower
11 Hongway Garden / Infinitus Plaza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

PROPERTY DEVELOPMENTS UNDER CONSTRUCTION / PLANNING

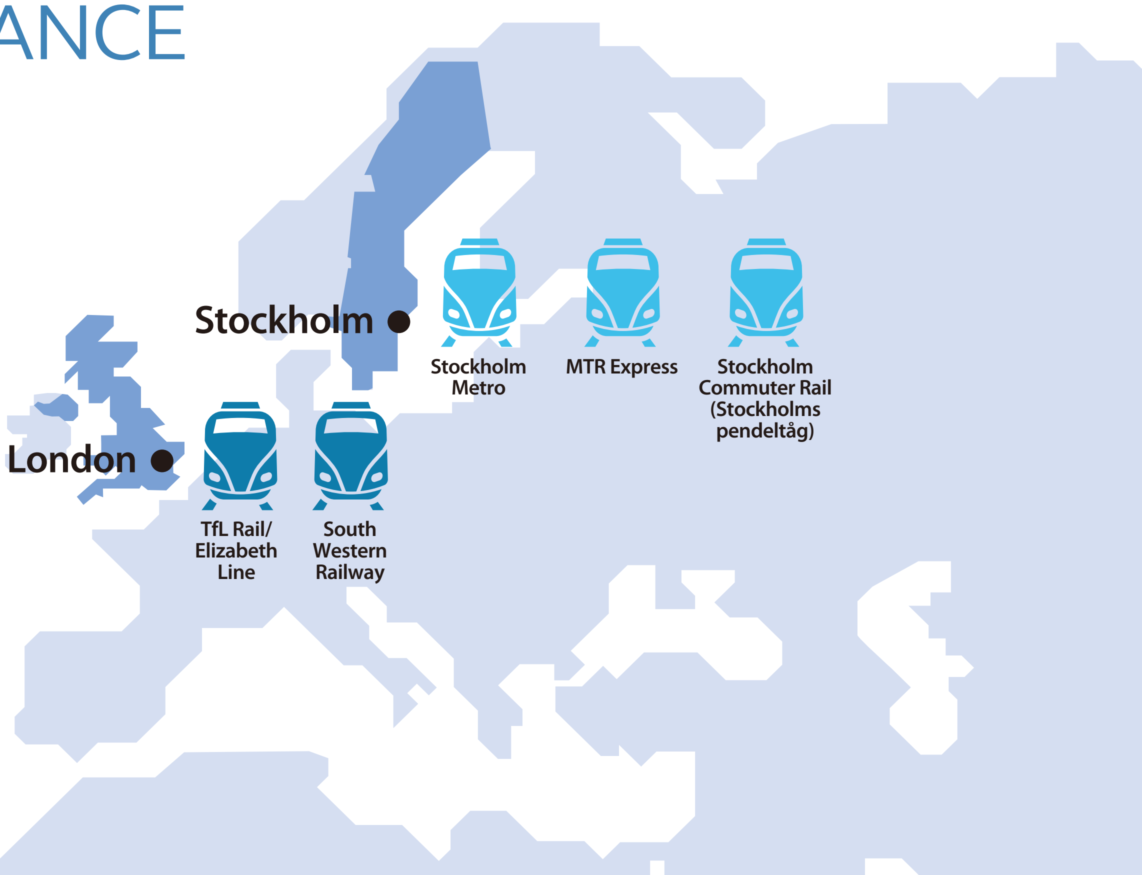
34 LOHAS Park Packages
40 Tai Wai Station
41 Tin Wing Stop
43 Wong Chuk Hang Station Packages
44 Ho Man Tin Station Packages
51 Yau Tong Ventilation Building

WEST RAIL LINE PROPERTY DEVELOPMENTS (AS AGENT FOR THE RELEVANT SUBSIDIARIES OF KCRC)

39 Century Gateway
45 Ocean Pride / Ocean Supreme / PARC CITY / THE PAVILIA BAY / City Point
46 Cullinan West
47 The Spectra / Sol City
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
Intercity Through
Train Route Map
Beijing
Shanghai
Zhaoqing*
Guangzhou
Foshan
Dongguan
HONG KONG SAR
Beijing Line
Shanghai Line
Guangdong Line
* Due to the redevelopment of railway control point at Zhaoqing, services to/from Zhaoqing has been suspended since 16 April 2017 until further notice.
Yuen Long
48
Kam Sheung Road
49
50
New Territories
University
Ma On Shan
36
Wu Kai Sha
Heng On
Tai Shui Hang
27
35
Fo Tan
Racecourse*
Shek Mun
City One
31
Sha Tin
Sha Tin Wai
38
Che Kung Temple
40
37
Tai Wai
Hin Keng
Tsuen Wan
05
Tai Wo Hau
Kwai Hing
07
Tsuen Wan West
45
Kwai Fong
06
Mei Foo
Lai King
18
Tsing Yi
Sunny Bay
Disneyland Resort
Tung Chung East
Lai Chi Kok
Cheung Sha Wan
Sham Shui Po
Kowloon Tong
Lok Fu
Wong Tai Sin
Diamond Hill
Choi Wan
25
Choi Hung
Shun Tin
Sau Mau Ping
Po Tat
Po Lam
24
Hang Hau
Kowloon
Kowloon Bay
01
Ngau Tau Kok
Kwun Tong
Lam Tin
Yau Tong
26
23
Tseung Kwan O
Tiu Keng Leng
51
34
LOHAS Park
46
Nam Cheong
Prince Edward
Shek Kip Mei
Mong Kok
04
Mong Kok East
Yau Ma Tei
44
Ho Man Tin
To Kwa Wan
Sung Wong Toi
Kai Tak
Whampoa
20
Olympic
21
Kowloon
Hong Kong West Kowloon
42
Austin
Jordan
Tsim Sha Tsui
East Tsim Sha Tsui
Hung Hom
32
Sai Ying Pun
Kennedy Town
HKU
11
Sheung Wan
22
Hong Kong
Tamar
Exhibition Centre
Causeway Bay North
Fortress Hill
10
North Point
Quarry Bay
09
Tai Koo
Sai Wan Ho
17
12
Shau Kei Wan
15
Heng Fa Chuen
Chai Wan
13
02
Central
Admiralty
03
08
14
Wan Chai
Causeway Bay
16
Tin Hau
Hong Kong Island
Queen Mary Hospital
Cyberport
Wah Fu
Tin Wan
Aberdeen
South Horizons
Lei Tung
Wong Chuk Hang
43
Ocean Park

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES AT A GLANCE



MAINLAND OF CHINA

BEIJING

Metro Line 4
24 Stations 28.2 km

Metro Line 4 – Daxing Line
11 Stations 21.8 km

Metro Line 14*
37 Stations 47.3 km

Metro Line 16*
29 Stations 49.8 km

Ginza Mall

TIANJIN

Shopping Mall
(under construction)

HANGZHOU

Metro Line 1
31 Stations 48 km

Metro Line 1 Extension
3 Stations 5.6 km

Metro Line 5
(under construction)
38 Stations 51.5 km

SHENZHEN

Metro Line 4
15 Stations 20.5 km

Tiara

Shopping Mall
(under construction)

MACAU

Light Rapid Transit Taipa Line
(under construction)
11 Stations 9.3 km

EUROPE

UNITED KINGDOM

TfL Rail/Elizabeth Line*^
41 Stations 118 km

South Western Railway^
203 Stations 998 km

SWEDEN

Stockholm Metro
100 Stations 108 km

MTR Express^
6 Stations 457 km

Stockholm Commuter Rail^ (Stockholms pendeltåg)
53 Stations 247 km

AUSTRALIA

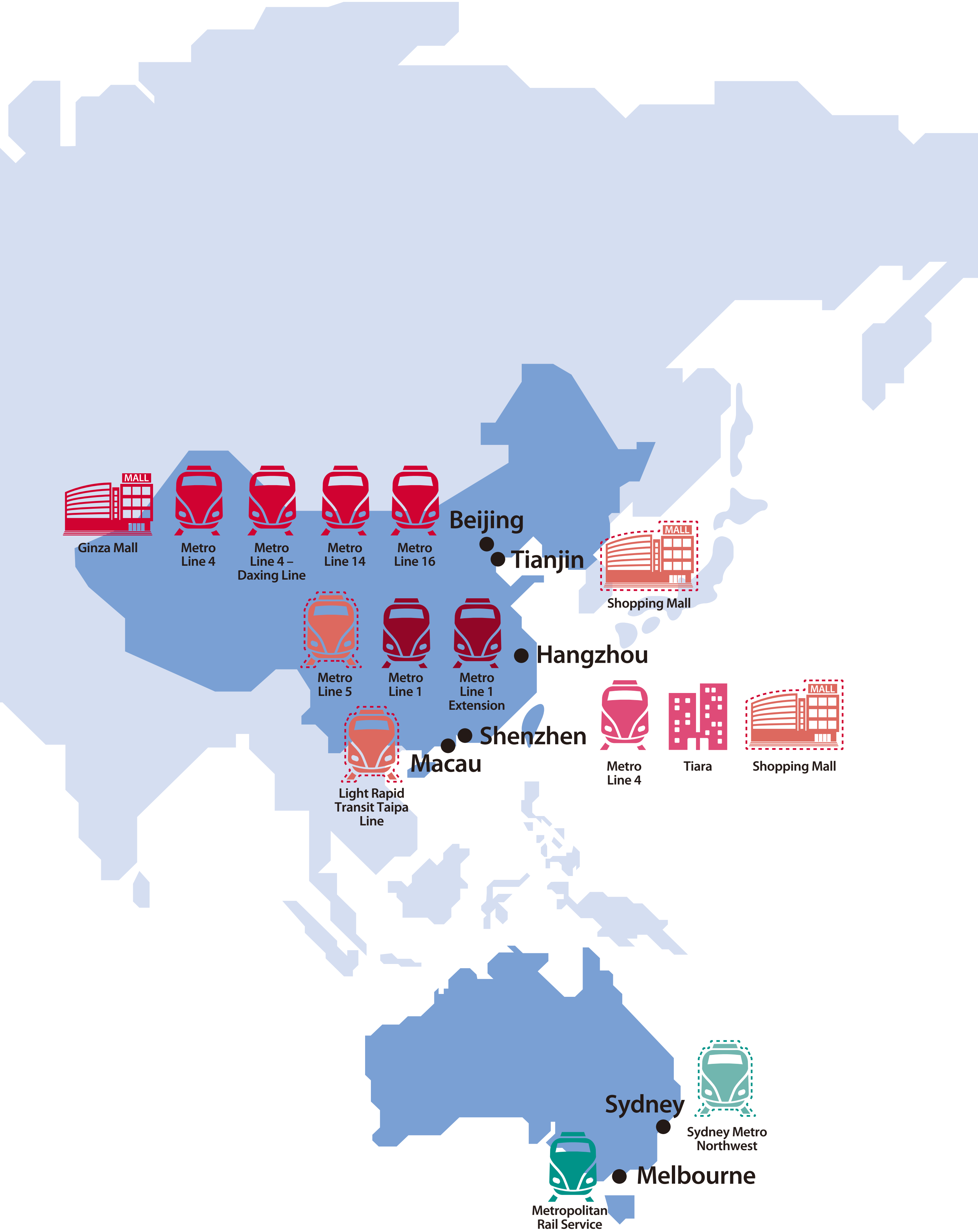
MELBOURNE

Metropolitan Rail Service
222 Stations 409 km

SYDNEY

Sydney Metro Northwest
(under construction)
13 Stations 36 km

* Currently under partial operation
^ Some stations are not managed by MTR's subsidiaries / associates / joint venture, please refer to page 89 for details


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

CHAIRMAN'S LETTER

Dear Shareholders and other Stakeholders,

"Challenging" is a word used too often in letters like this, but I find it a very appropriate adjective to describe the year 2018 for MTR. Being upfront, I have to admit that some situations have not turned out as expected. The Shatin to Central Link ("SCL") is our final project under "Rail Gen 2.0" and, despite further construction progress, the issues at certain stations, especially Hung Hom Station, have caused concern not just for all of us at MTR, but also among the public. I will talk about this in more detail below but, suffice it to say we are working hard to rectify the issues.

In our Hong Kong operations, back in October 2018, a major service incident impacted a large number of passengers across four lines. Here too, prevention is always better than cure and we are actively taking steps to prevent a reoccurrence. Finally, two of our operations in Europe have been impacted by operational challenges, some of which are beyond our control, such as industrial action, the introduction of more complex timetables and underperforming infrastructure provided by third parties, all of which have led to the underperformance of these businesses.

However, this should not overshadow our achievements in 2018, although there clearly is room for improvement in some aspects of our operations. After all, on 23 September, we began passenger service on the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong High Speed Rail ("HSR"). This is one of Hong Kong's most important infrastructure projects since the handover in 1997 and puts Hong Kong on the Mainland of China's vast high speed rail map.

MTR Corporation provides excellent railway services to the public in Hong Kong, whilst operating one of the busiest railway systems in the world. Serving 5.88 million people each weekday, it is inevitable that we will encounter challenges. I am confident that our operations teams will do their best to provide safe, reliable and efficient railway services for all. We are also making good progress in becoming a global operator of sustainable rail transport services that are admired by our peers.

In less than four months, I will hand over the baton to the next Chairman after three-and-a-half years as Chairman of MTR. I have to say that guiding the Company through this period of rapid expansion has been one of the most rewarding tasks I have ever undertaken, as the Company has largely met the goals set for it by the Board. In Hong Kong, we opened three new lines – HSR, the South Island Line and the Kwun Tong Line Extension – while expanding our presence in other markets in parallel. We have awarded seven property development packages that will provide around 6,000 much needed flats for the Hong Kong market, and completed our first property development in the Mainland of China, which was very well received. The MTR Academy ("MTRA") has been established to develop the railway talents of the future and contribute to China's "Belt and Road" initiative. All of these achievements were made possible because of the skill and dedication of our staff.

These rewards have not come easily though. Successfully balancing the needs of the public with those of shareholders is a really tough task. In 2017 we completed the early review of the Fare Adjustment Mechanism ("FAM"), which is paramount in underpinning MTR's financial sustainability, keeping fares at an affordable level for the public, and giving additional fare concessions to sectors of society that require extra relief or support. At the same time, we are committed to provide excellent and customer-oriented service.

All of the above has been achieved while providing our shareholders with a steady and rising stream of dividend payments, backed by a strong balance sheet and a diverse, resilient business model.

This year marks MTR's 40th anniversary. During this journey, MTR has gone from a local company operating a single railway line here at home in Hong Kong to a multinational company which is recognised as a world-class railway operator internationally. Last year, we carried 5.88 million passengers per weekday in Hong Kong along 256.6 km of track, and around 6.83 million passengers per weekday outside of Hong Kong along 2,008.7 km of track. Over the course of 2019, we will open a further three railway lines: Sydney Metro Northwest in Australia, the Light Rapid Transit Taipa Line in Macau and Hangzhou Metro Line 5 in the Mainland of China. These are important milestones in our strategy of continued expansion in the Mainland of China and internationally.

SHATIN TO CENTRAL LINK

Our current focus is the completion of the SCL. This project has become a focus for the whole of Hong Kong, mainly because of the issues regarding construction quality at three stations of the SCL, in particular the Hung Hom Station extension, which we are very concerned about.

Both I and my fellow Board Members have taken the matter very seriously since we became aware of it. Since June 2018, three special Board meetings, in addition to regular Board and Capital Works Committee meetings, have been held to consider and review the issues, as well as to ensure that appropriate steps are being taken to understand the matter fully and to manage it properly. From the outset, I have stressed that public safety is always our first priority. I have also reiterated the need to be transparent about our fact finding and actions. The Company has been and remains committed to honouring this pledge of transparency throughout the course of the matter. It was unfortunate, therefore, that the report relating to the platform slab at the Hung Hum Station extension which we submitted to Government on 15 June 2018 contained inaccuracies, regarding which both I, personally, and the Board have expressed deep disappointment. I would be less than honest if I said that we have done a good job in this matter. Our project management performance has fallen short of public expectations and tarnished the reputation of the Corporation.

In addition to our internal investigations and improvement actions, we have co-operated fully with the Commission of Inquiry ("COI") appointed by the HKSAR Chief Executive in Council and will continue to work with Government to bring the matter to a close. Taking into consideration the views of Government, its Expert Adviser Panel and the Company's appointed external engineering consultants, a holistic proposal for verification and assurance of the as-constructed conditions and workmanship quality of the Hung Hom Station extension was formulated by the Company and approved by Government. Verification and assurance works are being carried out according to the agreed protocol, with findings published by Government on a regular basis for the public's information.

In February 2019, Government announced that the terms of reference of the COI had been expanded to cover issues relating to the North Approach Tunnels ("NAT"), the South Approach Tunnels ("SAT") and the Hung Hom Stabling Sidings ("HHS"), having stated that it has recently come to light that, in respect of the NAT, SAT and HHS, some works-related documentation has been found to be missing and some construction works involving deviations from the designs, plans or drawings accepted by the Highways Department or the Building Authority might have been carried out. In view of the expanded scope of the COI, the Chief Executive in Council has approved a further extension of time for the COI to submit its report to the Chief Executive to 30 August 2019, or such time as the Chief Executive in Council may allow. The COI submitted an interim report to the Chief Executive on 25 February 2019, and Government has yet to publish the interim report up to the date of this annual report. In the meantime, our management team has been asked to strengthen its monitoring and supervision of all project management works, in particular those related to the SCL. Furthermore, we have updated the Terms of Reference of the Company's Capital Works Committee to enhance its oversight of the quality of all major capital works projects.

The opening date of the new line is therefore dependent on a number of factors, and we are looking into the feasibility of the phased opening of the Tuen Ma Line.

Throughout the 40-year history of MTR, we have successfully delivered many projects for Hong Kong, all of the highest quality, including most recently the HSR, which has been well received by the public. MTR is a great organisation, but there is always room for improvement. While we need to move forward, it is also imperative for us to learn from our painful lessons, so that we are geared up to serve Hong Kong for another 40 years and many more years ahead, and we need to continue to strive for excellence for the community.

FINANCIAL PERFORMANCE

Our financial results in 2018 were solid, as the decent economic growth in Hong Kong has provided a good platform for our business expansion.

Looking at the numbers, profit attributable to equity shareholders from recurrent businesses increased by 5.1% to HK$9,020 million. Property development profit for the year increased by 15.9% to HK$2,243 million. As a result, profit attributable to shareholders from underlying businesses was 7.1% higher at HK$11,263 million. Including the gain arising from investment property revaluation which was lower than that in 2017, net profit attributable to shareholders of the Company fell by 4.9% to HK$16,008 million, representing earnings per share after revaluation of HK$2.64. Your Board has proposed a final ordinary dividend of HK$0.95 per share, which together with the interim dividend of HK$0.25 per share, brings the full year dividend to HK$1.20 per share.

Despite the issues associated with the SCL, in 2018, the MTR share price outperformed the Hang Seng Index on a one-year total return basis, and I take this opportunity to thank our shareholders for their confidence and continued support of the Company.

OPERATIONS AND FARES

One of the highlights of my time at MTR fell on 22 September 2018 with the ceremony to mark the opening of HSR, when I joined Mrs Carrie Lam, HKSAR Chief Executive, and Mr Ma Xingrui, Governor of Guangdong Province, and over 400 other guests. Together, we passed through the co-located immigration and customs checkpoints in Hong Kong's award-winning Hong Kong West Kowloon Station and boarded an MTR Vibrant Express high-speed train for a round-trip journey to Guangzhounan station.

Since passenger service began on 23 September 2018, HSR has performed satisfactorily, clocking up more than 5 million passenger journeys by the end of the year. On behalf of the Board, I would like to thank all our staff at MTR who have been involved in HSR for their hard work that has made it such a success. As a company, we are delighted to have been part of this project and to have been awarded a ten-year operating concession. HSR is a new chapter in the history of Hong Kong and will generate immense opportunities for the years to come. We are committed to providing safe, reliable and comfortable high-speed rail services.

Our existing operations, meanwhile, performed well. Our passenger journeys on-time performance for heavy rail train services was maintained at 99.9% over the year. As I have said, this is no easy task and it requires heavy investment by the Company every year, not only in new lines and stations, but also in upgrading and maintaining those that are already operating. The major projects we are undertaking under "Rail Gen 2.0", which signifies the next generation of rail services in Hong Kong, are now taking shape.

But you can only invest if you have the capital required and this is why the FAM is so important to MTR and Hong Kong, because it enables MTR to strike a good balance between addressing the concern of affordability for our customers and maintaining our financial sustainability.

The fare structure underpinned by the FAM allows us to invest not only in new rail projects, but in major improvements to our existing network, with the replacement of trains, signalling systems and air conditioning systems well underway. It also helps fund many smaller scale additions and refurbishments, such as new lifts, gates and seating, which make the everyday experience of our passengers more pleasant and comfortable.

There were no fare increases in 2017 on the MTR lines, in accordance with the FAM, but fares saw an overall upward adjustment of +3.14% from June 2018. This, however, is much lower than the 11.89% aggregated average increase in household incomes in Hong Kong over the last two years, so our fares have actually become more affordable. What's more, our 2018/2019 fare promotions package amounted to HK$500 million and, if you add this to the over HK$2.7 billion on-going MTR fare concessions and discounts, it means that we're bringing to our customers over HK$3 billion worth of fare concessions in the 12 months up to June 2019.

I am very pleased to see that my suggestion to Government of using the dividend it receives from the Company to subsidise passenger fares has been taken up in some form. The 2017 Policy Address introduced a non-means tested Public Transport Fare Subsidy Scheme to provide a 25% fare subsidy for commuters on their monthly public transport expenses in excess of HK$400, subject to a cap of HK$300 a month. Over 2 million commuters are expected to benefit from the scheme, which has been implemented since 1 January 2019.

GROWTH

Despite the challenges of the past few months, we remain focused, as we must be, on the future of MTR and on our role in serving the Hong Kong community. Rail transport is a very long term business. Working with Government, we need to plan decades ahead to make sure Hong Kong has the sustainable railway network that it needs. Government reaffirmed its commitment for railways to be the backbone of Hong Kong's transport system in the HKSAR Chief Executive's 2018 Policy Address and we have already submitted proposals for five new railway lines under the Railway Development Strategy 2014. These are now at various stages of discussion with Government. In the even longer term, Government's "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030" and "Lantau Tomorrow Vision" plans are proposing additional transport corridors and we are looking forward to playing our part in shaping the future of transportation in Hong Kong by participating in the "Strategic Study on Railways beyond 2030 – Feasibility Study" that Government is planning to kick off in 2019.

A substantial portion of our growth in recent years has come from the various franchises we've been awarded outside of Hong Kong, as we leverage our skills and reputation to move into new markets. During the year, we were awarded the operations and maintenance contract for Macau's first railway, the Macau Light Rapid Transit Taipa Line. In the Mainland of China, we signed a series of agreements with local parties that will open up new railway and property opportunities in the cities of Beijing, Hangzhou, Chengdu, Shunde and at provincial level in Zhejiang. Further afield, in the UK we have submitted our bid for the West Coast Partnership rail franchise, which will include the HS2 high speed rail services. In Australia, we are pursuing opportunities in phase two of Sydney Metro, Sydney Metro City and Southwest, and, in Canada, a rail system upgrade and expansion project in the Toronto and Hamilton corridor.

OUR PEOPLE

Our experienced and committed staff are our greatest asset and the key to what makes MTR a world-class company year after year. We strive to provide our people with

competitive remuneration and continuous growth and development opportunities in a collaborative and harmonious work environment.

In 2018, many of our human resources activities centred on the campaign to "Strengthen Our Culture for Excellence and Growth", with four cultural focuses – Participative Communication, Effectiveness and Innovation, Collaboration and Agility to Change. Innovation is the holy grail of business in our fast-changing world and one of the new initiatives in this area during the year was the #propUP programme, which focused on innovative ideas for shopping malls. The programme was a platform to crowdsource ideas and it followed on from the success of 2017's Innovation Bootcamp, launched for our property business, which was held again in 2018. Over 100 startups enrolled in the #propUP programme and the five winning startups were able to test their products and services in four MTR malls, with mentors and on-site support sponsored by MTR.

MTRA is also contributing increasingly to the railway industry globally. More and more railway professionals are enrolling and, during the year, MTRA engaged with local schools to give young people a taste of the railway industry, which they might one day consider as a career. Internationally, MTRA now has agreements with organisations in the Mainland of China, Thailand, Indonesia, the Philippines and the UK covering various kinds of collaboration.

CONTRIBUTIONS TO THE COMMUNITY

Our rail services and related businesses play an important role in connecting people and stimulating economic growth, but our "Community Connect" platform tries to help in other ways, especially in relation to young people as they move through life, which can be a rough journey at times.

In July 2018, we launched a new youth initiative, "Uth Live Saturdays", providing a platform for tertiary students to showcase their talents at Hong Kong Station. The second year of the "STEM Challenge" programme, which engages secondary-school students in real-world engineering challenges, has gone from strength to strength, now reaching more than 12,000 students. Our long-running youth summer programme "'Train' for life's journeys" celebrated its 10th anniversary with a record number of young people spending eight days in July challenging themselves, learning about our operations and sampling various roles.

Culture is part of what moves any city from good to great, and this is why we also put out efforts into enriching the cultural life of Hong Kong through our "Art in MTR" programme. Apart from the 82 artworks in the MTR network, the programme also puts on a variety of events in our stations during the year.

MTR cares about the community and our "More Time Reaching Community" Scheme organised 292 volunteering activities involving a participating volunteer headcount of over 5,600 in 2018 to serve those in need. The MTR Volunteering Month in late 2018 demonstrated our commitment to environmental protection. We again received the "10 Years Plus Caring Company Logo" from The Hong Kong Council of Social Service. The Community Chest, meanwhile, gave MTR the "President's Award", the "Diamond Award" and the "10th Top Fundraiser Award" in its Corporate and Employee Contribution Programme 2017/2018 in recognition of our efforts in various charity events and fundraising initiatives for good causes.

An electrified railway system is one of the most environmentally friendly ways to travel and MTR is making a positive contribution to our planet every day by taking people off fossil fuel based road transport. We also strive to go beyond this through a range of programmes aimed at making a positive impact, such as those targeting energy efficiency. We raised a total of around HK$3.5 billion through green finance initiatives in 2018, including the signing of our first green loan, and such funds have been assigned to different green projects. We are proud when these efforts are recognised and, in 2018, our achievements were acknowledged in a number of ways, including through several awards given under the Energy Saving Championship Scheme organised by the Environment Bureau and the Electrical and Mechanical Services Department.

BOARD

A good company also needs to be backed by a strong Board and I am pleased that MTR is able to attract the high calibre Directors it needs. There were a few important changes from 2018 to date.

I would like to welcome Mr Rex Auyeung Pak-kuen, who joins the Board today as a Non-Executive Director. Following the Board's appointment, the Financial Secretary Incorporated notified the Corporation that, subject to his election as a Director of the Corporation at the Corporation's Annual General Meeting in 2019, Mr Auyeung will be appointed as Chairman of the Corporation with effect from 1 July 2019 until 31 December 2021. I congratulate Rex on his appointment and wish him all the very best in his new role. Without doubt, the Corporation will be taken to new heights under Rex's leadership. As for myself, I will be retiring from the position of Chairman when my tenure ends on 30 June 2019.

On 7 August 2018, our CEO, Mr Lincoln Leong Kwok-kuen, notified the Company of his wish to take early retirement. Following a global search, the Board has appointed Dr Jacob Kam, currently Managing Director – Operations and Mainland Business of MTR Corporation, to be the new CEO, with effect from 1 April 2019. I am confident that, with Dr Jacob Kam's extensive experience in operations, engineering and other businesses of the Corporation, fuelled by his passion for the industry, he will lead the Corporation in overcoming the difficulties it is facing. Mr Lincoln Leong will retire from the Corporation after 31 March 2019. I wish once again to thank Lincoln for his leadership and the tremendous contributions he has made since joining the Company in 2002 as Finance Director. Under Lincoln's leadership, the Corporation has continued to deliver world-class performance in its operations, and successfully completed and opened the Kwun Tong Line Extension, the South Island Line and the HSR. In addition, Lincoln has also driven significant growth in our Hong Kong station commercial, property development and rental businesses, as well as contributed significantly to the Corporation's growth in the Mainland of China and international markets.

Mr Alasdair George Morrison retired as an Independent Non-executive Director with effect from the conclusion of the Company's Annual General Meeting on 16 May 2018. Alasdair served on the Board for more than seven years and I thank him for his advice and support during all these years. Filling his place, Ms Rose Lee Wai-mun joined as an Independent Non-executive Director on the same date.

I also wish to formally welcome Mr Lam Sai-hung who, by virtue of his appointment to the post of Permanent Secretary for Development (Works) with effect from 13 October 2018, became a Non-executive Director of the Board on the same day. He succeeded Mr Hon Chi-keung, who retired from the Board on the same date, and I thank Mr Hon for his contributions during his tenure as a Board Member.

I thank all my fellow Directors for the time they have put in, and all of our staff for their hard work and commitment throughout the year.

SOME FINAL THOUGHTS

I feel privileged and honoured to have served MTR for close to six years, starting off as an Independent Non-executive Director in July 2013, and serving as Non-executive Chairman since 1 January 2016. My time at MTR has surely been busy and fulfilling. MTR is a Hong Kong institution, one that should be treasured for the contributions it makes each and every day to the community's well-being.

The construction issues relating to certain stations on the SCL, particularly the Hung Hom Station extension, have distressed me. Yet, I believe that every company or individual inevitably encounters setbacks at some point. The situation reminds me of an incident involving Ngong Ping 360 in 2007, when an empty cable car fell to the ground, causing a collapse in the public confidence in the operating company.

As Secretary for Commerce and Economic Development at that time, I had to restore public trust in the Ngong Ping 360 cable car service as soon as possible. Through a joint effort of Government and MTR, we eventually succeeded in doing so. Today, Ngong Ping 360 is highly successful and has been named as one of "The World's 10 Best Cable Cars".

Likewise, in the case of the SCL project, I am confident that with the concerted efforts of MTR staff and their "can-do" spirit, the Corporation will be able to overcome the recent challenges and regain the public's trust. Over the next 40 years and for even more decades to come, I have no doubt the Corporation will continue to weather any challenges and embrace new opportunities so as to achieve new heights.

Professor Frederick Ma Si-hang
Chairman
Hong Kong, 7 March 2019

SUPPLEMENTARY UPDATE UP TO 26 MARCH 2019

On 18 March 2019, during non-traffic hours drill tests for the new signalling system for the Tsuen Wan Line, two trains collided near Central Station. Both I and my fellow Board Members are very concerned about the incident and, at a special Board Meeting held on 19 March 2019, requested the management team to (i) resume the service between Admiralty Station and Central Station on the Tsuen Wan Line as soon as possible (the service was resumed on 20 March 2019), (ii) set up an expert panel to conduct a detailed investigation into the incident, and (iii) reserve the Company's position against the relevant contractor. Safety is of utmost importance to MTR Corporation and the Board will continue to oversee the follow up to this unacceptable incident.

On 26 March 2019, the interim report of the COI was made public by Government. The COI has made a clear determination that the diaphragm wall and platform slab construction works of the Hung Hom Station extension are safe and finds no rebuilding or strengthening of the works to be necessary. The Company welcomes and recognises the findings and recommendations in the interim report of the COI. We will continue to work with Government to bring forward the SCL project to better serve the community.

CEO'S REVIEW
OF OPERATIONS AND OUTLOOK

Dear Shareholders and other Stakeholders,

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

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

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

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

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

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

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

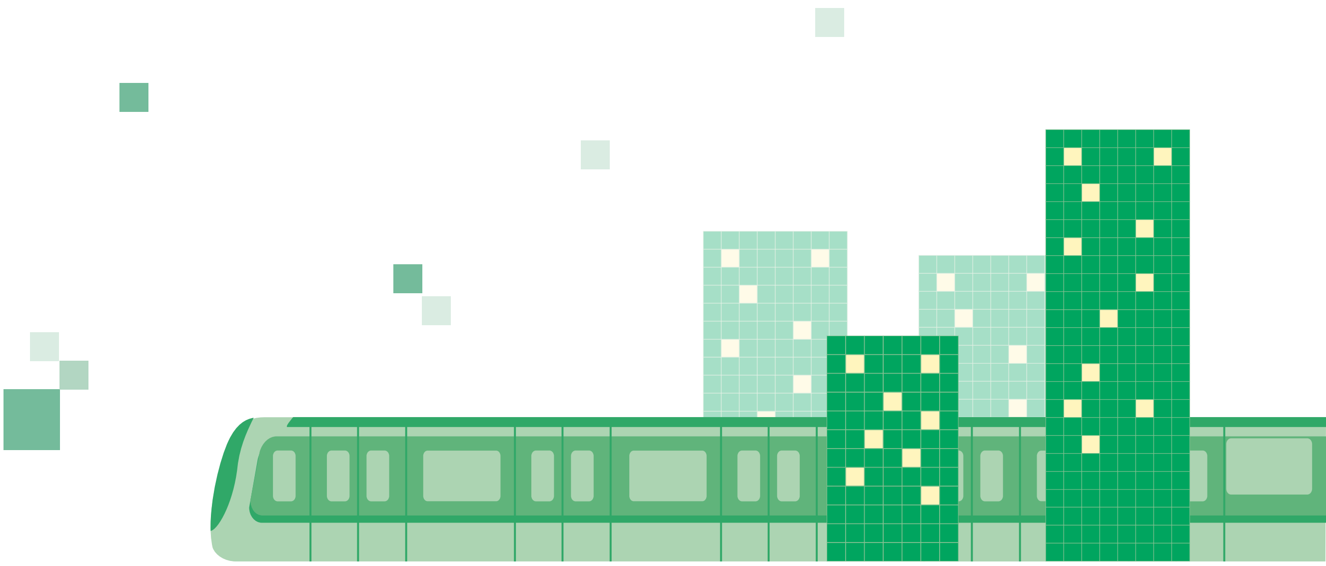
Government has reinforced its vision for railways to remain the backbone of public transportation in Hong Kong, a strategy that was reaffirmed in the HKSAR Chief Executive's Policy Address on 10 October 2018. Seven new railway projects have been proposed under the Railway Development Strategy 2014 ("RDS 2014"). We are providing Government with further information to enable it to move ahead with our submitted proposals for five of these projects, namely the Tuen Mun South Extension ("TMS"), the Northern Link (and Kwu Tung Station) ("NOL"), the East Kowloon Line ("EKL"), the Tung Chung West Extension (and Tung Chung East Station) ("TCW") and the North Island Line ("NIL"). We also look forward to receiving the invitation from Government for proposals for the remaining two projects under RDS 2014, namely Hung Shui Kiu Station and the South Island Line (West).

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

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

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

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



HONG KONG BUSINESSES

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

Transport Operations

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

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

Safety

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

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

Patronage and Revenue

Revenue from our Hong Kong transport operations is summarised below:

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

In 2018, total patronage of all our rail and bus passenger services increased by 2.2%, to 2,044.5 million passenger trips whilst average weekday patronage increased by 2.0% to 5.88 million.

For the Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail, Ma On Shan and South Island lines), total patronage for the 12 months was 1,670.0 million, 2.0% higher than in 2017. For the Cross-boundary Service to Lo Wu and Lok Ma Chau, patronage increased by 4.4% to 117.4 million, as the number of Mainland visitors continued to increase. Patronage on the Airport Express increased by 6.5% to 17.7 million, supported by a rise in air passenger traffic. Between its opening on 23 September 2018 and the end of the year, total patronage for HSR was 5.3 million.

Market Share

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

Fare Adjustments, Promotions and Concessions

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

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

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

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

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

Service Performance

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

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

Station Commercial Businesses

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

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

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

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

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

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

Property Businesses

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

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

Property Rental and Management Businesses

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

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

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

As at 31 December 2018, the Company's attributable share of investment properties in Hong Kong was 217,486 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of offices and 17,764 square metres of property for other use.

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

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

Property Development

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

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

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

Pre-sale of Sol City (the Long Ping Station (South) site) was launched in October 2018 and as at 31 December 2018, about 30% of the 720 units had been sold.

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

HONG KONG BUSINESS GROWTH

Growing our Hong Kong Rail Business

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

Rail Gen 2.0

New Rail Projects Managed by MTR

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

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

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

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

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

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

Shatin to Central Link

The ten-station 17-km Shatin to Central Link, a project managed by MTR on behalf of Government, is a strategic railway that will extend the existing rail network and improve connectivity. The first phase is the 11-km Tai Wai to Hung Hom Section and the second phase is the 6-km Hung Hom to Admiralty Section. When the Tai Wai to Hung Hom Section is completed, it will extend the existing Ma On Shan Line from Tai Wai via six stations to the West Rail Line to form the Tuen Ma Line. When the Hung Hom to Admiralty Section is completed, it will extend the existing East Rail Line across the harbour to Exhibition Centre Station and Admiralty Station through Hung Hom.

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

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

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

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

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

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

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

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

Concerns relating to construction works

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

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

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

Programme for Delivery

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

Funding

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

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

Major Asset Upgrades and Replacements on the Existing Network

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

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

To meet the rising demand for our light rail services, we are replacing 30 light rail vehicles and purchasing ten additional vehicles, at a total cost of HK$745 million. The first two new light rail vehicles have been delivered and testing and commissioning have commenced. The new vehicles will enter passenger service progressively between 2019 and 2023.

The existing signalling systems on the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express, are being replaced at a cost of HK$3.3 billion. Installation on the Tsuen Wan Line has been completed and dynamic tests covering the whole line with multiple trains continue with the new system targeted to commence operations in 2019. On the Island Line, installation is substantially completed and dynamic testing has been progressing steadily. Installation on the Kwun Tong Line has also commenced. Overall completion for all lines is targeted in 2026. The programme is being monitored closely to ensure the safety and reliability of existing railway services.

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

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

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

Enhancing Customer Experience

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

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

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

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

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

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

New Rail Projects beyond Rail Gen 2.0

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

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

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

Expanding the Property Portfolio

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

During the coming few years, we will add three projects totalling 152,120 square metres GFA to our shopping centre portfolio, increasing attributable GFA by approximately 49%. These three projects, namely the LOHAS Park shopping

centre, Tai Wai shopping centre and the shopping centre at Wong Chuk Hang, are all underway.

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

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

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

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

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

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

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

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

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

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

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

* *excluding business development expenses*

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

Railway Businesses in the Mainland of China

Beijing

In Beijing, our 49%-owned associate BJMTR operates four lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14") and Beijing Metro Line 16 ("BJL16"). On-time performance in 2018 averaged 99.9% across the four lines.

For the year, the combined ridership of BJL4 and the Daxing Line was about 451 million passenger trips, while average weekday patronage was more than 1.34 million, similar to 2017.

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

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

Shenzhen

SZL4, which is operated by MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), saw patronage grow by 11% to 232 million in 2018, while average weekday patronage rose to 643,000. On-time performance remained at 99.9%.

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

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

Hangzhou

Our 49%-owned associate in Hangzhou, HZMTR, operates Hangzhou Metro Line 1. Patronage on this line increased by 20% in 2018 to 271 million, with average weekday patronage at 749,000. On-time train performance remained at 99.9%. Supported by the growth in patronage, our share of profit from HZMTR in 2018 amounted to HK$35 million, as compared to a loss of HK$68 million in 2017.

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

Property Businesses in the Mainland of China

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

In March 2017, a framework agreement was signed with a subsidiary of Beijing Capital Land Limited for the disposal of our 49% interest in Tianjin TJ-Metro MTR Construction Company Limited, as well as the conditional future acquisition of an approximately 91,000 square metres GFA shopping centre to be developed on the Beiyunhe Station site. Relevant government approval was obtained in July 2017 for the disposal of our 49% interest and the Sale and Purchase Agreement for the shopping centre was signed on 26 January 2018. Excavation of the basement has been progressing. Targeted project completion is the end of 2022.

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

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

European Railway Businesses

United Kingdom

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

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

Through our associate First MTR South Western Trains Ltd, as a 30% shareholder, we have partnered with FirstGroup plc on the South Western Railway franchise. South Western Railway is one of the UK's largest rail networks, with a route length of 998 km serving 203 stations, covering London and south western England. Financial performance in 2018 was impacted by factors including an industry-wide slowdown in growth in passenger numbers, industrial action, the delayed introduction of timetable changes and incidents involving infrastructure under the control of a third party. If the abovementioned factors continue to adversely impact South Western Railway, and are not appropriately ameliorated under the Franchise Agreement or by the relevant third party, the long-term financial viability of South Western Railway is expected to be impacted.

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

Sweden

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

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

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

Our wholly-owned subsidiary MTR Pendeltågen AB operates the Stockholm commuter rail service under a concession that runs for ten years to December 2026, with an option to extend for four more years. The concession includes the maintenance of rolling stock undertaken by Emtrain AB, a 50%-owned associate together with EuroMaint Rail AB. Stockholm commuter rail serves the greater Stockholm area, with 53 stations and a total route length of 247 km.

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

Australian Railway Businesses

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

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

Macau Railway Business

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

Growth Outside of Hong Kong

Mainland of China

We continue to work with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and BJMTR in accordance with our Cooperation Framework Agreement to conduct joint preliminary studies on integrated property development above selected existing station and depot sites along BJL4 and the Daxing Line (including the Nanzhaolu Depot). We have also signed a Letter of Intent ("LoI") with BIIC to extend our strategic co-operation to other, predominantly rail-related, property development projects in Beijing in addition to investment in, construction and operation of other railway projects. In November 2017, the Company signed an LoI with the Daxing District People's Government of Beijing Municipality, BIIC and BJMTR for studies on the southward extension of the Beijing Daxing Line, Nanzhaolu Depot capacity expansion and integrated property development above the depot.

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

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

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

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

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

International

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

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

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

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

FINANCIAL REVIEW

Profit and Loss

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

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

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

Operating profit from our Mainland of China property development, after profit sharing with the Shenzhen Municipal Government for the Tiara development, was HK$25 million. It was HK$2,289 million lower than 2017 when profit in respect of the vast majority of the units sold at Tiara was recognised.

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

After taking into account Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment, operating profit before interest and tax therefore decreased by 1.0% to HK$14,152 million.

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

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

Statement of Financial Position

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

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

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

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

Cash Flow

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

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

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

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

HUMAN RESOURCES

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

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

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

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

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

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

MTR ACADEMY

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

OUTLOOK

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

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

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

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

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

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

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

Lincoln Leong Kwok-kuen
Chief Executive Officer
Hong Kong, 7 March 2019

SUPPLEMENTARY UPDATE UP TO 26 MARCH 2019

On 18 March 2019, during non-traffic hours drill tests for the new signalling system for the Tsuen Wan Line, an MTR train was entering Central Station through a crossover when it collided with the third to fourth car of another train that was departing from Central Station through the crossover at the same time. All drill tests for all new signalling systems during non-traffic hours have been suspended until the cause of the incident can be ascertained and the safety of the new systems assured. We have requested the contractor to submit a detailed report and remedial measures to us and an expert panel will be set up to conduct a detailed investigation. We apologise to our passengers for the inconvenience caused by this unacceptable incident. The Corporation reserves its rights to take actions against the contractor of the new signalling system.

On 26 March 2019, the interim report of the COI was made public by Government. The COI has made a clear determination that the diaphragm wall and platform slab construction works of the Hung Hom Station extension are safe and finds no rebuilding or strengthening of the works to be necessary. The COI is also satisfied that there was no extensive or systematic cutting of the threaded ends of rebars.

While the COI is confident that the station box structure is safe, in order to give further assurance to the public, we will continue with the holistic plan agreed with Government.

The Company also welcomes and recognises the other findings and recommendations in the interim report of the COI. The Company will take account of these and will make further improvements going forward. Safety has always been the top priority for the Company. We will continue to take the Shatin to Central Link project forward in a safe manner.

AWARDS

HONG KONG TRANSPORT OPERATIONS

- **"Classic Brand" Award, Hong Kong Classic Brands Award 2018**
- **Public Transportation Category Award, Hong Kong Service Awards 2018**

  East Week Magazine

- **Category Award for Public Transportation, Top Service Awards 2018**

  Next Magazine

- **Digital Transformation Award – Bronze Award, HKACE Customer Service Excellence Award 2018**

  Hong Kong Association for Customer Service Excellence (HKACE)

- **Eight awards received in Mob-Ex Awards 2018**

  Marketing Magazine

- **Certificate of Merit, Smart Mobility Award (Smart Transport), Hong Kong ICT Awards 2018**

  GS1 Hong Kong

- **Express Rail Link – Gold Award, 2018 GOV Design Awards**
- **Express Rail Link – Gold Award, 2018 Hong Kong Design Awards**

  DRIVENxDESIGN

HONG KONG PROPERTY AND OTHER BUSINESSES

- **Telford Plaza – Best Event – Consumer (Silver Award), The Marketing Events Awards 2018**
- **Telford Plaza – PR Awards – Bronze Awards, Best PR Campaign Awards 2018 (Consumer)**

  Marketing Magazine

- **ELEMENTS – Top 10 Shopping Malls, Digital Ex 2018**

  Metro Finance

- **ELEMENTS – Excellence Service Award, Hong Kong Service Awards 2018**

  East Week Magazine

- **PopCorn – PR Awards – Gold Awards, Best PR Campaign Awards 2018 (Lifestyle)**

  Marketing Magazine

- **Two ifc – Property Management Team of the Year, RICS Hong Kong Awards 2018**

  Royal Institution of Chartered Surveyors (RICS)

CORPORATE RESPONSIBILITY

- **10 Years Plus Caring Company Logo**

  Hong Kong Council of Social Service

- **Friendly Employment Award**

  Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme by the Labour and Welfare Bureau

- **President's Award, Diamond Award and 10th Top Fundraiser Award of Corporate and Employee Contribution Programme 2017/18**

  The Community Chest

- **"Corporate Responsibility Award, Hong Kong Service Awards 2018**

  East Week Magazine

HUMAN RESOURCES

- **First Runner-up, Hong Kong's Most Attractive Employer 2018**

  Randstad Group

- **Manpower Developer – Grand Prize Award, ERB Manpower Developer Award Scheme 2017-2018**

  Employment Retraining Board (ERB)

INVESTOR RELATIONS

- **Bronze Award – General Category, 2018 Best Annual Reports Awards**

  Hong Kong Management Association

- **Ten awards received in 2018 International Annual Reports Competition (ARC) Awards**

  MerComm, Inc.

HONG KONG TRANSPORT OPERATIONS

AIM

Our aim is 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 the sustainable returns that allow us to invest in our network, to maintain our high levels of service and address the changing expectations of our customers. These investments 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.

CHALLENGES

- Managing major asset upgrades and replacements: carry out required major asset upgrades and replacements without compromising our service performance or the customer experience , e.g. signalling and chillers
- Safety of project interfaces: ensure a smooth transition from project completion to operations in order to ensure the safety of all concerned
- Workforce transition and digitisation: deliver extensive training to our railway operations employees relevant to the innovative technologies we are introducing

8%
fewer reportable events on our heavy rail network

99.9%
passenger journeys on-time

5.88 million
average weekday patronage in Hong Kong

STRATEGIES

- Safety First, Excellent Service: maintain our excellent track record and culture. Equip staff with clear guidelines and sound training regarding operations and customers. Raise our customers' safety awareness through targeted campaigns and information
- Maintaining Very High Performance Standards: achieve world-class levels of service performance that exceed the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. Continue our stringent maintenance regime, investing significantly in renewing and upgrading our railway assets
- Customer Engagement and Experience: understand and deliver what matters most to our customers, enhancing the travelling experience and meeting the needs arising from an aging population and service digitisation
- Staff Development: treat people as our most valuable asset, be committed to inspire, engage and develop our employees while continuing to offer long-term, rewarding careers in various disciplines

OUTLOOK

Our railway operations in Hong Kong are supported by the commitment of Government for rail transport to be the backbone of public transportation and by increasing awareness in society of the environmental benefits of rail travel. For our Hong Kong transport operations, continued economic growth and a full-year operation from HSR will support passenger volume increases. While the delivery of the Shatin to Central Link is dependent on a number of factors, including the results of the holistic review of the Hung Hom Station extension mentioned previously, we are looking into the feasibility of the phased opening of the Tuen Ma Line. This requires careful study of a number of issues including necessary modifications to the signalling system.

Based on fare revenue and underpinned by the Fare Adjustment Mechanism agreed with Government, the business is highly resilient to changes in the overall economic environment. There was a 3.14% increase in fares from June 2018.

EBITDA
HK$8,171m
9.3%

EBIT
HK$1,985m
19.9%

FINANCIAL PERFORMANCE

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

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

SAFETY

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

We ran a number of programmes specifically designed for children to help cultivate safe and courteous behaviour among our young passengers. A new initiative to give children safety tips is an interactive MTR Safety Experience Zone, which was launched in March 2018 at Tsing Yi Station. This is a collaboration between the Company and People on Board Social Enterprise. In addition, we sponsored People on Board to participate in the Hong Kong Book Fair 2018 with a pop-up Safety Zone in July 2018. By the end of 2018, the Safety Zone welcomed more than 45,000 visitors who learned about platform safety, escalator safety, proper use of lifts and good behaviour on trains through interactive games. We also relaunched our Budding Station Master programme in November 2018, under which selected stations host behind-the-scenes tours for children, who act as station ambassadors handing out safety messages and gifts.

Promoting the safe use of escalators is another priority. In July 2018, the Escalator Safety Campaign 2018 was rolled out with new posters and videos to highlight the serious consequences of unsafe escalator usage. Escalator Safety Ambassadors were also deployed to designated MTR stations to remind passengers to hold the handrail and stand firm.

To promote railway safety among the elderly, MTR joined Radio Television Hong Kong's ("RTHK") Radio 5 to launch the annual Elderly Programme in November 2018, with a series of interactive games involving popular artistes and a station tour. Apart from welcoming 100 participants on-site, safety messages were spread through various radio programmes on RTHK Radio 5, reaching a wide audience.

For light rail, an innovative "Integrated Speed and Position Supervision System" developed by MTR engineers has been put on trial, enabling real-time speed monitoring of light rail vehicles and further enhancing the operational safety and efficiency of our light rail services through other advanced features.

PATRONAGE AND REVENUE

Revenue from our Hong Kong transport operations is summarised below:

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

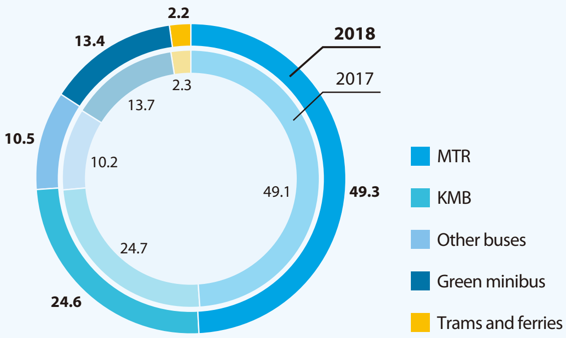
In 2018, total patronage of all of our rail and bus passenger services increased by 2.2% to 2,044.5 million passenger trips.

For the Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail, Ma On Shan and South Island lines), total patronage for the 12 months was 1,670.0 million, 2.0% higher than in 2017. For the Cross-boundary Service to Lo Wu and Lok Ma Chau, patronage increased by 4.4% to 117.4 million, as the number of Mainland visitors continued to increase. Patronage on the Airport Express increased by 6.5% to 17.7 million, supported by a rise in air passenger traffic. Between its opening on 23 September 2018 and the end of the year, total patronage for HSR was 5.3 million.

Average weekday patronage of all of our rail and bus services increased by 2.0% to 5.88 million. The Domestic Service, which accounts for the majority of this patronage, reported a 1.9% increase to 4.86 million.

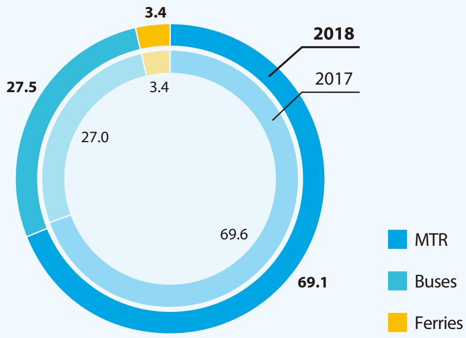
Market Share of Major Transport Operators in Hong Kong

(Percentage)

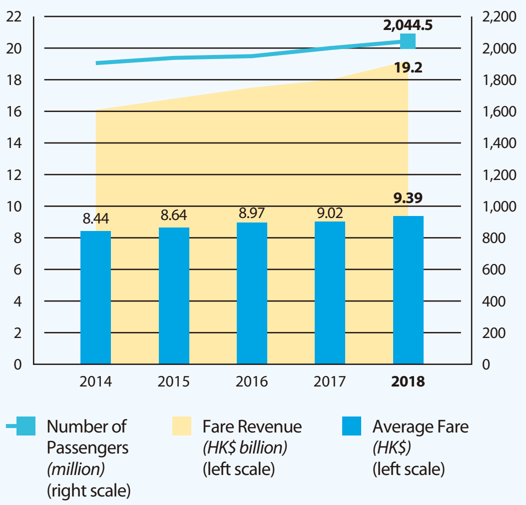


Market Share of Major Transport Operators Crossing the Harbour

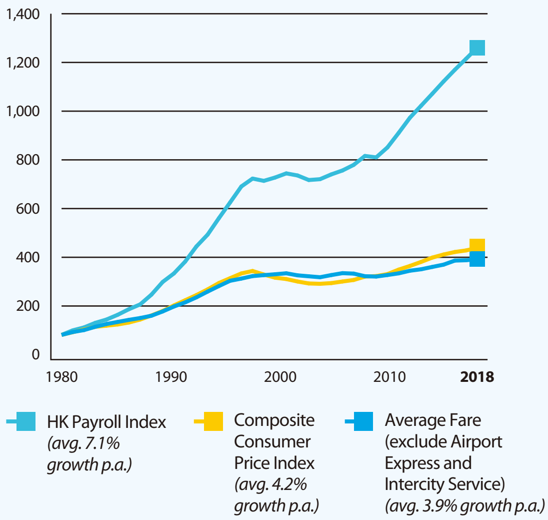
(Percentage)



Passengers and Fares



Fare Trend



MARKET SHARE

The Company's overall share of the franchised public transport market in Hong Kong in 2018 was 49.3%, compared to 49.1% in 2017. Within this total, the share of cross-harbour traffic was 69.1%, compared to 69.6% in 2017.

For MTR's Cross-boundary Service and HSR, our share of the cross-boundary business for 2018 increased from 50.8% to 52.1%. Our market share to and from the airport rose from 21.5% to 22.0%.

FARE ADJUSTMENTS, PROMOTIONS AND CONCESSIONS

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

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

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

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

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

SERVICE PERFORMANCE

In 2018, train service delivery and passenger journeys on-time in our heavy rail network remained world-class at 99.9%, exceeding both the targets in our Operating Agreement and our own, more demanding, Customer Service Pledges. In 2018, more than 2.12 million train trips were made on our heavy rail network and around 1.09 million trips on our light

rail network. During the year, there were 11 delays on the heavy rail network and one delay on the light rail network lasting 31 minutes or more which were caused by factors within our control. The period from January to September 2018 was our best performance since the Rail Merger in terms of passenger journeys on-time, despite passenger volumes having increased by 37.9% over the last ten years.

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

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

Service Quality Index	**2018**	2017
Domestic and Cross-boundary services	**70**	69
Airport Express	**82**	83
Light Rail	**67**	69
Bus	**71**	70

Fare Index	**2018**	2017
Domestic and Cross-boundary services	**59**	58
Airport Express	**75**	73
Light Rail	**68**	68
Bus	**68**	66

MTR's high level of service was again recognised by a number of awards, some of which are listed in the "Awards" section on page 39 of this annual report.

International Performance Comparisons: the 18-member Community of Metros (CoMET)

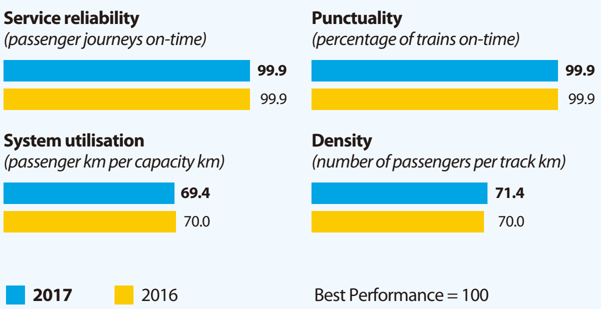
Metro system network data (2017)	**MTR***	Metro A	Metro B	Metro C	Metro D	Metro E	Metro F	Metro G	Metro H	Metro I	Metro J	Metro K	Metro L	Metro M	Metro O	Metro P	Metro Q	Metro R
Passenger journeys *(million)*	**1,750**	1,618	563	926	1,643	1,377	1,616	625	2,443	1,768	1,573	503	686	2,107	818	2,038	878	746
Car kilometres *(million)*	**302**	463	128	219	280	591	376	190	841	562	262	113	138	355	142	502	113	126
Route length *(km)*	**200**	460	146	229	380	427	226	286	349	535	215	115	118	303	137	637	72	131
Number of stations	**91**	233	173	164	199	270	163	248	193	428	303	66	107	242	83	325	64	108

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

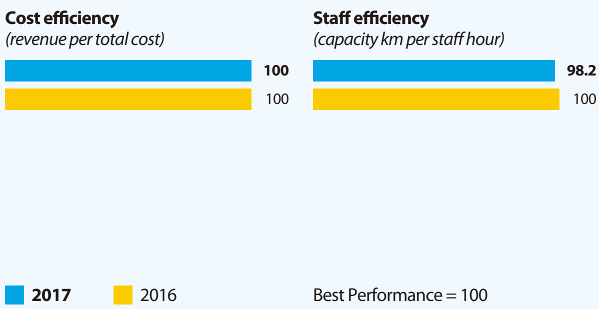
Benchmarking Comparisons

MTR Performance vs. Best Performance



Cost and Staff Efficiency

MTR Performance vs. Best Performance



Operations Performance in 2018

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%	**99.8%**
– 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%	**99.8%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥ 5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	650,000	**3,472,084**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	650,000	**7,648,765**
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	10,500	**55,976**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.8%**
– Light Rail	N/A	99.0%	**99.7%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.7%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.8%**
– West Rail Line	97.0%	99.0%	**99.7%**
– Light Rail	N/A	99.0%	**99.9%**
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%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– 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	93.0%	**99.8%**
Cleanliness			
– Train compartment: cleaned daily	N/A	99.0%	**100.0%**
– 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%	**99.5%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within six working days	N/A	99.0%	**100.0%**

RAIL GEN 2.0

Rail Gen 2.0 encapsulates our near term rail business growth in Hong Kong. In addition to the Shatin to Central Link, it covers major upgrades and replacements on the existing rail network, as well as initiatives to enhance customer experience through the use of technology. In 2018, more than HK$9.2 billion was invested in maintaining, upgrading and renewing our Hong Kong railway assets.

New Railway Projects

Following completion of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link in September 2018, our remaining new railway project under construction is the Shatin to Central Link. Further information on these two projects can be found under the section headed "Hong Kong Network Expansion" (pages 72 to 79).

Major Asset Upgrades and Replacements on the Existing Network

New Trains

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

New Light Rail Vehicles

To meet the rising demand for our light rail services, we are replacing 30 light rail vehicles and purchasing ten additional vehicles, at a total cost of HK$745 million. The first two new light rail vehicles have been delivered and testing and commissioning have commenced. The new vehicles will enter passenger service progressively between 2019 and 2023.

Upgrade of Signalling System

The existing signalling systems on the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express, are being replaced at a cost of HK$3.3 billion. Installation on the Tsuen Wan Line has been completed and dynamic tests covering the whole line with multiple trains continue, with the new system targeted to commence operations in 2019. On the Island Line, installation is substantially completed and dynamic testing has been progressing steadily. Installation on the Kwun Tong Line has also commenced. Overall completion for all lines is targeted in 2026. The programme is being monitored closely to ensure the safety and reliability of existing railway services.

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

Replacement of Air Conditioning Systems

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

Major Interfacing Works

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

Enhancing the Customer Experience

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

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

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

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

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

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

OTHER NETWORK IMPROVEMENTS

Providing more frequent services

To make our customers' journeys more comfortable, a new round of train service enhancements began on 23 April 2018. An extra 238 train trips per week were added to the Tsuen Wan, Kwun Tong and Island lines, increasing frequency during various periods, particularly in the evening.

Enhancing station facilities

In 2018, three hydraulic lifts were replaced with traction lifts and opened for public use at North Point, Wan Chai and Fortress Hill stations. A new internal lift at Tsuen Wan Station was completed and opened for public use in May 2018 and a refurbishment of a traction lift at Sha Tin Station was completed in November 2018.

A total of 25 escalators at nine stations were refurbished and opened for public use in December 2018, while 16 additional wide gates were installed at 14 stations during the year. New seats were provided in Sai Ying Pun and HKU stations in November 2018.

During the year, station improvement works continued at University and Lo Wu stations, with target completion by the end of 2019 and early 2020 respectively.

Responding to Changing Needs

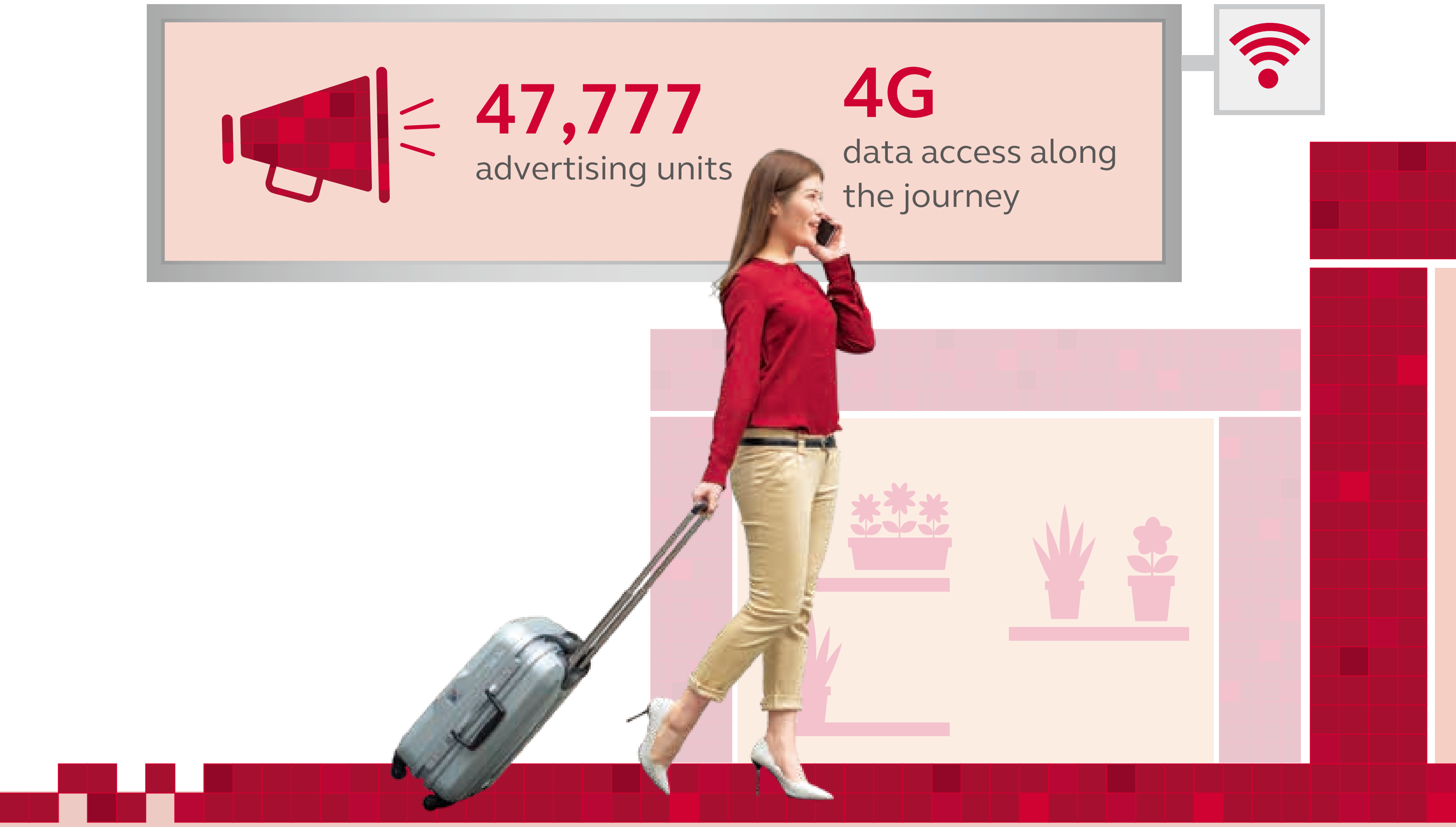
As outlined in our 2030 Customer Experience Vision Blueprint, we are gaining a deeper understanding of customers which is enabling us to respond to their needs. In particular, we aim to meet the needs of an ageing population. We have developed related age-friendly provisions which will be incorporated into the design of future new lines. Focusing on toilets and information provision, they will gradually be rolled out across the network in the coming years.

Apart from such age-friendly initiatives, the trial provision of a drinking water dispenser in the unpaid concourse of Tung Chung Station was launched in early October 2018, to enhance the customer experience and encourage the use of reusable bottles.

System Information

Railway operation data	2018		2017	
Total route length *(km)*		**256.6**		230.9
Number of rail cars		**2,268**		2,244
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**	**138**	126	140
– Island Line	**112**	**124**	112	124
– South Island Line	**200**	**200**	200	200
– East Rail Line				
Hung Hom to Sheung Shui	**212**	**200**	212	200
Hung Hom to Lo Wu	**327**	**327**	327	327
Hung Hom to Lok Ma Chau	**600**	**600**	600	600
– Ma On Shan Line	**180**	**240**	180	240
– Tseung Kwan O Line	**133**	**133**	133	133
– Tung Chung Line				
Hong Kong to Tung Chung	**400**	**360**	360	360
Hong Kong to Tsing Yi	**212**	**240**	240	240
– Airport Express	**600**	**600**	600	600
– West Rail Line	**171**	**210**	171	210
– Disneyland Resort Line	**270**	**270**	270	270
– Light Rail	**270**	**300**	270	300

HONG KONG STATION COMMERCIAL BUSINESSES



AIM

We aim to enhance the experience of our travelling customers by offering a variety of railway related services, notably station retail outlets, advertising and telecommunications.

CHALLENGES

Station Retail

- New forms of e-commerce present increasing challenges to traditional retailers

Advertising

- Advertising spending on mobile advertising continues to grow at the expense of traditional media
- The economic outlook became more challenging recently and advertisers established prudent spending

Telecommunications

- Massive demand of mobile data has strained the systems requiring faster connections and more bandwidth. However, to avoid service disruption, upgrading infrastructure within the railway is mostly limited to a daily non-traffic 2-hour window

1,470 station shops with **66,292 m^2**

STRATEGIES

Station Retail

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

Advertising

- Promote online-merged-offline sales packages and tailored-made solutions to advertisers to meet their changing needs and return on investment
- Digital transformation of advertising products, audience selling and marketing communications
- Invest in upgrading and modernising our traditional advertising units to ensure they keep their appeal

Telecommunications

- Explore new technologies and 5G roll-out with telecom operators to enhance mobile communications for our customers within the railway network

OUTLOOK

Hong Kong station commercial businesses revenue derives primarily from station retail, which in turn comes from the rentals achieved from the retail space leased out in MTR stations. The outlook of our station retail business will be subject to market conditions albeit shielded by the normal three-year tenancy cycle. Set against this, there will be a full year contribution from new shops opened in 2018, especially for the 35 shops opened in September 2018 in the Hong Kong West Kowloon Station.

EBITDA
HK$5,891m
7.6%

EBIT
HK$5,025m
6.4%

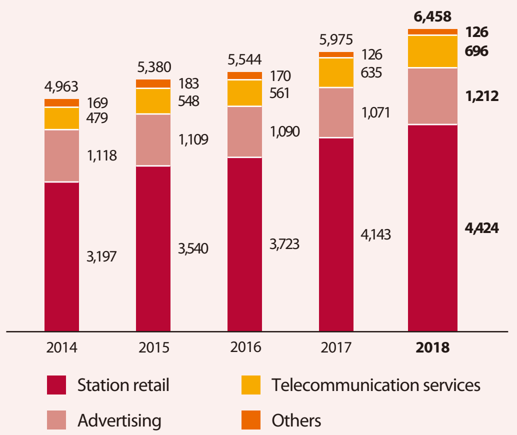
FINANCIAL PERFORMANCE

In HK$ million	Year ended 31 December 2018	2017	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**4,424**	4,143	6.8
Advertising Revenue	**1,212**	1,071	13.2
Telecommunication Income	**696**	635	9.6
Other Station Commercial Income	**126**	126	–
Total Revenue	**6,458**	5,975	8.1
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**5,891**	5,474	7.6
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**5,025**	4,722	6.4
EBITDA Margin (in %)	**91.2%**	91.6%	(0.4)% pt.
EBIT Margin (in %)	**77.8%**	79.0%	(1.2)% pts.

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

Revenue from Hong Kong Station Commercial Businesses

(HK$ million)



STATION RETAIL

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

ADVERTISING

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

To strengthen our digital offering, during the year two new digital zones opened at Central and Mong Kok stations, as well as a new 30 square metres LED screen with a 55 inch LCD touch panel at Hong Kong Station. In addition, a further 29 pairs of 65 inch high-definition LCD digital panels were installed across the network, bringing the total to 91 pairs in 19 stations as at 31 December 2018. A total of 457 advertising panels in stations were also revamped in 2018, resulting in a brighter and more contemporary look.

TELECOMMUNICATIONS

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

HONG KONG PROPERTY AND OTHER BUSINESSES

Managing over
99,000
residential units

AIM

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

CHALLENGES

Property Rental

- Expanding our investment property portfolio without affecting existing railway operations and new railway projects
- Changes in customer behaviour and retail space demand due to the evolving market environment such as e-commerce development
- Uncertainties caused by the US-China trade tensions and volatility in the equity market affected sentiment and tourists' spend

Property Management

- Statutory changes are impacting the residential property management industry in Hong Kong, ranging from licensing to procurement and maintenance

Property Development

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

STRATEGIES

Property Safety

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

Property Rental

- Enhance the capital value of our investment property portfolio through optimising the trade mix in existing malls and achieving growth in attributable gross floor area by adding new, quality retail space
- Develop sustainable and innovative strategies to combat the impact of e-commerce

Property Management

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

About **20,000** residential units under development

3 shopping malls under development

13 shopping malls in our portfolio

Property Development

- Optimise the integration between our property developments and the railway network, as well as other modes of transport
- Expand, through seeking the rezoning of feasible existing railway sites and through applying the proven "Rail plus Property" integrated development model to potential new rail projects under Railway Development Strategy 2014
- Deliver property developments awarded to a high standard, on time and within budget
- Pursue continuous improvement in our standards through innovation and capturing new development opportunities

OUTLOOK

Our property businesses generate various sources of profit. Property rental income will be subject to market conditions though partly moderated by the stable rent structure in the typical three-year tenancy cycle. Revenue from property management is recurrent and dependent on the properties under management, which will increase as new projects are completed. Profit from property development is dependent on the sale of property developments and construction progress and will vary from year to year. The booking of development profits for LOHAS Park Package 5 (with about 97% units sold) and the shopping centre of LOHAS Park Package 7 in 2019 is now dependent on the construction progress.

Subject to market conditions over the next 12 months or so, we aim to tender out three property development packages. These packages are likely to be our eleventh and twelfth packages at LOHAS Park and our fourth package at Wong Chuk Hang Station. These packages are expected to provide about 4,500 residential units in total. In the first half of 2019 we expect to commence the pre-sale of our seventh property development package at LOHAS Park.

PROPERTY DEVELOPMENT PROFIT (BEFORE TAX)

HK$2,574m

PROPERTY RENTAL AND MANAGEMENT

EBITDA
HK$4,242m
3.5%

EBIT
HK$4,225m
3.5%

FINANCIAL PERFORMANCE

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

In HK$ million	Year ended 31 December 2018	2017	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**4,748**	4,608	3.0
Revenue from Property Management	**307**	292	5.1
Total Revenue	**5,055**	4,900	3.2
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**4,242**	4,098	3.5
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**4,225**	4,082	3.5
EBITDA Margin (in %)	**83.9%**	83.6%	0.3% pt.
EBIT Margin (in %)	**83.6%**	83.3%	0.3% pt.

PROPERTY RENTAL

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

As at 31 December 2018, the Company's attributable share of investment properties in Hong Kong was 217,486 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of offices and 17,764 square metres of property for other use.

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

The Company's commercial portfolio won a large number of accolades in 2018, some of which are listed in the "Awards" section on page 39.

Investment Property Portfolio in Hong Kong (as at 31 December 2018)

Location	Type	Lettable floor area *(sq. m.)*	No. of parking spaces	Company's ownership interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping Centre	39,305	–	100%
	Car park	–	993	100%
Telford Plaza II 7-8/F, Kowloon Bay, Kowloon	Shopping Centre	2,397	–	100%
Telford Plaza II 3-6/F, Kowloon Bay, Kowloon	Shopping Centre	19,057	–	50%
	Car park	–	136	50%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping Centre	11,094	–	100%
	Car park	–	651	100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping Centre	15,397	–	100%
	Wet Market	1,216	–	100%
	Kindergarten	2,497	–	100%
	Car park	–	415	100%
Maritime Square 1, Tsing Yi	Shopping Centre	28,535	–	100%
	Kindergarten	920	–	100%
	Car park	–	220	100%
	Motorcycle park	–	50	100%
Maritime Square 2, Tsing Yi	Shopping Centre	6,448	–	100%
	Car park	–	65	100%
	Motorcycle park	–	21	100%
The Lane, Hang Hau	Shopping Centre	2,629	–	100%
	Car park	–	16	100%
	Motorcycle park	–	1	100%
PopCorn 2, Tseung Kwan O	Shopping Centre	8,456	–	70%
	Car park	–	50	70%
PopCorn 1, Tseung Kwan O	Shopping Centre	12,173	–	50%
	Car park	–	115	50%
	Motorcycle park	–	16	50%
G/F, No. 308 Nathan Road, Kowloon	Shop Unit	70	–	100%
G/F, No. 783 Nathan Road, Kowloon	Shop Unit	36	–	100%
New Kwai Fong Gardens, Kwai Chung, New Territories	Kindergarten	540	–	100%
	Car park	–	126	100%
International Finance Centre ("ifc"), Central, Hong Kong				
– Two ifc	Office	39,410	–	100%
– One and Two ifc	Car park	–	1,308	51%
Phase I, Carpark Building, Kornhill, Quarry Bay, Hong Kong	Car park	–	292	100%
Roof Advertising Signboard, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Advertising signboard	–	–	100%
Ten Shop Units, First Floor Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Shop unit	286	–	50%
Olympian City One, Tai Kok Tsui, Kowloon	Indoor sports hall	13,219	–	100%
Olympian City Two, Tai Kok Tsui, Kowloon	Shop unit	1,096	–	100%
Choi Hung Park & Ride Public Car Park, No. 8 Clear Water Bay Road, Choi Hung, Kowloon	Car park	–	54	100%
	Motorcycle Park	–	10	100%
	Park & Ride	–	450	100%
Elements, No. 1 Austin Road West, Kowloon	Shopping Centre	45,578	–	81%
	Car park	–	898	81%
Cross Border Coach Terminus, No. 1 Austin Road West, Kowloon	Coach terminus	5,113	–	100%
Kindergarten, No. 1 Austin Road West, Kowloon	Kindergarten	1,045	–	81%
Plaza Ascot, Fo Tan	Shopping Centre	7,720	–	100%
Royal Ascot, Fo Tan	Residential	2,784	–	100%
	Car park	–	20	100%
Ocean Walk, Tuen Mun	Shopping Centre	6,083	–	100%
	Car park	–	32	100%
Sun Tuen Mun Shopping Centre, Tuen Mun	Shopping Centre	9,022	–	100%
	Car park	–	421	100%

Investment Property Portfolio in Hong Kong (as at 31 December 2018)(continued)

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

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

- *Telford Plaza I and II, Luk Yeung Galleria, Maritime Square 1 and 2, New Kwai Fong Gardens, ifc, Olympian City, Elements, Cross Border Coach Terminus and Kindergarten at No. 1 Austin Road West, Plaza Ascot, Royal Ascot, Ocean Walk, Sun Tuen Mun Shopping Centre and Hanford Plaza where the Government Leases expire on 30 June 2047*
- *Choi Hung Park & Ride where the Government Lease expires on 11 November 2051*
- *The Lane where the Government Lease expires on 21 October 2052*
- *PopCorn 2 where the Government Lease expires on 27 March 2052*
- *LOHAS Park where the Government Lease expires on 15 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 2018)

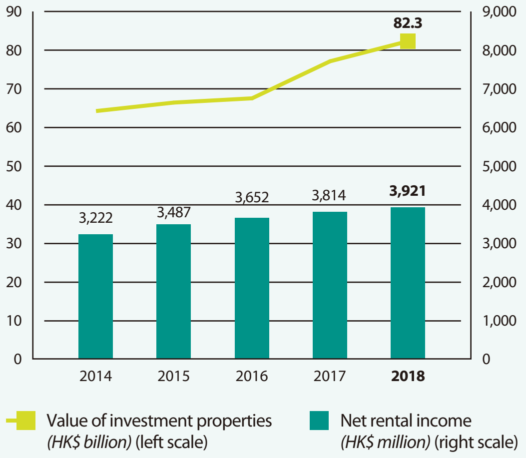
Location	Type	Lettable floor area *(sq. m.)*	No. of parking spaces	Company's ownership interest
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping centre	6,026*	–	40%
	Car park	–	330	40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car park	–	117	40%
The Arch, No. 1 Austin Road West, Kowloon	Residential	548**	–	38.5%
	Car park	–	12	38.5%
Harbour Green, No. 8 Sham Mong Road, Kowloon	Kindergarten	1,299	–	50%
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%
Hemera, LOHAS Park, Tseung Kwan O	Car park	–	1	100%
Wing at Sea and Wings at Sea II, LOHAS Park, Tseung Kwan O	Residential	140,747***	–	20.1%
	Car park		435	20.1%
	Motorcycle park		46	20.1%
The Palazzo, No. 28 Lok King Street, Shatin	Residential	749***	–	55%
	Retail	2,000	–	55%
	Car park	–	15	55%
	Motorcycle park	–	5	55%
Festival City, No. 1 Mei Tin Road, Shatin	Car park	–	85	100%
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%
The Riverpark, No. 8 Che Kung Miu Road, Shatin	Car park	–	3	87%

* *Lettable floor area*

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

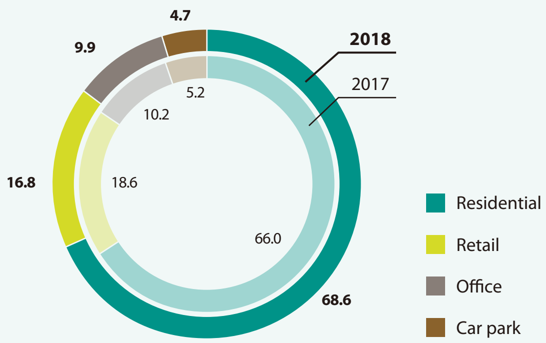
*** *Saleable area*

Investment Properties



Distribution of Hong Kong Property Management Income

(Percentage)



PROPERTY MANAGEMENT

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

As in previous years, the excellence of our property management secured a number of awards in 2018, some of which are listed in the "Awards" section on page 39.

PROPERTY DEVELOPMENT

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

Pre-sales

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

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

Property tendering

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

Progress of Property Development Packages Awarded

Location	Project Status		
	Design	Foundation Works	Superstructure
Ho Man Tin Station Package 1	Completed	In Progress	
Ho Man Tin Station Package 2	In Progress		
LOHAS Park Package 4	Completed	Completed	Completed
LOHAS Park Package 5	Completed	Completed	In Progress
LOHAS Park Package 6	Completed	Completed	In Progress
LOHAS Park Package 7	Completed	Completed	In Progress
LOHAS Park Package 8	Completed		In Progress
LOHAS Park Package 9	Completed	Completed	In Progress
LOHAS Park Package 10	Completed	Completed	In Progress
Tai Wai Station	Completed	In Progress	In Progress
Tin Wing Stop	Completed	In Progress	
Wong Chuk Hang Station Package 1	Completed	In Progress	
Wong Chuk Hang Station Package 2	In Progress		
Wong Chuk Hang Station Package 3	In Progress		
Yau Tong Ventilation Building	In Progress		

West Rail Line Property Development Plan

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

Station/Site	Site Area *(hectares)*	Actual/Expected tender award date	Actual/Expected completion date
Property Development Packages Awarded			
Tuen Mun	2.65	August 2006	By phases from 2012 – 2014
Tsuen Wan West (TW7)	2.37	September 2008	2014
Nam Cheong	6.18	October 2011	By phases from 2017 – 2019
Long Ping (North)	0.99	October 2012	2017
Tsuen Wan West (TW5) Cityside	1.34	January 2012	2018
Tsuen Wan West (TW5) Bayside	4.29	August 2012	2018
Tsuen Wan West (TW6)	1.38	January 2013	2018
Long Ping (South)	0.84	June 2013	2019
Yuen Long	3.91	August 2015	2022
Kam Sheung Road Package 1	4.17	May 2017	2025
	28.12		
Property Development Packages to be Awarded			
Kam Sheung Road Package 2	About 5.17	2024 – 2025	2031 – 2032
Pat Heung Maintenance Centre	About 23.56	Under review	Under review
	28.73		
Total	**56.85**		

Property Development Packages Completed during the year and Awarded

Location	Developers	Type	Gross floor area (sq. m.)	Tender award date	Expected completion date
Ho Man Tin Station					
Package 1	Goldin Financial Holdings Limited	Residential	69,000	December 2016	2022
Package 2	Chinachem Group	Residential	59,400	October 2018	2024
LOHAS Park Station					
Wings at Sea and Wings at Sea II	Sun Hung Kai Properties Limited	Residential	122,302	April 2014	2018
MALIBU	Wheelock and Company Limited	Residential	102,336	November 2014	2019
LP6	Nan Fung Group Holdings Limited	Residential	136,970	January 2015	2020
Package 7	Wheelock and Company Limited	Residential Retail Kindergarten	70,260 44,500 1,160	June 2015	2022
Package 8	CK Asset Holdings Limited	Residential	97,000	October 2015	2021
Package 9	Wheelock and Company Limited	Residential Kindergarten	104,110 810	December 2015	2022
Package 10	Nan Fung Group Holdings Limited	Residential	75,400	March 2016	2022
Tai Wai Station					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	October 2014	2022
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	February 2015	2021
Wong Chuk Hang Station					
Package 1	Road King Infrastructure Limited and Ping An Real Estate Company Limited	Residential	53,600	February 2017	2022
Package 2	Kerry Properties Limited and Sino Land Company Limited	Residential	45,800	December 2017	2023
Package 3	CK Asset Holdings Limited	Residential Retail	92,900 47,000	August 2018	2024
Yau Tong Ventilation Building					
Yau Tong Ventilation Building	Sino Land Company Limited and CSI Properties Limited	Residential	30,225	May 2018	2025
Kam Sheung Road Station#					
Package 1	Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited	Residential	114,896	May 2017	2025
Long Ping Station#					
Sol City	Chinachem Group	Residential	41,990	June 2013	2019
Nam Cheong Station#					
Cullinan West	Sun Hung Kai Properties Limited	Residential Retail Kindergarten	214,700 26,660 1,000	October 2011	By phases from 2017 – 2019
Tsuen Wan West Station#					
PARC CITY	Chinachem Group	Residential Retail	66,114 11,210	January 2012	2018
Ocean Pride and Ocean Supreme	CK Asset Holdings Limited	Residential Retail Kindergarten	167,100 40,000 550	August 2012	2018
THE PAVILIA BAY	New World Development Co. Ltd. and Vanke Property (Overseas) Limited	Residential	62,711	January 2013	2018
Yuen Long Station#					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	August 2015	2022

as 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	2019 – 2021	2024 – 2026
Wong Chuk Hang Station	Residential	165,200		

Notes:
1 *Property development packages for which we are acting as development agent for the relevant subsidiaries of KCRC are not included.*
2 *These property development packages are subject to review in accordance with planning approval, land grant conditions and completion of statutory processes.*

EXPANDING THE PROPERTY PORTFOLIO

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

Investment Properties

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

LOHAS Park shopping centre

Construction works for the 44,500 square metres GFA shopping centre at LOHAS Park were 50% complete as at 31 December 2018 and the project remains on target for completion by the second half of 2020. The Company will contribute a total of HK$4.98 billion to the whole property development project, of which HK$2.44 billion has already been invested. The remaining HK$2.54 billion will be paid upon the completion of mall construction, which is expected to be in 2019. MTR will also bear the fit out cost of the shopping centre. Upon completion of the whole project, MTR will retain the ownership of the shopping centre, in addition to profit sharing from the development of LOHAS Park Package 7.

Tai Wai shopping centre

Construction works for the 60,620 square metres GFA shopping centre at Tai Wai were 20% complete as at 31 December 2018. The foundation works of the Tai Wai shopping centre are progressing more slowly than planned. This is due to the measures required to address ground settlement at a localised area of the southbound platform at Tai Wai Station on the East Rail Line. The targeted project completion is now 2023. The Company has already contributed HK$7.5 billion to the whole property development package, and will, in addition to profit sharing from the whole development, retain ownership of the mall when completed and bear the fit-out costs.

Wong Chuk Hang shopping centre

The 47,000 square metres GFA shopping centre at Wong Chuk Hang is targeted for completion at the end of 2023. The Company will bear the fit-out costs and retain ownership of the mall when it is completed, in addition to profit arising from the whole development of Wong Chuk Hang Station Package 3.

Property Development

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

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

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

OTHER BUSINESSES

Ngong Ping 360

Visitor numbers and revenue at the Ngong Ping Cable Car and associated theme village ("Ngong Ping 360") grew strongly as a result of the revival in tourist numbers and people using the new Hong Kong-Zhuhai-Macao Bridge. Average daily visitor numbers in 2018 were 5,385, the highest level recorded since 2007. Revenue increased by 81.0% to HK$476 million, also the highest since opening. Total visitor numbers were up by 75.3% to 1.83 million. The significant increase in total revenue and visits also in part reflected the fact that the cable car was closed for five months in 2017 for large-scale rope replacement work.

VR 360, a new attraction housing virtual reality and multi-media interactive games, was launched in February 2018. This is a novel crossover project involving local tourism, film, fashion and innovative technology industries. Among awards gained by Ngong Ping 360 during the year was the "Market Leadership Award in Event Destination 2017/2018" from the Hong Kong Institute of Marketing.

Octopus

The Company's share of profit from Octopus Holdings Limited in 2018 rose by 27.7% to HK$221 million, mainly due to higher transaction volumes as well as local projects and investment income. As at 31 December 2018, more than 17,000 service providers in Hong Kong accepted Octopus payments. Total cards and other stored-value Octopus products in circulation stood at 36.1 million, while average daily transaction volumes and value were 15.0 million and HK$208.9 million respectively.

HONG KONG NETWORK EXPANSION

Shatin to Central Link

17 km

10 stations

Railway Development Strategy 2014

5 project proposals submitted

AIM

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

CHALLENGES

- Continue to make progress on Shatin to Central Link
- Continue to cooperate with relevant authorities, including Commission of Inquiry, on their relevant review on Shatin to Central Link
- Carry out a feasibility study on opening the Tuen Ma Line in phases, which requires a careful study into a number of issues
- Maintain knowledge and experience gained during construction projects so they can be applied to future opportunities under Railway Development Strategy 2014

STRATEGIES

- Delivery Targets: Implement good project management practices to ensure good progress and safety of the Shatin to Central Link
- Interfacing Effectiveness: Strengthen collaboration among internal departments and with key external stakeholders. Enhance integration on the handover of railway extension projects to the operating railway
- Growth and Development: Create a dynamic and interactive platform to develop new railway projects and establish a pipeline of future project deliveries in Hong Kong. Leverage opportunities from such projects to grow competency that can contribute to the Company's business diversification and long-term sustainability

OUTLOOK

The delivery on time and on budget is dependent on a number of factors both within and outside of the Company's control, including the timeliness and quality of construction work carried out by contractors, as well as site issues such as terrain and archaeology. While the delivery of the Shatin to Central Link is dependent on a number of factors, including the results of the holistic review of the Hung Hom Station extension mentioned previously, we are looking into the feasibility of the phased opening of the Tuen Ma Line. This requires careful study of a number of issues including necessary modifications to the signalling system. The projects under Railway Development Strategy 2014 are still at the stage of planning.

SHATIN TO CENTRAL LINK

Overall
88.7% complete

Tai Wai to Hung Hom section
99.5% complete

Hung Hom to Admiralty section
75.7% complete

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

RAIL GEN 2.0: NEW RAIL PROJECTS MANAGED BY MTR

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

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

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

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

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

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

Shatin to Central Link

The ten-station 17-km Shatin to Central Link, a project managed by MTR on behalf of Government, is a strategic railway that will extend the existing rail network and improve connectivity. The first phase is the 11-km Tai Wai to Hung Hom Section and the second phase is the 6-km Hung Hom to Admiralty Section. When the Tai Wai to Hung Hom Section is completed, it will extend the existing Ma On Shan Line from Tai Wai via six stations to the West Rail Line to form the Tuen Ma Line. When the Hung Hom to Admiralty Section is completed, it will extend the existing East Rail Line across the harbour to Exhibition Centre Station and Admiralty Station through Hung Hom.

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

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

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

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

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

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

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

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

Concerns relating to construction works

Towards the end of the first half of 2018, there were allegations concerning workmanship and timely reporting of certain construction matters relating to three stations of the Shatin to Central Link, in particular regarding works at Hung Hom Station extension. The Company has taken immediate steps to investigate the issues, report the Company's findings to Government and reserve the Company's position against relevant contractors. To address the allegations relating to the

platform at the Hung Hom Station extension, the Company has submitted to Government a holistic proposal for the verification and assurance of the as-constructed conditions and workmanship quality of the Hung Hom Station extension. The verification and assurance works are ongoing and the overall structural integrity and safety of the Hung Hom Station extension will be assessed based on the detailed data collected in the verification process. The Company has also co-operated fully with the COI that has been set up by the HKSAR Chief Executive in Council to investigate matters relating to the diaphragm wall and the platform slab at the Hung Hom Station extension as well as, amongst others, the adequacy of the Company's project management and supervision systems. The COI process included hearing of evidence from factual witnesses and reviewing evidence from experts on project management and structural engineering issues. Government, on 29 January 2019, made its closing submission to the COI in which it stated its view that the Company ought to have provided the required skills and care reasonably expected of a professional and competent project manager but that the Company had failed to do so.

On 19 February 2019, Government announced that the terms of reference of the COI had been expanded to cover issues relating to the North Approach Tunnels ("NAT"), the South Approach Tunnels ("SAT") and the Hung Hom Stabling Sidings ("HHS") under Contract No. 1112. Government stated that it has recently come to

light that, in respect of the NAT, SAT and HHS, some works-related documentation has been found missing and some of the construction works involving deviations from the designs, plans or drawings accepted by the Highways Department or the Building Authority might have been carried out. In view of the expanded scope of the COI, the Chief Executive in Council has approved a further extension of time for the COI to submit its report to the Chief Executive by 30 August 2019, or such time as the Chief Executive in Council may allow. The COI may submit interim reports on any aspects of the inquiry as it may see fit under the terms of its appointment. On 25 February 2019, the COI submitted an interim report to the Chief Executive on its findings and recommendations on matters covered by the original terms of reference. Government has yet to publish the interim report, in whole or in part, up to the date of this annual report. Government is now conducting a review on construction documentation / records for the construction works in the Shatin to Central Link project.

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

Programme for Delivery

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

Funding

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

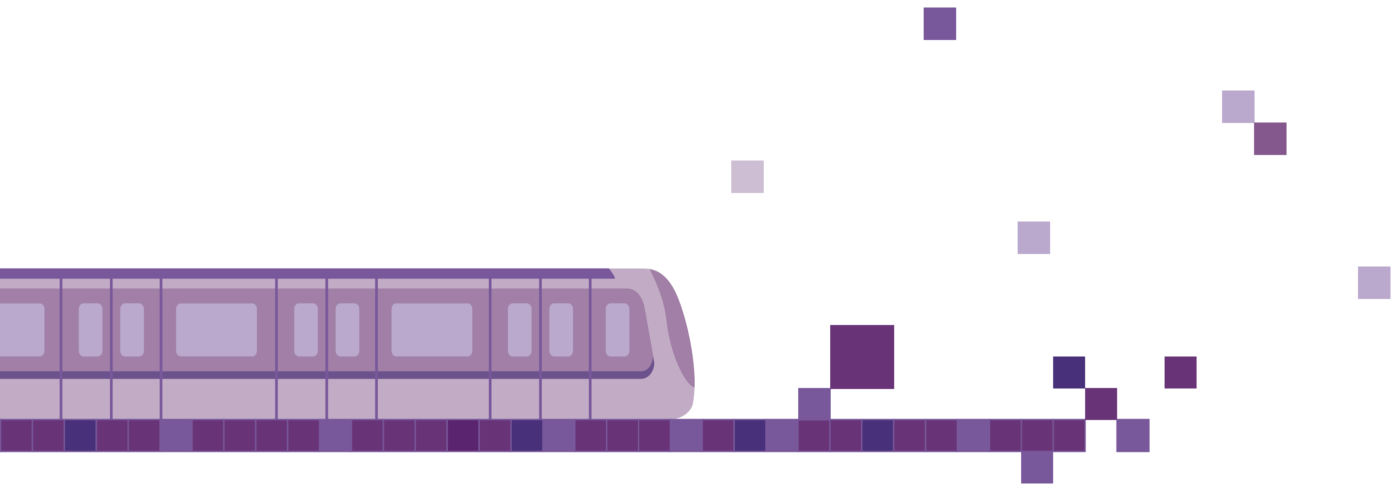
The Company completed a detailed review of the estimated CTC for the main construction works under the SCL Entrustment Agreement and the latest estimate of HK$87,328 million was submitted to Government for review on 5 December 2017. Since submission of this estimate, which shows an increase of HK$16,501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

NEW RAIL PROJECTS BEYOND RAIL GEN 2.0

Beyond the final rail project under construction, Government has identified seven additional rail projects to be implemented under RDS 2014 and we have submitted proposals for five of these, namely the Tuen Mun South Extension ("TMS"), the Northern Link (and Kwu Tung Station) ("NOL"), the East Kowloon Line ("EKL"), the Tung Chung West Extension (and Tung Chung East Station) ("TCW") and the North Island Line ("NIL").

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

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



MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

AIM

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 – 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.

CHALLENGES

- Increasing competition in the passenger rail market both in the Mainland of China and overseas, as more rail operators compete outside their home markets
- Increasing expectations from clients and customers towards rail operators in terms of customer satisfaction and operational performance
- Different operating and investment models are required in the Mainland of China and overseas markets
- Returning to profitability the UK and Swedish operations that have been underperforming

Around
6.83 million
average weekday patronage outside of Hong Kong

2,008.7km
operating route length outside of Hong Kong

STRATEGIES

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

OUTLOOK

Revenue from our Mainland of China and International businesses derives mainly from the provision of rail and rail related services through our subsidiaries and associates. Demand for these services depends partly on the economic situation in the markets concerned, which will vary from region to region. Growth in profit will depend, among other things, on our success in overcoming the serious challenges faced by Stockholm commuter rail and the South Western Railway franchise. During 2019, we expect to open three more lines namely Sydney Metro Northwest in Sydney, Macau Light Rapid Transit Taipa Line and Hangzhou Metro Line 5. However, these are not expected to make a material financial contribution in 2019. We will continue to seek new opportunities to grow in both the Mainland of China and internationally.

EBIT OF SUBSIDIARIES (NET OF NON-CONTROLLING INTERESTS) AND SHARE OF EBIT OF ASSOCIATES AND JOINT VENTURE

Mainland of China Railway, Property Rental and Property Management Businesses

HK$1,185m

39.1%

International Railway Businesses

HK$352m

46.9%

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

FINANCIAL PERFORMANCE

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

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

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

* *excluding business development expenses*

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

RAILWAY BUSINESSES IN THE MAINLAND OF CHINA

Beijing

In Beijing, our 49%-owned associate BJMTR operates four lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14") and Beijing Metro Line 16 ("BJL16"). On-time performance in 2018 averaged 99.9% across the four lines.

Beijing Metro Line 4 and the Daxing Line

For the year, the combined ridership of BJL4 and the Daxing Line was about 451 million passenger trips, while average weekday patronage was more than 1.34 million, similar to 2017.

Beijing Metro Line 14

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

Beijing Metro Line 16

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

Shenzhen

SZL4, which is operated by MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), saw patronage grow by 11% to 232 million in 2018, while average weekday patronage rose to 643,000. On-time performance remained at 99.9%.

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

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

Hangzhou

Hangzhou Metro Line 1 and Extension

Our 49%-owned associate in Hangzhou, HZMTR, operates Hangzhou Metro Line 1. Patronage on this line increased by 20% in 2018 to 271 million, with average weekday patronage at 749,000. On-time train performance remained at 99.9%. Supported by the growth in patronage, our share of profit from HZMTR in 2018 amounted to HK$35 million, as compared to a loss of HK$68 million in 2017.

Hangzhou Metro Line 5

The 51.5-km Hangzhou Metro Line 5 ("HZL5"), another PPP project, was awarded to our joint venture in 2017. This is an underground metro line running from Xiangzhanglu Station in Xiaoshan District to Lutinglu Station in Yuhang District, with a total of 38 stations. Construction works are in progress with the line targeted to open by the end of 2019.

Our 60% joint venture company's responsibilities under the PPP contract relate to trains and E&M systems (including signalling and other systems), architectural finishes, as well as subsequent operations, maintenance and renewals for 25 years after commencement of full line operations. The total investment is estimated at RMB 10.9 billion which will be financed by the joint venture company through bank borrowings and equity investments from shareholders. We anticipate an equity investment from MTR of RMB 2.616 billion into this joint venture. The civil works, such as construction of stations and tunnels, are the responsibility of Hangzhou Metro Group.

PROPERTY BUSINESSES IN THE MAINLAND OF CHINA

Shenzhen

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

Tianjin

In March 2017, a framework agreement was signed with a subsidiary of Beijing Capital Land Limited for the disposal of our 49% interest in Tianjin TJ-Metro MTR Construction Company Limited, as well as the conditional future acquisition of an approximately 91,000 square metres GFA shopping centre to be developed on the Beiyunhe Station site. Relevant government approval was obtained in July 2017 for the disposal of our 49% interest and the Sale and Purchase Agreement for the shopping centre was signed on 26 January 2018. Excavation of the basement has been progressing. Targeted project completion is the end of 2022.

Guangdong-Hong Kong-Macau Greater Bay Area

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

Property Rental and Management Businesses

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

EUROPEAN RAILWAY BUSINESSES

United Kingdom

TfL Rail / Elizabeth Line

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

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

South Western Railway

Through our associate First MTR South Western Trains Ltd, as a 30% shareholder, we have partnered with FirstGroup plc on the South Western Railway franchise. South Western Railway is one of the UK's largest rail networks, with a route length of 998 km serving 203 stations, covering London and south western England. Financial performance in 2018 was impacted by factors including an industry-wide slowdown in growth in passenger numbers, industrial action, the delayed introduction of timetable changes and incidents involving infrastructure under the control of a third party. If the abovementioned factors continue to adversely impact South Western Railway, and are not appropriately ameliorated under the Franchise Agreement by the relevant third party, the long-term financial viability of South Western Railway is expected to be impacted.

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

Sweden

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

Stockholm Metro

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

MTR Tech AB

The Company's wholly-owned subsidiary MTR Tech AB, which carries out rolling stock maintenance for Stockholm metro, also performed satisfactorily.

MTR Express

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

Stockholm commuter rail

Our wholly-owned subsidiary MTR Pendeltågen AB operates the Stockholm commuter rail service under a concession that runs for ten years to December 2026, with an option to extend for four more years. The concession includes the maintenance of rolling stock undertaken by Emtrain AB, a 50%-owned associate together with EuroMaint Rail AB. Stockholm commuter rail serves the greater Stockholm area, with 53 stations and a total route length of 247 km.

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

AUSTRALIAN RAILWAY BUSINESSES

Melbourne's Metropolitan Rail Service

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

Sydney Metro Northwest

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

MACAU RAILWAY BUSINESS

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

GROWTH OUTSIDE OF HONG KONG

Mainland of China

Beijing

We continue to work with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and BJMTR in accordance with our Cooperation Framework Agreement to conduct joint preliminary studies on integrated property development above selected existing station and depot sites along BJL4 and the Daxing Line (including the Nanzhaolu Depot). We have also signed a Letter of Intent ("LoI") with BIIC to extend our strategic co-operation to other, predominantly rail-related property development projects in Beijing in addition to investment in, construction and operation of other railway projects. In November 2017, the Company signed an LoI with the Daxing District People's Government of Beijing Municipality, BIIC and BJMTR for studies on the southward extension of the Beijing Daxing Line, Nanzhaolu Depot capacity expansion and integrated property development above the depot.

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

Zhejiang

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

Chengdu

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

Hangzhou

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

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

United Kingdom

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

Nordic Region

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

Our first tender in Norway, Traffic Package South (Trafikkpakke Sør) Operating Concession, was submitted in March 2018 and was not shortlisted to proceed to the next bidding stage.

Australia

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

Canada

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

Mainland of China and International Railway Businesses at a Glance

	MTR Corporation Shareholding	Business Model	Commencement of Franchise/ Expected Date of Commencement of Operation	Franchise/ Concession Period *(years)*	Number of Stations	Route Length *(km)*
Projects In Operation						
Mainland of China						
Beijing Metro Line 4 ("BJL4")	49%	Public-Private-Partnership ("PPP")	September 2009	30	24	28.2
Daxing Line of BJL4	49%	Operations and Maintenance ("O&M") Concession	December 2010	10	11	21.8
Beijing Metro Line 14 ("BJL14")	49%	PPP	Phase 1 West Section: May 2013 Phase 2 East Section: December 2014 Phase 3 Middle Section: December 2015	30[Note 14]	Phase 1 West Section: 7 Phase 2 East Section: 12[Note 1] Phase 3 Middle Section: 11[Note 1]	Phase 1 West Section: 12.4 Phase 2 East Section: 14.8 Phase 3 Middle Section: 16.6
Beijing Metro Line 16 ("BJL16")	49%	Operations and Maintenance ("O&M") Concession	Phase 1: Dec 2016	Until full line[Note 2] opens	Phase 1: 10[Note 2]	Phase 1: 19.6
Shenzhen Metro Line 4	100%	Build-Operate-[Note 3] Transfer	Phase 1: July 2010 Phase 2: June 2011	30	Phase 1: 5 Phase 2: 10	Phase 1: 4.5 Phase 2: 16
Hangzhou Metro Line 1 ("HZL1")	49%	PPP	November 2012	25	31	48
HZL1 Extension	49%	O&M Concession	November 2015	End together with HZL1 concession	3	5.6
Europe						
TfL Rail/Elizabeth Line, United Kingdom	100%	O&M Concession	May 2015	8	41[Note 4]	118
South Western Railway, United Kingdom	30%	O&M Concession	August 2017	7	203[Note 5]	998
Stockholm Metro, Sweden	100%	O&M Concession[Note 6]	November 2009	14[Note 7]	100	108
MTR Express, Sweden	100%	Open Access Operation	March 2015[Note 8]	N/A[Note 9]	6[Note 10]	457
Stockholm commuter rail, Sweden	100%	O&M Concession[Note 11]	December 2016	10	53[Note 12]	247
Australia						
Melbourne's Metropolitan Rail Service	60%	O&M Concession	November 2009	15[Note 13]	222	409
Projects In Progress						
BJL14, Mainland of China	49%	PPP	Full Line: Targeted in 2021	30[Note 14]	Full Line: 37	Full Line: 47.3
BJL16, Mainland of China	49%	PPP	Full Line: Targeted in 2021	30[Note 15]	Full Line: 29	Full Line: 49.8
Hangzhou Metro Line 5, Mainland of China	60%	PPP	2019[Note16]	25	38	51.5
Macau Light Rapid Transit Taipa Line	100%	O&M Concession	2019	6.67[Note 17]	11	9.3
Sydney Metro Northwest, Australia	Mixed	PPP (Operations, Trains & System)	2019[Note18]	15	13[Note 19]	36[Note 19]

Notes:

1. *BJL14 Phase 2 East Section has 12 stations, 11 opened (one is currently bypassed). BJL14 Phase 3 Middle Section has 11 stations, ten opened (one is currently bypassed).*
2. *The O&M concession of BJL16 Phase 1 will run until full line opens.*
3. *Shenzhen Metro Line 4 Phase 1 assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Limited took over the operation of Phase 1 in July 2010.*
4. *MTR Crossrail will manage 28 out of the total 41 stations in the Elizabeth Line.*
5. *First MTR South Western Trains manages 186 out of the total 203 stations in the South Western Railway.*
6. *Rolling stock maintenance is provided by our subsidary MTR Tech AB .*
7. *In September 2015, the eight-year operating concession of Stockholm Metro was extended for another six years (from 2017 to 2023) to a total of 14 years by Stockholm authority.*
8. *MTR Express initial service commenced on 21 March 2015 with full schedule started in August 2015.*
9. *The license to operate this service is subject to renewal.*
10. *MTR Express is not responsible for the management of these stations.*
11. *Rolling stock maintenance is provided by a 50:50 joint venture between MTR Nordic and EuroMaint Rail AB.*
12. *MTR Pendeltågen AB manages 50 out of the total 53 stations in the Stockholm commuter rail.*
13. *In September 2017, the eight-year operating concession of Melbourne's Metropolitan Rail Service was extended for another seven years (from 2017 to 2024) to a total of 15 years by the State Government of Victoria in Australia.*
14. *BJL14 PPP concession started on 31 December 2015.*
15. *BJL16 PPP concession will start after full line opens.*
16. *Subject to Hangzhou Municipal Government's arrangement.*
17. *80-month service period, including Taipa Line's testing and commissioning activities, operation of train services, as well as maintenance of trains, the signalling system and other infrastructure.*
18. *Subject to arrangement of the government of New South Wales, Australia.*
19. *Sydney Metro Northwest has eight new stations and five retrofitted stations, and a 13-km existing line extended with a 23-km new line construction.*

FINANCIAL REVIEW

Underlying Business Profit increased by 7.1% to

HK$11,263 million

Strong Credit Ratings

AA+

by Standard & Poor’s (long-term)

Total Revenue from Recurrent Businesses increased by

11.2%

PROFIT AND LOSS

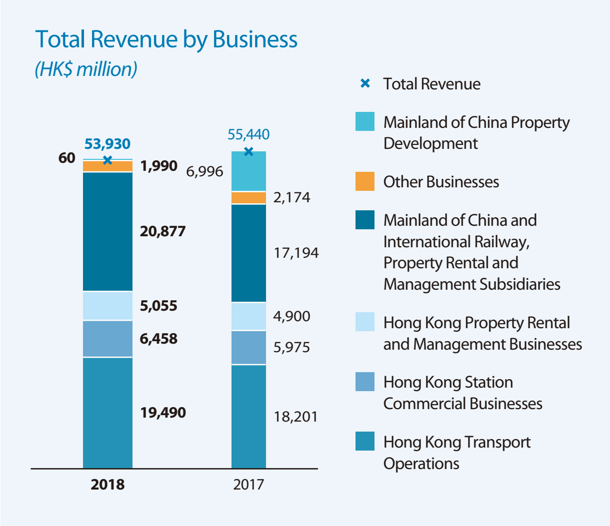
The Group's underlying businesses consist of (i) recurrent businesses (comprising Hong Kong Transport Operations, Hong Kong Station Commercial Businesses, Hong Kong Property Rental & Management Businesses, Mainland of China and International Railway, Property Rental and Management Businesses and Other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

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

In 2018, the Group achieved solid financial results in our underlying businesses. Underlying business profit increased by 7.1% to HK$11,263 million. With a lower gain arising from investment property revaluation in 2018, net profit attributable to shareholders of the Company decreased by 4.9% to HK$16,008 million.

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

Total Revenue



In 2018, total revenue from recurrent businesses increased by 11.2% to HK$53,870 million, mainly reflecting the increase in franchise payments and project revenue under the renewed concession of MTM in Australia as well as the incremental contribution from the High Speed Rail ("HSR") following the commencement of passenger service in September 2018. Including revenue from Mainland of China Property Development, total revenue decreased by 2.7% to HK$53,930 million, mainly due to the significant contributions from Tiara in 2017 not repeated in 2018.

Overview

Business Review and Analysis

Corporate Governance

Financials and Other Information

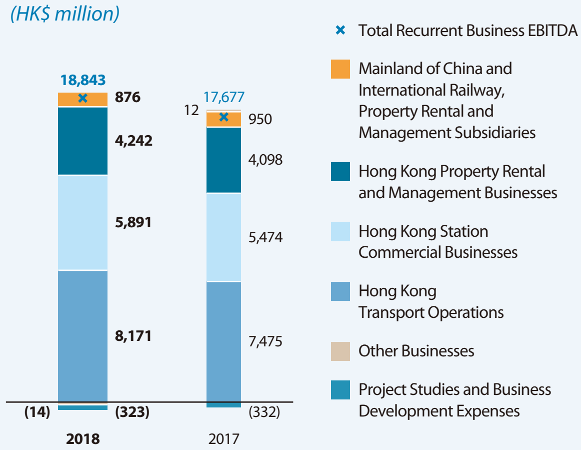
Underlying Business Profit and Net Profit Attributable to Shareholders of the Company

HK$ million	2018		2017		2018 vs 2017 Inc./(Dec.)	
Recurrent Businesses						
EBITDA		**18,843**		17,677	1,166	6.6%
Depreciation and Amortisation		**(4,985)**		(4,855)	130	2.7%
Variable Annual Payment		**(2,305)**		(1,933)	372	19.2%
EBIT		**11,553**		10,889	664	6.1%
Interest and Finance Charges		**(1,208)**		(1,051)	157	14.9%
Share of Profit or Loss of Associates and Joint Venture		**658**		494	164	33.2%
Income Tax		**(1,835)**		(1,696)	139	8.2%
Non-controlling Interests		**(148)**		(56)	92	164.3%
Recurrent Business Profit		**9,020**		8,580	440	5.1%
Property Development Businesses						
Post-tax Property Development Profit						
– Hong Kong Property Development	**2,153**		916		1,237	135.0%
– Mainland of China Property Development	**90**		1,019		(929)	(91.2%)
Post-tax Property Development Profit		**2,243**		1,935	308	15.9%
Underlying Business Profit		**11,263**		10,515	748	7.1%
Investment Property Revaluation		**4,745**		6,314	(1,569)	(24.8%)
Net Profit Attributable to Shareholders of the Company		**16,008**		16,829	(821)	(4.9%)
Earnings per Share (in HK$)		**HK$2.64**		HK$2.83	(HK$0.19)	(6.7%)
Earnings per Share on Underlying Business Profit (in HK$)		**HK$1.86**		HK$1.77	HK$0.09	5.1%
Total EBITDA Margin (in %)		**35.0%**		36.1%	(1.1%) pts.	
Total EBITDA Margin (excluding Mainland of China and International Subsidiaries) (in %)		**54.5%**		53.5%	1.0% pt.	
Total EBIT Margin^ (in %)		**21.5%**		23.8%	(2.3%) pts.	
Total EBIT Margin (excluding Mainland of China and International Subsidiaries)^ (in %)		**32.8%**		32.2%	0.6% pt.	
Return on Average Equity Attributable to Shareholders of the Company Arising from Underlying Businesses (in %)		**6.5%**		6.7%	(0.2%) pt.	

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

Recurrent Business EBITDA

Recurrent Business EBITDA by Business
(HK$ million)



Recurrent Business Profit

Recurrent business profit increased by 5.1% to HK$9,020 million, mainly due to higher EBIT of Hong Kong Transport Operations, Hong Kong Station Commercial Businesses and Hong Kong Property Rental and Management and higher Share of Profit of Associates and Joint Venture, partly offset by lower EBIT of Mainland of China & International Subsidiaries and Other Businesses as well as increase in interest and finance charges due to higher interest rates in 2018 and the absence of the exchange gain recorded in 2017. Further details of the performance of each individual business are set out in the ensuing paragraphs.

Post-tax Property Development Profit

Post-tax property development profit in 2018 was HK$2,243 million, mainly derived from profit booking of Wings at Sea and Wings at Sea II (LOHAS Park Package 4), sale of inventory car parking spaces, as well as further surplus proceeds arising from the finalisation of development costs and release of provision for completed projects.

Dividend

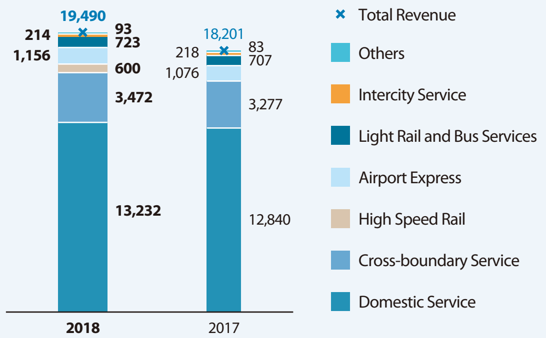
In line with the Company's progressive ordinary dividend policy, the Board has proposed a final ordinary dividend of HK$0.95 per share (with a scrip dividend option offered), giving a full year ordinary dividend of HK$1.20 per share, higher than the HK$1.12 per share in 2017.

RECURRENT BUSINESSES

Hong Kong Transport Operations

HK$ million	2018	2017	2018 vs 2017 Inc./(Dec.)	
Total Revenue	**19,490**	18,201	1,289	7.1%
Total Expenses	**(11,319)**	(10,726)	593	5.5%
EBITDA	**8,171**	7,475	696	9.3%
EBIT*	**1,985**	1,656	329	19.9%
EBITDA Margin (in %)	***41.9%***	*41.1%*	*0.8%*	*pt.*
EBIT Margin (in %)*	***10.2%***	*9.1%*	*1.1%*	*pts.*

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

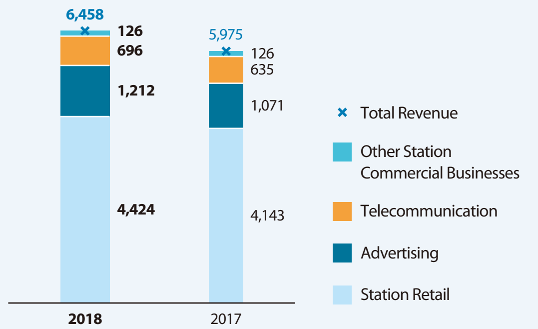


Total revenue increased by 7.1%, mainly due to the incremental contribution from the HSR which commenced passenger service in September 2018, fare adjustments under the FAM net of concessions, and overall patronage growth. Average fares for the Domestic Service increased by 1.1%, Cross-boundary Service 1.6%, Light Rail 2.0% and Bus Service 1.0%. Average fares for the Airport Express and Intercity services, which are not subject to FAM, increased by 0.8% and decreased by 0.1% respectively. Total patronage of our rail and bus passenger services increased by 2.2% reaching 2.04 billion passenger trips per annum. Total expenses increased by 5.5%, mainly owing to incremental operating costs brought by the HSR and higher energy costs, partly offset by a one-off accounting provision made in 2017 for annual lump-sum awards which was not repeated in 2018, improved operational efficiency and a refund of Government rent and rates in 2018. Depreciation and amortisation charges increased by 2.2% to HK$4,578 million, mainly due to asset additions in the Hong Kong railway network. Variable annual payment to KCRC increased by 20.0% to HK$1,608 million as the incremental revenue, including that from the HSR, was charged at the top progressive rate of 35%. As a result, EBIT increased by 19.9% to HK$1,985 million and EBIT margin increased by 1.1 percentage points to 10.2%.

Hong Kong Station Commercial Businesses

HK$ million	2018	2017	2018 vs 2017 Inc./(Dec.)	
Total Revenue	**6,458**	5,975	483	8.1%
Total Expenses	**(567)**	(501)	66	13.2%
EBITDA	**5,891**	5,474	417	7.6%
EBIT*	**5,025**	4,722	303	6.4%
EBITDA Margin (in %)	***91.2%***	*91.6%*	*(0.4%)*	*pt.*
EBIT Margin (in %)*	***77.8%***	*79.0%*	*(1.2%)*	*pts.*

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

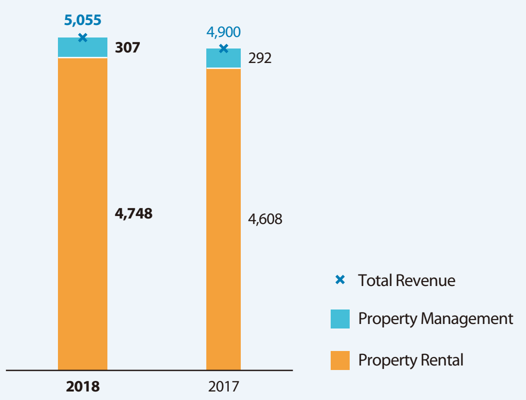


Total revenue increased by 8.1% mainly due to higher revenues from station retail and advertising businesses. For station retail business, the increase in revenue mainly reflected the rental income growth from the Duty Free Shop at Lok Ma Chau Station, the incremental contribution from the HSR, as well as positive rental reversion because of a more resilient trade mix in our station shops. For advertising business, revenue growth was mainly attributable to robust tourism and upbeat consumer market since the last quarter of 2017. Total expenses increased by 13.2% mainly due to higher advertising agency commission in line with revenue growth and incremental operating costs for the HSR. Variable annual payment to KCRC increased by 17.5% to HK$692 million owing to a higher level of revenue subject to variable annual payment. As a result, EBIT increased by 6.4% to HK$5,025 million, while EBIT margin decreased by 1.2 percentage points to 77.8%.

Hong Kong Property Rental and Management Businesses

HK$ million	2018	2017	2018 vs 2017 Inc./(Dec.)	
Total Revenue	**5,055**	4,900	155	3.2%
Total Expenses	**(813)**	(802)	11	1.4%
EBITDA	**4,242**	4,098	144	3.5%
EBIT*	**4,225**	4,082	143	3.5%
EBITDA Margin (in %)	***83.9%***	*83.6%*	*0.3%*	*pt.*
EBIT Margin (in %)*	***83.6%***	*83.3%*	*0.3%*	*pt.*

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

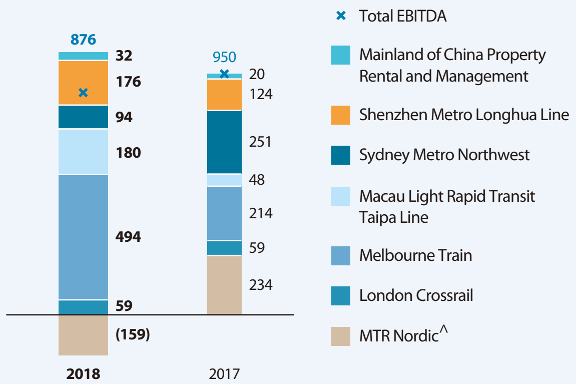


Property rental revenue saw a 3.0% increase, mainly reflecting the full year contribution from the seventh and eighth floors of Telford Plaza II and Maritime Square 2 which opened in the second half of 2017 and rental growth in accordance with lease agreements. Rental reversion in 2018 in our shopping mall portfolio in Hong Kong recorded a 1.5% growth. For 2018 full year, our shopping malls and the Company's 18 floors in Two International Finance Centre were close to 100% let. Property management revenue increased by 5.1% due to higher manager's remuneration income resulting from higher spending in managed properties and new intake of managed units. Total expenses increased moderately by 1.4%. As a result, EBIT increased by 3.5% to HK$4,225 million, and EBIT margin increased slightly by 0.3 percentage point to 83.6%.

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

HK$ million	2018	2017	2018 vs 2017 Inc./(Dec.)	
Total Revenue	**20,877**	17,194	3,683	21.4%
Total Expenses	**(20,001)**	(16,244)	3,757	23.1%
EBITDA	**876**	950	(74)	(7.8%)
EBIT*	**722**	814	(92)	(11.3%)
EBITDA Margin (in %)	***4.2%***	*5.5%*	*(1.3%)*	*pts.*
EBIT Margin (in %)*	***3.5%***	*4.7%*	*(1.2%)*	*pts.*

* *EBIT represents EBITDA net of depreciation and amortisation*



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

Total revenue increased by 21.4%, total expenses by 23.1%, and total EBITDA decreased by 7.8%. The decrease in EBITDA is mainly attributable to the Stockholm commuter rail service operated by MTR Pendeltågen AB in Sweden, with a material operating loss resulting from train driver shortage, train availability problems and timetable change leading to production loss and significant penalties. In Australia, the EBITDA increase in MTM, brought about by the improvement in margin from operations under the renewed franchise agreement and a higher contribution from project works from a higher level of activities, was partly offset by the EBITDA decrease in Sydney Metro Northwest, which recognised initial profit in 2017. In Mainland of China, the EBITDA increase in Shenzhen Metro Longhua Line was mainly driven by patronage growth. In Macau, the EBITDA increase was mainly due to higher project management income.

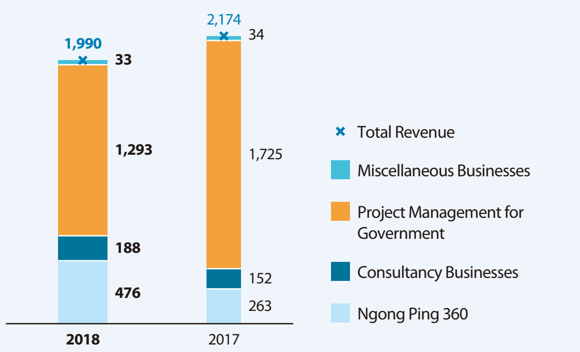
Total depreciation and amortisation charges increased by 13.2% to HK$154 million. As a result, EBIT decreased by 11.3% to HK$722 million and EBIT margin decreased by 1.2 percentage points to 3.5%.

Other Businesses

HK$ million	**2018**	2017	2018 vs 2017 Inc./(Dec.)	
Total Revenue	**1,990**	2,174	(184)	(8.5%)
Total Expenses	**(2,004)**	(2,162)	(158)	(7.3%)
EBITDA	**(14)**	12	(26)	N/A
EBIT*	**(81)**	(53)	(28)	(52.8%)
EBITDA Margin (in %)	***-ve***	*0.6%*	*N/A*	
EBIT Margin (in %)*	***-ve***	*-ve*	*N/A*	

* *EBIT represents EBITDA net of depreciation and amortisation*

Total Revenue
(HK$ million)



Total revenue decreased by 8.5% mainly due to less project management services performed for Government in 2018. Income from project management services for Government is from entrustment works on the HSR and Shatin to Central Link, which is booked on a cost recovery basis. Revenue from Ngong Ping 360 increased by 81.0% following the completion of its cable car rope replacement programme in 2017. Revenue from consultancy businesses increased by 23.7% mainly due to more works performed for the Automatic People Mover System at the Hong Kong International Airport. Total expenses decreased by 7.3%, mainly due to less project management services performed as mentioned above.

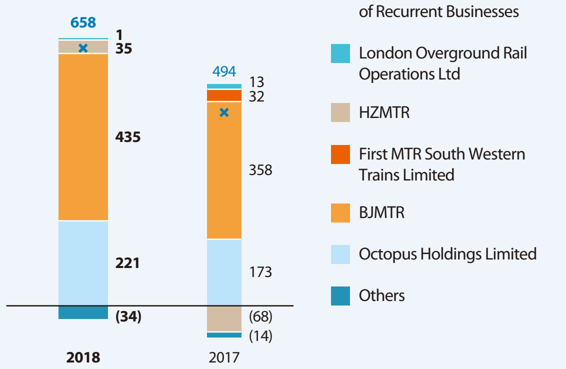
EBIT is at a loss of HK$81 million, compared with a loss of $53 million in 2017.

Depreciation and Amortisation

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

Share of Profit from Associates and Joint Venture of Recurrent Businesses

Share of Profit
(HK$ million)



Share of profit from associates and Joint Venture of recurrent businesses increased mainly due to Hangzhou MTR turning profit making for the first time benefitting from patronage growth as well as Beijing MTR having good operational and financial performance. The above increases were partly offset by First MTR South Western Trains Limited turning from a share of profit of $32 million in 2017 to breakeven in 2018 as a result of lower patronage growth, higher operating costs and higher franchise premium.

PROPERTY DEVELOPMENT BUSINESSES

Post-tax Profit from Hong Kong Property Development

Post-tax profit from Hong Kong Property Development in 2018 mainly comprised of the profit booking of Wings at Sea and Wings at Sea II, sale of inventory car parking spaces, as well as further surplus proceeds arising from the finalisation of development costs and the release of provisions for completed projects. This was HK$1,237 million higher than 2017 when profit was derived from sundry sources with no surplus proceeds booking from new property development packages.

Post-tax Profit from Mainland of China Property Development

Post-tax profit from Mainland of China Property Development in 2018 was mainly interest income from Tiara. It is HK$929 million lower than 2017 when profit was recognised for the high-rise units handed over at Tiara which comprised the vast majority of the development.

STATEMENT OF FINANCIAL POSITION

HK$ million	**At 31 December 2018**	At 31 December 2017	2018 vs 2017 Inc./(Dec.)	
Fixed Assets	**215,925**	209,772	6,153	2.9%
Property Development in Progress	**14,840**	14,810	30	0.2%
Interests in Associates and Joint Venture	**8,756**	6,838	1,918	28.0%
Debtors and Other Receivables	**9,576**	7,058	2,518	35.7%
Cash, Bank Balances and Deposits	**18,022**	18,354	(332)	(1.8%)
Other Assets	**7,568**	6,936	632	9.1%
Total Assets	**274,687**	263,768	10,919	4.1%
Total Loans and Other Obligations	**(40,205)**	(42,043)	(1,838)	(4.4%)
Creditors and Other Payables	**(25,947)**	(28,166)	(2,219)	(7.9%)
Amounts Due to Related Parties	**(2,676)**	(2,226)	450	20.2%
Obligations Under Service Concession	**(10,409)**	(10,470)	(61)	(0.6%)
Deferred Tax Liabilities	**(12,979)**	(12,760)	219	1.7%
Other Liabilities	**(1,852)**	(1,677)	175	10.4%
Total Liabilities	**(94,068)**	(97,342)	(3,274)	(3.4%)
Net Assets	**180,619**	166,426	14,193	8.5%
Represented by:				
Total Equity Attributable to Shareholders of the Company	**180,447**	166,304	14,143	8.5%
Non-controlling Interests	**172**	122	50	41.0%
Total Equity	**180,619**	166,426	14,193	8.5%

Fixed Assets

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

Interests in Associates and Joint Venture

Interests in associates and joint venture increased mainly due to the equity injection into Hangzhou Metro Line 5 and share of profit from associates and joint venture.

Debtors and Other Receivables

Debtors and other receivables increased mainly due to the increase in receivables arising from profit recognition from Wings at Sea and Wings at Sea II.

Cash, Bank Balances and Deposits

Cash, bank balances and deposits decreased mainly due to capital expenditure, payment of the land premium in respect of Wong Chuk Hang Station Package 2 to Government and net repayment of borrowings. The decrease was partly offset by cash inflow from operating activities and cash receipts in respect of Hong Kong property development.

Total Loans and Other Obligations

Total loans and other obligations decreased mainly due to the net repayment of borrowings, primarily bank loans.

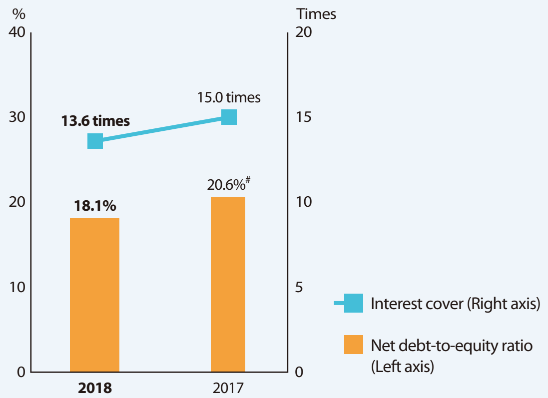
Creditors and Other Payables

Creditors and other payables decreased mainly due to the payment of the land premium in respect of Wong Chuk Hang Station Package 2 to Government, partly offset by payments received from property developers.

Total Equity

The increase in total equity of HK$14,193 million was mainly due to the profit recorded for the year, partly offset by the payments of the 2017 final ordinary dividend and 2018 interim ordinary dividend during the year.

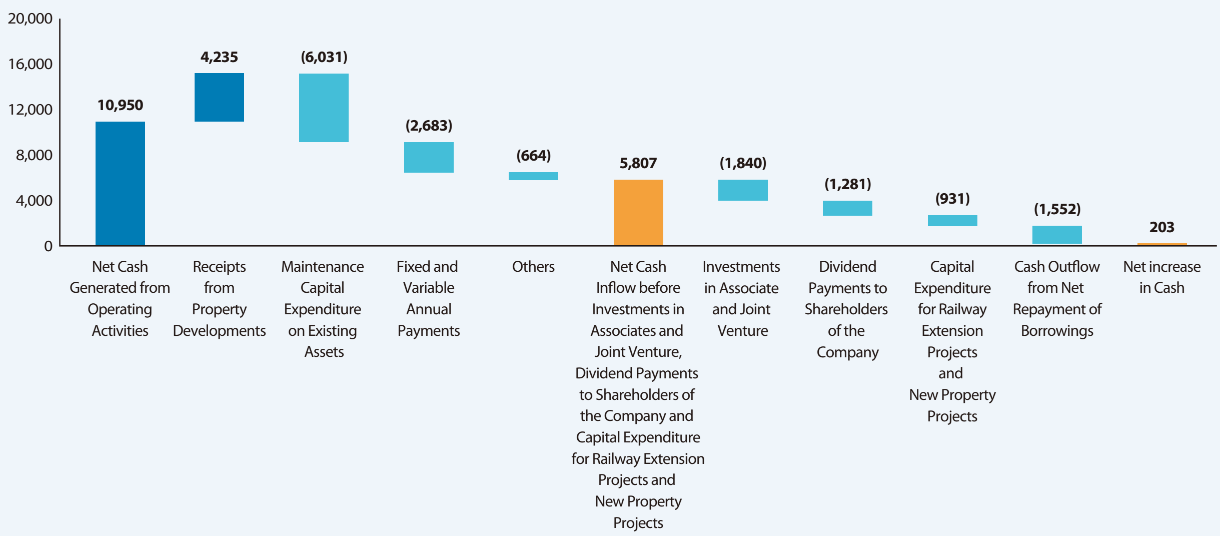
Debt Servicing Capability



If the cash received from the developer relating to the land premium payment for Wong Chuk Hang Station Package 2 (which was paid to Government in 2018) was excluded from the cash balance, the Group's net debt-to-equity ratio as at 31 December 2017 would have been 23.7%.

Cash Flow for the Year Ended 31 December 2018

(HK$ million)



CASH FLOW

HK$ million	2018	2017
Net Cash Generated From Operating Activities	**10,950**	19,603
Receipt from Hong Kong and Shenzhen Property Developments	**4,235**	3,344
Other Receipts	**493**	517
Net Cash Receipts	**15,678**	23,464
Capital Expenditure	**(6,962)**	(8,523)
Fixed Annual Payment	**(750)**	(750)
Variable Annual Payment	**(1,933)**	(1,787)
Net Interest Payment	**(842)**	(578)
Investments in Associates and Joint Venture	**(1,840)**	(310)
Other Payments	**(239)**	(92)
Dividends Paid to Shareholders of the Company	**(1,281)**	(15,358)
Dividends Paid to Holders of Non-controlling Interests	**(76)**	(102)
Total Cash Outflow	**(13,923)**	(27,500)
Net Cash Inflow/(Outflow) before Financing	**1,755**	(4,036)
Cash (Outflow)/Inflow from Net (Repayment)/Borrowings	**(1,552)**	1,494
Increase/(Decrease) in Cash	**203**	(2,542)
Cash, Bank Balances and Deposits as at 1 January	**18,354**	20,290
Increase/(Decrease) in Cash	**203**	(2,542)
Effect of Exchange Rate Changes	**(535)**	606
Cash, Bank Balances and Deposits as at 31 December	**18,022**	18,354

Receipts from Property Developments

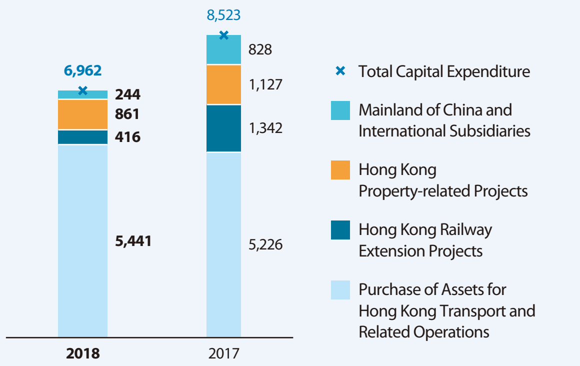
Receipts from property development were mainly from Hemera (LOHAS Park Package 3), Yau Tong Ventilation Building, Wong Chuk Hang Station Package 3, Ho Man Tin Station Package 2 and West Rail property developments.

Investments in Associate and Joint Venture

Investments in associate and joint venture in 2018 mainly related to equity contribution for our investment in Hangzhou Metro Line 5.

Capital Expenditure

(HK$ million)

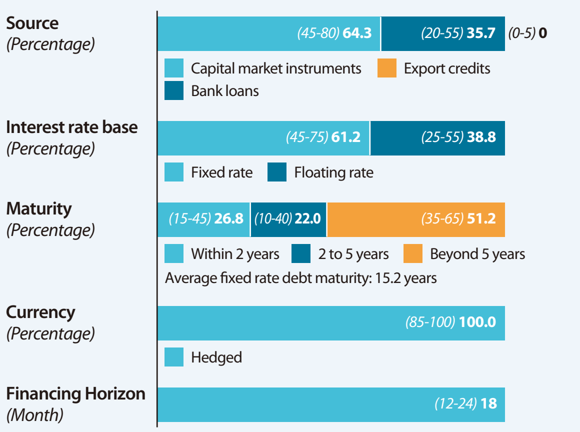


FINANCING ACTIVITIES

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 2018



The US Federal Reserve hiked the Fed Funds Target Rate four times in 2018, by 0.25 percentage points each time. Correspondingly, 3-month USD-Libor rose steadily from 1.69% p.a. at the beginning of the year to 2.81% p.a. at year end. 3-month HKD-Hibor also followed the USD lead to move up from 1.31% p.a. to 2.33% p.a.

Longer term interest rates were more volatile, the yield on the 10-year US Treasury note started the year at a low of 2.41% p.a., climbed to a high of 3.24% p.a. in November before falling sharply to close at 2.68% p.a. Likewise, the 10-year HKD swap rate started the year at a low of 2.26% p.a., saw a high of 3.17% p.a. in October before giving up a significant portion of the gains to close the year at 2.45% p.a.

Bond investors were demanding higher credit spreads in such an environment, with the Markit iTraxx Asia ex-Japan Investment Grade index rising from 66.82 at the beginning of the year to close at 96.03.

During the first half of the year, before credit spread moved much higher, the Company took advantage of the liquidity in the HKD markets to complete most of its financing exercise for the year. A total of HK$ 1.5 billion of fixed rate notes with maturities ranging from 1 year to 30 years were issued through private placement. Several bilateral bank facilities were also arranged, partly to replace existing facilities that had shorter remaining tenors but were more expensive.

On the back of the successful Green Bond Framework set up in 2016, a Green Finance Framework was developed in June to include green loans and other green financing instruments under the new framework. During the year, three green bonds with a total amount of HK$ 1 billion and one HK$ 2.5 billion green bilateral revolving credit facility were concluded.

COST OF BORROWING

The Group's consolidated gross debt position decreased from HK$42,043 million at year-end 2017 to HK$40,205 million at year-end 2018. The weighted average borrowing cost of the Group increased to 2.8% from 2.5% p.a. due to higher HKD floating interest rates and higher proportion of fixed rate debt.

FINANCING CAPACITY

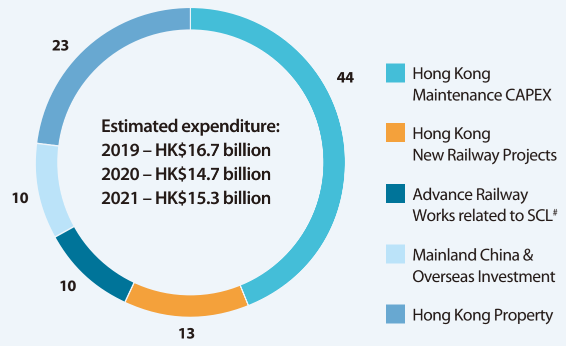
The Group's capital expenditure and investment consists mainly of three parts – Hong Kong railway projects (including maintenance), Hong Kong property investment and development, and Mainland of China and overseas investments. The total spending from 2019 to 2021 is estimated at HK$ 46.7 billion.

Capital expenditure on the Hong Kong railway projects (including maintenance cost for the Hong Kong railway system) would continue to constitute a significant portion of the capital expenditure in 2019 – 2021. Expenditure on Hong Kong property investment and development are mainly related to the contributions to the LOHAS Park Package 7 and enabling works in Lohas Park. Expenditures for Mainland of China and overseas investment are primarily for the equity contribution to Beijing Metro Line 16 and Hangzhou Metro Line 5, as well as the conditional acquisition of a shopping centre on the Beiyunhe Station site.

The Group believes that based on its cash balance and available 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 its capital expenditure and investment programme.

Capital Expenditure and Investment (2019 – 2021)

(Percentage)



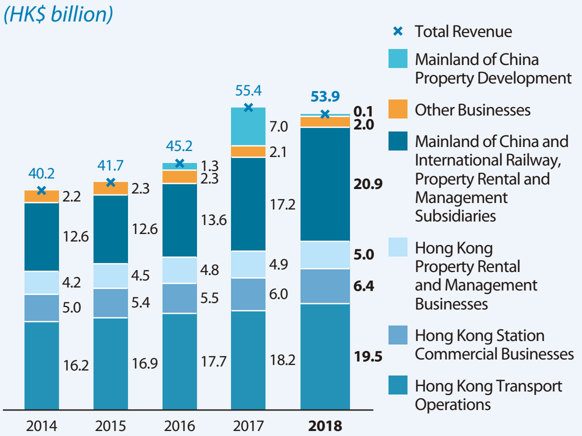
Advanced Railway Works involve modifications to or upgrades or expansion of assets for which MTR is responsible under the existing service concession agreement with KCRC. This will predominantly be covered by the reduction in future maintenance CAPEX during the construction period of SCL Project which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

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

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

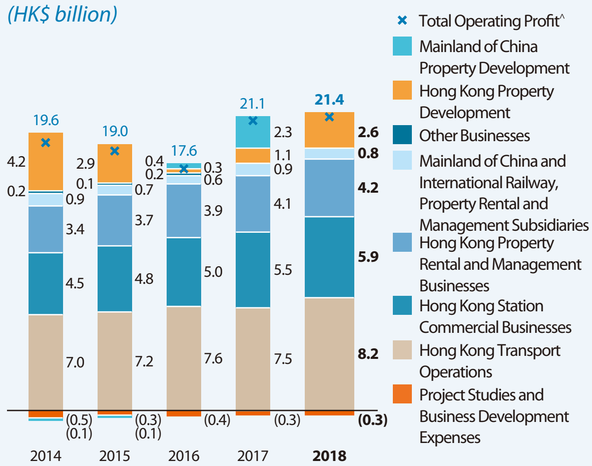
Total Revenue

(HK$ billion)



Operating Profit^ Contributions

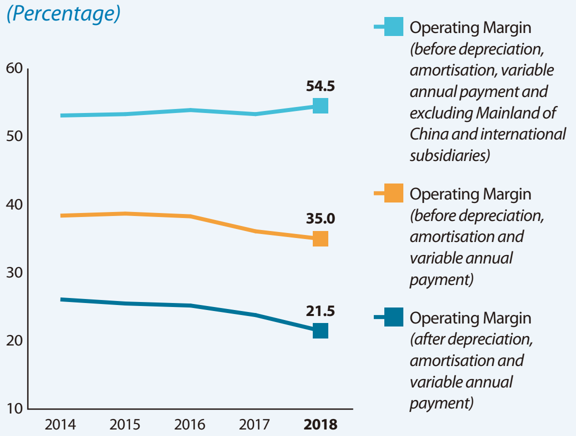
(HK$ billion)



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

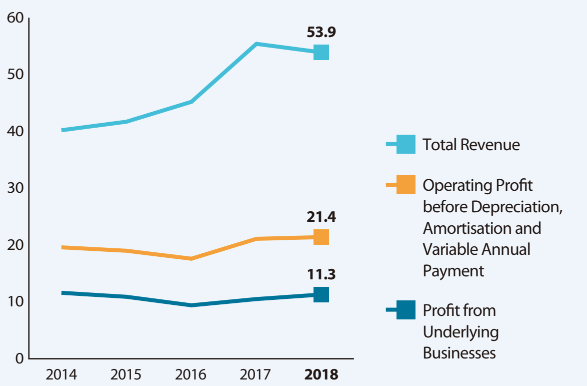
Operating Margin

(Percentage)



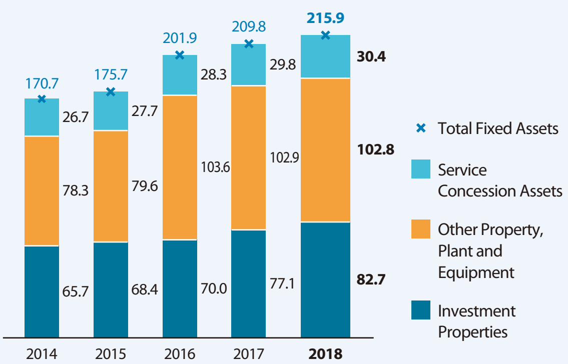
Net Results from Underlying Businesses

(HK$ billion)



Fixed Assets Growth

(HK$ billion)



TEN-YEAR STATISTICS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Financial										
Consolidated Profit and Loss Account *(in HK$ million)*										
Total revenue	**53,930**	55,440	45,189	41,701	40,156	38,707	35,739	33,423	29,518	18,797
Operating profit before depreciation, amortisation and variable annual payment	**21,442**	21,088	17,624	19,011	19,639	15,795	16,133	17,058	14,951	13,069
Depreciation and amortisation	**4,985**	4,855	4,127	3,849	3,485	3,372	3,208	3,206	3,120	2,992
Interest and finance charges	**1,074**	905	612	599	545	732	879	921	1,237	1,504
Investment property revaluation gain	**4,745**	6,314	808	2,100	4,035	4,425	3,757	5,088	4,074	2,798
Profit for the year	**16,156**	16,885	10,348	13,138	15,797	13,208	13,514	15,688	12,844	10,101
Profit attributable to shareholders of the Company arising from underlying businesses	**11,263**	10,515	9,446	10,894	11,571	8,600	9,618	10,468	8,657	7,303
Ordinary dividend proposed and declared	**7,359**	6,728	6,317	6,207	6,116	5,335	4,575	4,396	3,405	2,977
Earnings per share *(in HK$)*	**2.64**	2.83	1.74	2.22	2.69	2.25	2.31	2.69	2.21	1.77
Consolidated Statement of Financial Position *(in HK$ million)*										
Total assets	**274,687**	263,768	257,340	241,103	227,152	215,823	206,687	197,684	181,660	176,492
Loans, other obligations and bank overdrafts	**40,205**	42,043	39,939	20,811	20,507	24,511	23,577	23,168	21,057	23,868
Obligations under service concession	**10,409**	10,470	10,507	10,564	10,614	10,658	10,690	10,724	10,749	10,625
Total equity attributable to shareholders of the Company	**180,447**	166,304	149,461	170,055	163,325	152,557	142,904	131,907	121,914	110,479
Financial Ratios										
Operating margin *(in %)*	**35.0**	36.1	38.3	38.7	38.4	37.2	36.1	36.3	37.0	50.6
Operating margin (excluding Mainland of China and international subsidiaries) *(in %)*	**54.5**	53.5	54.0	53.3	53.1	53.4	53.6	55.6	55.1	53.8
Net debt-to-equity ratio *(in %)*	**18.1**	20.6	20.2	11.3	7.6	11.8	11.0	11.6	12.3	24.9
Interest cover *(times)*	**13.6**	15.0	12.7	14.4	15.2	11.5	13.0	14.5	10.5	7.1
Employees										
Hong Kong										
Corporate management and support departments	**1,932**	1,882	1,837	1,792	1,756	1,676	1,600	1,486	1,362	1,319
Station commercial businesses	**204**	191	192	182	170	158	148	144	144	137
Operations	**11,948**	11,591	11,349	10,891	10,404	10,033	9,460	9,244	9,026	8,789
Projects	**1,711**	2,144	2,615	2,684	2,764	2,804	2,495	2,109	1,794	1,365
Property and other businesses	**1,500**	1,440	1,416	1,384	1,350	1,305	1,273	1,282	1,291	1,242
Mainland of China and international businesses	**331**	276	230	194	180	182	224	179	212	239
Outside of Hong Kong										
Offshore employees	**14,270**	10,781	9,866	8,157	7,530	7,078	6,955	6,851	6,672	7,059
Total	**31,896**	28,305	27,505	25,284	24,154	23,236	22,155	21,295	20,501	20,150

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Hong Kong Transport Operations										
Revenue car-km operated *(thousand)*										
Domestic and Cross-boundary services	**308,742**	301,541	287,828	284,487	273,771	269,141	260,890	254,407	253,067	247,930
Airport Express	**23,190**	23,202	23,276	23,242	23,232	23,216	23,134	19,603	19,833	19,643
Light Rail	**11,139**	11,145	11,152	11,034	10,728	10,554	10,453	10,166	9,586	8,950
Total number of passengers *(thousand)*										
Domestic Service	**1,669,973**	1,637,898	1,586,522	1,577,457	1,547,757	1,474,659	1,431,040	1,366,587	1,298,714	1,218,796
Cross-boundary Service	**117,448**	112,549	113,274	114,241	113,049	111,362	109,707	103,881	99,954	94,016
High Speed Rail (Hong Kong Section)	**5,302**@	–	–	–	–	–	–	–	–	–
Airport Express	**17,710**	16,621	16,133	15,725	14,881	13,665	12,695	11,799	11,145	9,869
Light Rail	**179,411**	178,502	178,709	176,149	174,199	171,652	167,210	161,289	154,522	143,489
Bus	**51,025**	50,744	50,413	50,537	50,404	47,738	45,962	43,956	40,883	37,522
Intercity	**3,630**	3,698	3,739	4,080	4,348	4,324	4,028	3,787	3,244	2,921
Average number of passengers *(thousand)*										
Domestic Service – weekday average	**4,862**	4,772	4,608	4,577	4,490	4,297	4,148	3,968	3,770	3,544
Cross-boundary Service – daily average	**322**	308	309	313	310	305	300	285	274	258
High Speed Rail (Hong Kong Section) – daily average	**53**#	–	–	–	–	–	–	–	–	–
Airport Express – daily average	**49**	46	44	43	41	37	35	32	31	27
Light Rail – weekday average	**506**	503	500	493	487	482	466	451	433	402
Bus – weekday average	**147**	146	144	145	144	137	131	126	118	107
Intercity – daily average	**10**	10	10	11	12	12	11	10	9	8
Average passenger km travelled										
Domestic and Cross-boundary services	**10.8**	10.8	10.9	11.0	11.0	11.0	10.9	10.9	10.9	10.7
Airport Express	**28.3**	28.5	28.4	28.4	28.6	29.0	29.0	29.4	29.4	29.5
Light Rail	**2.7**	2.7	2.7	2.7	2.7	2.8	2.8	2.8	2.8	2.9
Bus	**4.5**	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.6
Average car occupancy *(number of passengers)*										
Domestic and Cross-boundary services	**62**	63	64	65	67	65	65	63	60	57
Airport Express	**22**	20	20	19	18	17	16	18	17	15
Light Rail	**44**	44	44	44	45	45	45	45	45	46
Proportion of franchised public transport boardings *(%)*	**49.3**	49.1	48.4	48.5	48.1	46.9	46.4	45.4	44.3	42.6
HK$ per car-km operated (Hong Kong Transport Operations)										
Total revenue	**53.4***	52.5	53.0	51.3	51.0	48.4	47.6	45.9	43.2	40.8
Operating costs	**28.2***	28.5	27.7	27.2	26.8	24.9	24.2	23.1	21.5	21.5
Operating profit	**25.2***	24.0	25.3	24.1	24.2	23.5	23.4	22.8	21.7	19.3
HK$ per passenger carried (Hong Kong Transport Operations)										
Total revenue	**9.26***	9.10	9.06	8.73	8.52	8.31	8.20	7.99	7.86	7.74
Operating costs	**4.89***	4.93	4.73	4.63	4.47	4.27	4.18	4.02	3.91	4.08
Operating profit	**4.37***	4.17	4.33	4.10	4.05	4.04	4.02	3.97	3.95	3.66
Safety Performance										
Domestic Service, Cross-boundary Service and Airport Express										
Number of reportable events ^	**1,056**	1,148	1,134	1,246	1,327	1,408	1,761	1,769	1,592	1,539
Reportable events per million passengers carried ^	**0.58**	0.65	0.66	0.73	0.79	0.88	1.13	1.19	1.13	1.16
Number of staff and contractors' staff accidents Δ	**50**	46	61	64	57	67	58	44	46	60
Light Rail										
Number of reportable events ^	**87**	104	191	157	122	118	151	164	165	146
Reportable events per million passengers carried ^	**0.48**	0.58	1.07	0.89	0.70	0.69	0.90	1.02	1.07	1.02
Number of staff and contractors' staff accidents Δ	**2**	5	8	6	4	4	2	7	5	11

@ *High Speed Rail (Hong Kong Section) service commenced on 23 September 2018.*

\# *Average of 23 September 2018 to 31 December 2018.*

* *Does not include the High Speed Rail (Hong Kong Section) service.*

^ *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 Mass Transit Railway Regulations, 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 an active participant in the international capital markets in the 40 years since our establishment. As an acknowledged leader in investor relations practice in Asia, we are respected for our high standards of corporate governance and disclosure. We believe that communicating our strategies, business development and future outlook clearly enhances shareholder value. We therefore engage regularly with both institutional and retail investors.

COMMUNICATING WITH INVESTORS

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

Management makes every effort to ensure that investors have a thorough understanding of our business. In 2018, we held about 250 meetings with institutional investors and research analysts in Hong Kong and elsewhere. We also participated in investor conferences, as well as roadshows, both in Hong Kong and in other major financial markets around the world.

The Company's Annual General Meeting ("AGM") is one of the principal channels of communication with its shareholders. Further details on 2018 AGM are set out in "Annual General Meeting" in the section "Corporate Governance Report" on pages 136 to 137 of this Annual Report.

ACCESS TO INFORMATION

Our corporate website provides 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 about 33,000 enquiries from individual shareholders in 2018.

INDEX AND RECOGNITION

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

Our Annual Report also achieves considerable recognition each year for its efforts to present a clear picture of the Company's performance and strategy some of which are listed in the "Awards" section on page 39 of this annual report.

SHARE PRICE PERFORMANCE

FINANCIAL CALENDAR 2019

Announcement of 2018 annual results	7 March
Annual General Meeting	22 May
Last day to register for 2018 final dividend	27 May
Book closure period	28 May to 31 May
2018 final dividend payment date	16 July
Announcement of 2019 interim results	August
2019 interim dividend payment date	October
Financial year end	31 December

DIVIDEND INFORMATION

Dividend per Share

	(in HK$)
2017 Total Ordinary Dividend	1.12
2018 Interim Ordinary Dividend	0.25
2018 Final Ordinary Dividend	0.95

Dividend Policy

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

SHAREHOLDINGS AS AT 31 DECEMBER 2018

Ordinary Shares

Shares outstanding	6,139,485,589 shares
Hong Kong SAR Government Shareholding	4,634,173,932 shares (75.48%)
Free float	1,505,311,657 shares (24.52%)

Market Capitalisation

as at 31 December 2018	HK$252,947 million

SHARE INFORMATION

Stock Codes

Ordinary Shares

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

CONTACTS

Shareholder Services

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

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

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

Shareholder Enquiries

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

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

Investor Relations

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

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

Email: investor@mtr.com.hk

Annual Report 2018

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

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

If you are not a shareholder, please write to:

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

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

Principal Place of Business and Registered Office

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

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

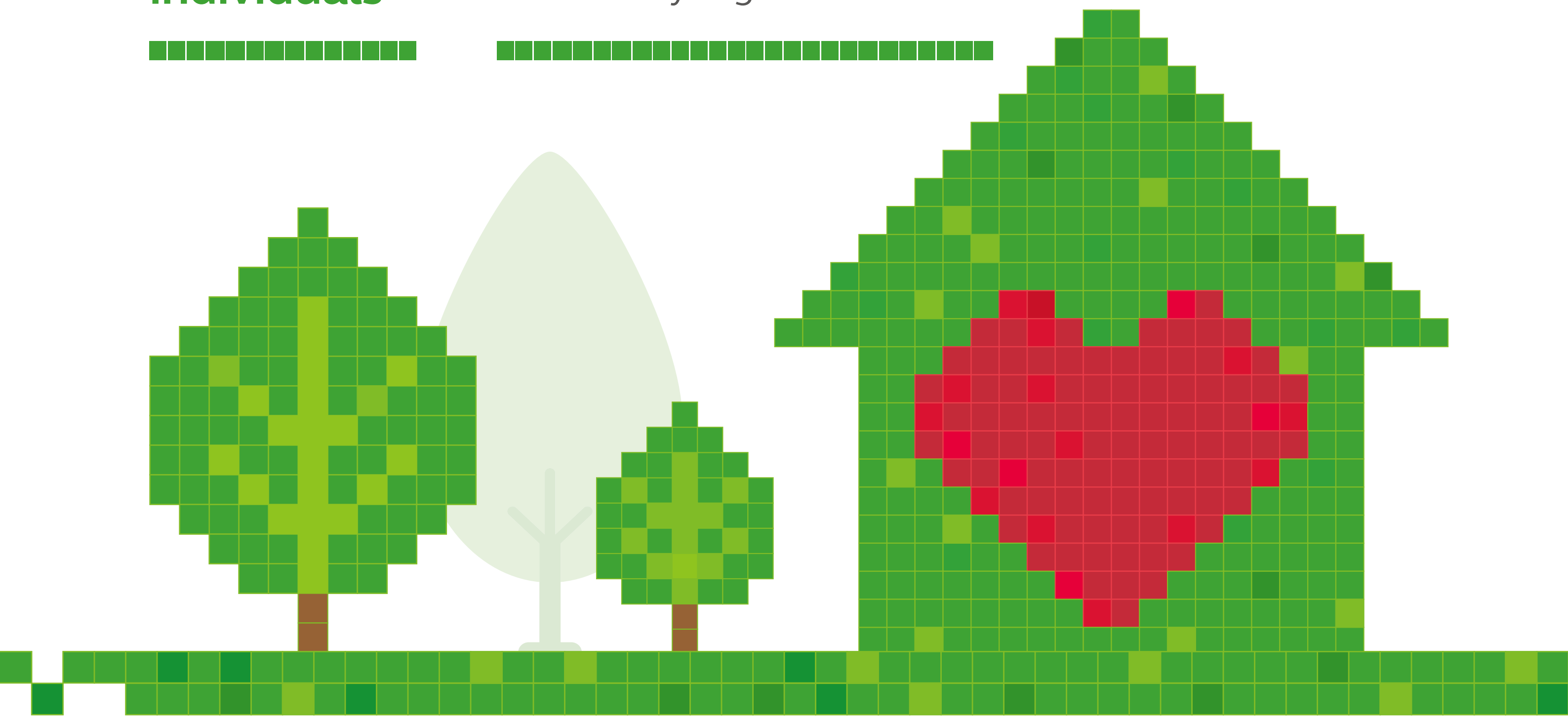
CORPORATE RESPONSIBILITY

17% reduction from 2008 levels in the amount of electricity used for each passenger-km in our heavy rail network

292 volunteering projects serving **61,014 individuals**

HK$26 million in-kind support for NGOs and community organisations

HK$28 million community investment initiatives



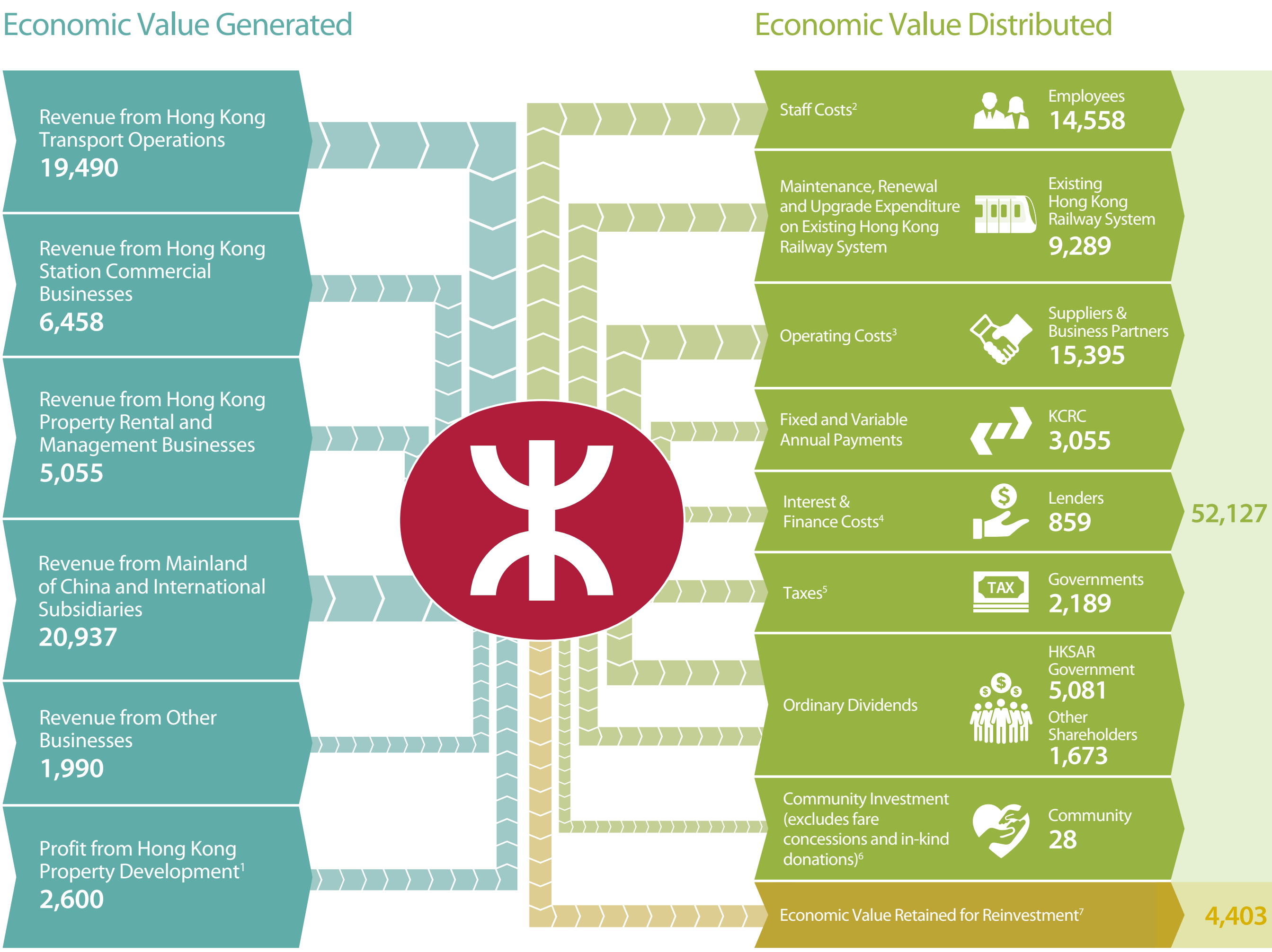
MTR's success has been built on a set of clear vision, mission and values which serve as the guiding principles of our corporate behaviour for achieving business results. We recognise corporate responsibility as an integral element in maintaining our position as a responsible business that contributes to society.

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

For nearly two decades, our annual Sustainability Report has provided a detailed account of our approach and performance in this area, in line with the disclosure requirements of the Hong Kong Stock Exchange Environmental, Social and Governance Reporting Guide. The details of this reporting are made available on our separate sustainability website, which in addition to the Sustainability Report itself, provides further information about the Company's efforts to act as a responsible corporate citizen to benefit the society.

The Sustainability Report 2018 will contain an Independent Assurance Report, which will be prepared by Ernst & Young, and will perform a limited assurance in relation to certain sustainability performance data. These include data for both the Hong Kong and Mainland of China and International businesses covering Greenhouse Gas ("GHG") emissions, staff indicators such as turnover and training days, safety performance for operations, staff and contractors and supply chain management numbers. The Sustainability Report 2018 will be published on our sustainability website in May 2019.

VALUE ADDED AND DISTRIBUTION STATEMENT IN 2018 (HK$ MILLION)



Total: 56,530

Total: 56,530

Notes:

1. *Before taking into account staff costs of HK$26 million.*
2. *Excludes staff costs related to Hong Kong railway system maintenance of HK$2,169 million, capitalised for asset creation of HK$1,178 million and recoverable of HK$566 million.*
3. *For simplicity reason, operating costs include interest income and share of profit or loss of associates and joint venture, netted with profit attributable to non-controlling interests. Excludes operating costs related to Hong Kong railway system maintenance of HK$1,893 million.*
4. *Excludes interest expenses capitalised for asset creation of HK$407 million.*
5. *Represents current income tax and excludes deferred tax for the year.*
6. *Includes donations, sponsorships and other community engagement contributions, and excludes ongoing fare concessions and promotions of HK$2,769 million and in-kind donations of HK$26 million.*
7. *Economic value retained for reinvestment to generate future economic values. This represents underlying business profit attributable to shareholders of the Company (before depreciation, amortisation and deferred tax) for the year retained, after the amounts distributed to our stakeholders and invested in asset maintenance, renewal and upgrade of our Hong Kong railway system.*

GOVERNANCE AND POLICIES

All of our corporate responsibility initiatives are aligned with our business objectives and corporate values, and are supported by the corporate governance framework.

Our management approach to corporate responsibility comprises a number of policies, including our Corporate Responsibility Policy, which was updated in 2017, our Safety Policy, our Green Procurement Policy and our Climate Change Statement. These policies are overseen by the Board's Corporate Responsibility Committee, which provides strategic guidance and reviews our corporate responsibility practices and performance. Please also refer to the "Corporate Responsibility Committee" in "Corporate Governance Report" (pages 123 to 124) of this Annual Report for its principal responsibilities. Our Corporate Responsibility Steering Committee supports our corporate responsibility efforts by providing direction and inputs on fostering responsible business practices across all divisions.

HOW WE OPERATE AS A BUSINESS

Safety

The safety of our customers, employees and business partners remains our number-one priority. We ensure a safe and healthy environment by fostering a safety-first culture, driving continuous improvement, and engaging and educating our stakeholders to meet the requirements under our Safety Policy and its goals. Our Corporate Strategic Safety Plan, which is reviewed and formulated every four years, helps us to manage safety across all of our business areas, supporting our rapid growth and global expansion. Our well-established Corporate Safety Management Model provides an effective and robust framework for overseeing our safety performance across eight core elements of our business.

Our efforts to ensure continuous improvements in customer safety led to a reduction in reportable incidents on the Hong Kong heavy rail and light rail network in 2018, compared with the previous year. Further details on customer safety are set out in the section headed "Hong Kong Transport Operations" (page 43) of this Annual Report and the safety section of our Sustainability Report 2018 and sustainability website. MTR's approach to the safety of staff, contractors and systems is also rigorous. To promote our safety-first culture to all colleagues, we hold a Corporate Safety Month each year, alongside ongoing initiatives to address specific safety issues. We invest heavily in the maintenance of our assets, and assess operational safety impacts throughout the lifecycles of our projects.

Environment and Natural Resources

We strive to be one of the most resource-efficient and ecologically sustainable railways and property services providers in the world. An electrically-powered mass transit railway is widely regarded as the most environmentally sustainable way to transport large volumes of people in cities. Our biggest contribution to the environment, therefore, comes from avoiding pollution, such as roadside emissions. On top of this, we aim to reduce our direct emissions, use resources efficiently and minimise the environmental impact of our business. We set out detailed guidance on

key environmental areas in our Corporate Responsibility Policy. In Hong Kong, before any project commences, we conduct an Environmental Impact Assessment and ensure that mitigation measures are incorporated and implemented. During construction and operation, we implement Environmental Management Systems that are independently audited and certified to be ISO 14001-compliant.

In June 2018, we established a new Green Finance Framework, building on our previous Green Bond Framework to include more types of green financing, including green loans and green credit facilities. The new framework, which takes into account the recommendations of the Green Loan Principles issued by the Asia Pacific Loan Market Association in March 2018, enables the Company to foster further sustainable development of public transport infrastructure, while also demonstrating our support for green finance initiatives. More details of the relevant investments are provided in our annual Green Bond Report, which will be published on our sustainability website in May 2019.

Reducing our electricity consumption is an important goal for our Company. We have set ourselves a target of achieving a 21% reduction from 2008 levels in the amount of electricity used for each passenger-kilometre in our heavy rail network by 2020. By the end of 2018, we had achieved a reduction of 17%. We have implemented a range of measures to make ourselves more energy efficient, including replacing station air chillers with more energy efficient models.

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

In addition, we remain committed to preserving and creating a green environment as far as possible when building new railways. In line with this, we have planted more than 700 trees and shrubs at the new Hong Kong West Kowloon Station. We also demonstrate our commitment to biodiversity through our management of the Lok Ma Chau Wetland.

Our People

At MTR, people are our most valuable asset. We aim to create a work environment that is engaging, supportive, inclusive and welcomes innovative ideas. We provide a wide range of professional and personal development opportunities to ensure we have a skilled workforce to meet our current and future needs. Further details are set out in the section headed "Human Resources" (pages 112 to 115) of this Annual Report.

Our Customers

We are committed to providing a high-quality service and a positive customer experience. We strive to understand the needs of our customers through regular engagement and feedback, and we are constantly working to improve the services we offer them, including setting up the Opinion Zone in Hong Kong West Kowloon Station shortly after its opening to get customer feedback. On average, each weekday 5.88 million passengers use our service in Hong Kong, with a further around 6.83 million passengers carried by our trains in the Mainland of China and internationally. Further details are set out in sections headed "Hong Kong Transport Operations" (pages 40 to 53) and "Mainland of China and International Businesses" (pages 80 to 89) of this Annual Report.

Our Suppliers

All our suppliers and contractors are required to comply with our Supplier Code of Practice, which sets out a compulsory behavioural framework covering ethical standards, human and labour rights and supply chain management. Our Green Procurement Policy promotes high standards for environmental protection and sustainability both internally and among our suppliers and contractors.

HOW WE CONTRIBUTE TO SOCIETY

"Community Connect" is our platform for launching initiatives to help the communities we serve. Our programmes and activities are carefully designed to support and engage communities across all 18 districts of Hong Kong. In addition, we aim to enhance customers' travelling experience and provide a showcase for local and international artists through our "Art in MTR" programme.

Youth

We invest in young people who are our customers, future leaders and innovators. We aim to empower them with the skills, knowledge and opportunities they need to create a bright future for themselves and their communities. More than 12,000 young people participated in our youth programmes in 2018.

In 2017, the Company launched a new programme, STEM Challenge, to encourage secondary school students to apply their knowledge of science, technology, engineering and mathematics ("STEM") subjects to real-world challenges.

Our colleagues shared with students how STEM knowledge is applied in transporting millions of passengers every day. At the MTR STEM Challenge Pitch Day on 28 April 2018, the finale of the year-long STEM Challenge programme, students presented their vision for "Inclusive and Sustainable Communities". The three best performing teams won a study tour to see MTR's operations in Sweden over the summer of 2018.

A new initiative launched in 2018 to foster the development of performing arts among tertiary students was "Uth Live Saturdays". With the support of the Hong Kong Federation of Youth Groups, we hope to provide a regular platform at the Living Art Stage in Hong Kong Station for performances such as music bands, dance troupes and a cappella groups.

We also continued to run our Youth Forum, enabling young people to exchange views with MTR management, and our "Pathways to Employment" programme, which aims to make the transition from education to work less daunting.

2018 marked the 10th anniversary of our annual summer programme "'Train' for life's journeys", with over 200 secondary-school students taking part in the 8-day event. The programme aims to strengthen participants' confidence through camps, workshops, community service and work experience, as well as enhance their communication and leadership skills, broaden their personal networks and give them a better understanding of their career options.

Community Outreach

A key part of our "Community Connect" programme is our "More Time Reaching Community" scheme, which encourages our employees to volunteer their own time to serve the community. In 2018, a total of 292 projects were organised by our staff and retirees, involving more than 5,600 participating volunteer headcount. Our projects mainly benefited the elderly, mentally and physically challenged people, children, youth and underprivileged families. MTR Volunteering Month was held in late 2018, with the theme of environmental protection. One of the unique activities was the donation of over-sized fish from Lok Ma Chau Wetland for our volunteers to prepare meals for the elderly.

Apart from our extensive volunteering activities, MTR also showed our support for communities through investing HK$28 million in community projects, while our staff raised HK$264,000 through donations for charities such as The Community Chest, Hong Kong Cancer Fund and Save the Children.

MTR continued to provide free advertising space to some 66 non-profit organisations to support their work in 2018. A total of 12 retail shops along the West Rail Line were also made available for social enterprises to lease at nominal rents.

In addition, MTR continued to run the 18 Districts x MTR Ngong Ping 360 Elderly Programme starting from October 2018. This year, the programme expects to invite over 12,000 elderly people, through 18 district councils, to enjoy free cable car rides and lunch in Ngong Ping Village, with interactive games designed to reinforce their awareness on railway safety.

Art and Culture

Our "Art in MTR" programme aims to enhance customers' journeys and inspire their lives through high quality works of art and art events. A number of art exhibitions were held during the year, including "Cream of the Crop" exhibition, co-hosted with Hong Kong Design Institute, in Telford Plaza which showcased the work of students.

Three new station artworks were also unveiled. "Morning Dynamics" by British street artist Remi Rough has transformed one of the long underground walkways at Quarry Bay Station. At Sham Shui Po Station, "Urban Identity" and "Chairs of Sham Shui Po" was a collaborative project by MTR staff and students from the Savannah College of Art and Design, who brought their creative ideas to life through the "SCAD X MTR" project. The opening of Hong Kong West Kowloon Station brought six new artworks to the network, enhancing passengers' journeys experience.

The second volume of "Art in MTR" was launched in July 2018 at the "The Rise of Public Art in Hong Kong" forum held at the Asia Society Hong Kong. The book features 29 new artworks added to the MTR network since 2012 and documents the creative process of commissioning art in MTR stations.

INDEX AND RECOGNITION

The Company continues to be a constituent member of relevant global investor indices, including the Dow Jones Sustainability Asia/Pacific Index and the FTSE4Good. We also once again achieved an "AAA" rating in the MSCI Sustainability Indexes, while we also achieved third place in the latest Hong Kong Business Sustainability Index, an independent survey conducted by the Chinese University of Hong Kong.

We continued to receive extensive recognition for corporate responsibility in 2018, some of which are listed in the "Awards" section on page 39 of this annual report.

HUMAN RESOURCES

8.2

average training days per employee in Hong Kong

4.7%

voluntary staff turnover in Hong Kong

The dedication of our staff is the key to our success, and we continue to invest in inspiring, engaging and developing our employees, who are our most valuable asset. Our commitment to our staff was recognised by a number of awards during the year, as listed in the "Awards" section on page 39.

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

RECRUITMENT, TALENT MANAGEMENT AND RETENTION

Various initiatives to promote talent acquisition, staff engagement and motivation, as well as programmes for training and talent development, were implemented during the year. A total of 1,790 people were hired during 2018, and voluntary staff turnover remained low at 4.7% in Hong Kong.

To support our current and future operational needs, we held a number of manpower resourcing activities, including a series of Recruitment Days, and we also revamped our online recruitment platform to enhance candidates' experience. To help ensure a good talent pipeline, 22 high calibre graduates were recruited into our various graduate development programmes, while 75 apprentices and 19 technician associates also joined the Company.

In line with the Company's initiatives on youth development and engagement, we offered 162 intern placements to students doing degree or higher diploma courses in Hong Kong in 2018. MTR also collaborated with Government on the pilot "Corporate Summer Internship on the Mainland & Overseas" programme, and with The Chinese University of Hong Kong on the "CUHK Global Internship Programme 2018", offering 11 students the opportunity to work in our Mainland China and International Business hubs.

The Company continues to build up manpower to support our growing operations both in Hong Kong, as well as in the Mainland of China and overseas. Our Corporate Talent Review Process and Talent Pipeline Programmes enable us to identify and develop talents at different levels, offering talents with personalised development plans that provide intra-divisional, cross-divisional and cross-geographical exposure and job rotations. These not only enrich talents' critical experience for long-term career development, but also support succession planning of the Company.

To maintain market competitiveness and enhance staff retention, MTR continues to provide competitive pay and benefits, short and long-term incentive schemes, and a broad range of career development opportunities. We conduct regular review to enhance our pay competitiveness and in January 2018 launched a new "Core Incentive Scheme" for managers. We maintain a robust performance management system, and a performance-based pay review mechanism, as well as various staff motivational schemes and awards to recognise and reward staff for their contributions and performance.

STAFF MOTIVATION AND ENGAGEMENT

A major new corporate-wide initiative, "Strengthen Our Culture", was launched in February 2018 to help MTR thrive and meet new challenges. The programme covers four key focus areas, namely Participative Communication, Effectiveness and Innovation, Collaboration, and Agility to Change. A "Culture Miles" campaign was rolled out in March 2018 to explain these focus areas further to staff, while engaging more than 50 Champions and Taskforce Members to help pass on cultural messages to colleagues in various divisions.

Our Staff Consultation Mechanism, involving over 900 elected staff representatives, serves as a key communication channel between management and staff. Details of action taken by the Company as a result of constructive communication between management and staff representatives is published quarterly. We also held two Management Communication Meetings during the year, with our September 2018 meeting attended by 750 managers in Hong Kong and 300 from overseas hubs, who joined through a live broadcast.

We continue to use our multinational internal communication platform MTRconnects to share corporate updates and MTR stories with colleagues worldwide. The view rate was over 1.4 million by 31 December 2018, with more than 28,300 unique visitors recorded. A revamped platform for the "Enhanced Staff Communication Programme" was also launched during the year to facilitate the communication of corporate messages by line managers.

A CULTURE OF CONTINUOUS LEARNING AND DEVELOPMENT

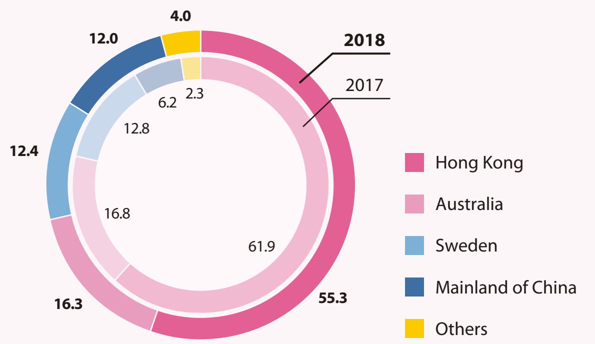
MTR offers a wide range of training and development programmes to enable staff to reach their full potential. In 2018, we ran 7,549 training courses in Hong Kong, providing each employee with an average of 8.2 training days. In addition, we also provide an e-platform to encourage staff to learn outside the classrooms. In January 2018, we launched our Reverse Mentoring Programme, one of our follow up actions arising out of the global Staff Engagement Survey.

DRIVING WORK IMPROVEMENT

Our Work Improvement Team ("WIT") programme continues to drive innovation and a spirit of improvement. In 2018, more than 55 classes were organised, while more than 930 projects were submitted under the theme "Innovate Today; Shape Tomorrow". For the first time, the MTR Work Improvement Team Annual Presentation Ceremony included a WIT projects sharing session held by three International Business hubs. Our Staff Suggestion Scheme has been in place for 37 years and continues to be a successful engagement channel to encourage creativity in the workplace.

Staff Distribution by Geographical Location

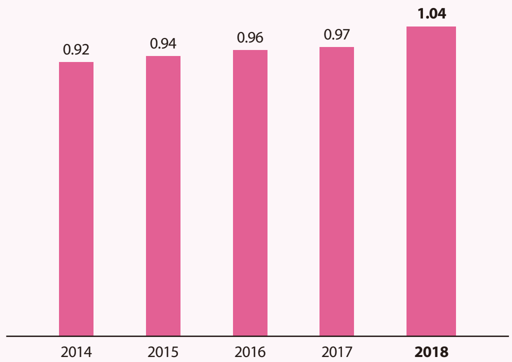
(Percentage)



Staff Productivity – Earnings Per Employee*

*Hong Kong businesses excluding property development

(HK$ million)



MTR ACADEMY

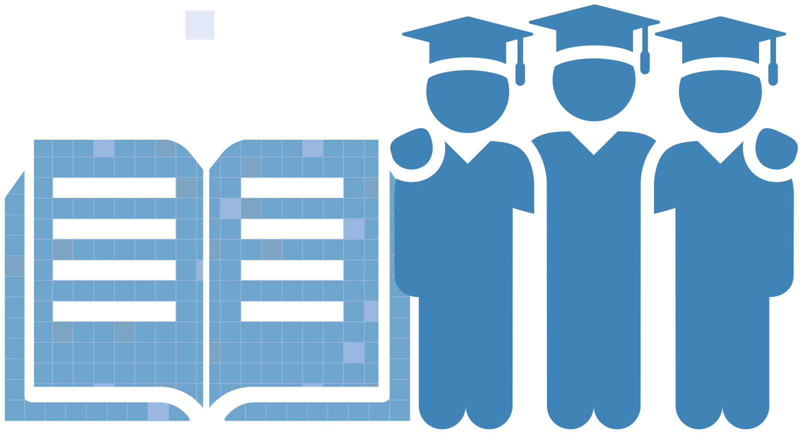
The MTR Academy ("MTRA") has continued to develop as a railway management and engineering centre that offers high quality programmes which extend the Company's rail expertise from Hong Kong to the Mainland of China and "Belt and Road" countries. MTRA also offers a growing number accredited programmes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

During 2018, the third session of the Corporate Programmes was completed, involving 35 participants from 11 countries and regions including Australia, Brazil, France, Germany, Hong Kong, India, Japan, Malaysia, Philippines, Singapore and Sweden. The Academy's third Accredited Programme, the Advanced Diploma in Transport Operations and Management was granted accreditation status in April 2018. In October 2018, the first cohort of students in the Diploma in Transport Studies programme who completed their study became the Academy's first batch of graduates. For the year as a whole, MTRA's training courses attracted over 1,100 participants from Hong Kong and overseas.

In Hong Kong, MTRA continues its partnership with the Hong Kong Polytechnic University in delivering the MSc in Electrical Engineering (Railway Systems). The Academy also supported the development and delivery of an Applied Learning subject "Railway Studies", hosted by the Hong Kong College of Technology. The programme is approved by the Education Bureau to be taught as a subject in the Hong Kong Diploma of Secondary Education Examination and began to be offered in the Secondary School Academic Year 2018/2019. MTRA has also been reaching out to young people through short courses and local school programmes, which have been receiving a very positive feedback. In June 2018, Kwun Tong District Council members visited the MTRA to learn more about the facilities, programmes and vision.

Overseas, MTRA continues to expand its presence, especially in the Belt and Road countries. In October 2017, MTR signed a Memorandum of Understanding ("MOU") with Hangzhou Metro Group to set up a branch campus of MTRA in Hangzhou. Discussions have been underway regarding the planning and detailed collaboration. In Thailand, MTRA has been supporting the delivery of the railway subject for the Masters programme at the Asian Institute of Technology in Bangkok. In February 2018, PT Mass Rapid Transit Jakarta signed a consultancy agreement with MTRA to set up the Jakarta Transport Academy, as it seeks to develop Indonesia's first mass transit system. In April 2018, an MOU was signed with Far East Air Transport Incorporated University in the Philippines, covering collaboration on developing local railway talents. In the same month, an MOU was signed with the University of Birmingham in the UK to offer distance learning programmes to students in Hong Kong and elsewhere.

MTRA also continues to support development of the Rail Transit Excellence Community, a multi-faceted platform to enable railway operators of "Belt and Road" countries to network of which MTR is a founding member.



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 is conscious about continuous improvement in the arena of corporate governance and takes prompt actions in responding to identified improvement opportunities.

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

With regard to the incidents relating to the Shatin to Central Link ("SCL") project in 2018, an analysis has been undertaken to identify areas for continuous enhancement of the Company's risk management and internal control systems, and a summary of the key actions identified is set out below:

(a) while "New Projects Delivery and Cost" has long been identified as one of the Company's key risk areas with quality of work embedded therein inherently, the focus of the enterprise level risk has been centered on the project programme and cost risks following the programme delay and cost overrun encountered in the Express Rail Link project. Since the unearthing of the work quality issues relating to the SCL project, the risk of "New Projects Delivery and Cost" has been updated to become "New Projects Quality, Delivery and Cost" to make explicit reference and ensure appropriate focus on the quality element;

(b) to ensure corresponding oversight at the Board level, the Company's Capital Works Committee, with delegated authority from the Board to oversee significant capital projects of the Company, had reviewed and updated its Terms of Reference in 2018 to expand its oversight to matters related to quality management. In addition, following a review by the Capital Works Committee with the support of an external consultant, a total of 48 actionable items covering both short term improvement and long term improvement have been identified for implementation. An aggressive action plan has been put in place with 15 of these improvement actions completed by February 2019 including, in particular,

- the transfer of the quality assurance function from the Projects Division to the Engineering Division for enhanced independent quality assurance;
- the adoption of technologies to strengthen site supervision and monitoring activities with enhanced traceability and key project performance metrics examinable by the project management team and the Executive on a real time basis;
- the delivery of a series of training initiatives across Projects Division targeting working level staff and covering responsibilities with respect to site supervision and quality supervision on site; and
- the establishment of a Review Panel to conduct an in-depth review and redrafting of the existing project management procedures to ensure they remain fit-for-purpose and are in line with the industry best practices.

Implementation of these recommendations is on target and the Capital Works Committee is maintaining an oversight on the progress of implementation;

(c) the Company's Audit Committee has also mandated management to carry out a review of the Company's internal control and risk management systems for Hong Kong operations, excluding processes and procedures of the Company's Projects Division in light of the separate ongoing investigations, validation and enhancement efforts (the "Review"), with the support of an external consultant, for continuous improvement. The Review has adopted a phased approach and the first phase has started in February 2019; and

(d) the Internal Audit Department will strengthen their audit coverage in 2019 for construction quality management in respect of the new railway projects. The coverage of these audits will cover specifically the improvement actions relating to the checks and balances processes arising out of the abovementioned review by the Capital Works Committee.

A summary of the background and the latest status of the SCL incidents, as well as the accounting treatment of SCL are set out on pages 75 to 79 and pages 255 to 256 respectively of this Annual Report.

CORPORATE GOVERNANCE CODE COMPLIANCE

During the year ended 31 December 2018, the Company has complied with the Code.

The Company continues to monitor developments in the arena of corporate governance externally to ensure the suitability and robustness of its corporate governance framework in light of the evolving business and regulatory environment and to meet the expectations of stakeholders.

As mentioned in last year's Report, the Company is supportive of the proposals put forward by the Stock Exchange in November 2017 in a consultation paper entitled "Review of the Corporate Governance Code and Related Listing Rules" to, inter alia, upgrade the current Code provision relating to board diversity to form part of the Listing Rules, to require disclosure of a nomination policy in the Corporate Governance Report and to expand the factors for consideration when assessing the independence of a non-executive director. Since then, the Company has been preparing for the roll out of the new requirements to ensure its readiness for compliance. The Stock Exchange published its consultation conclusions in July 2018 and the new requirements came into effect on 1 January 2019. The Company has complied with all the new requirements.

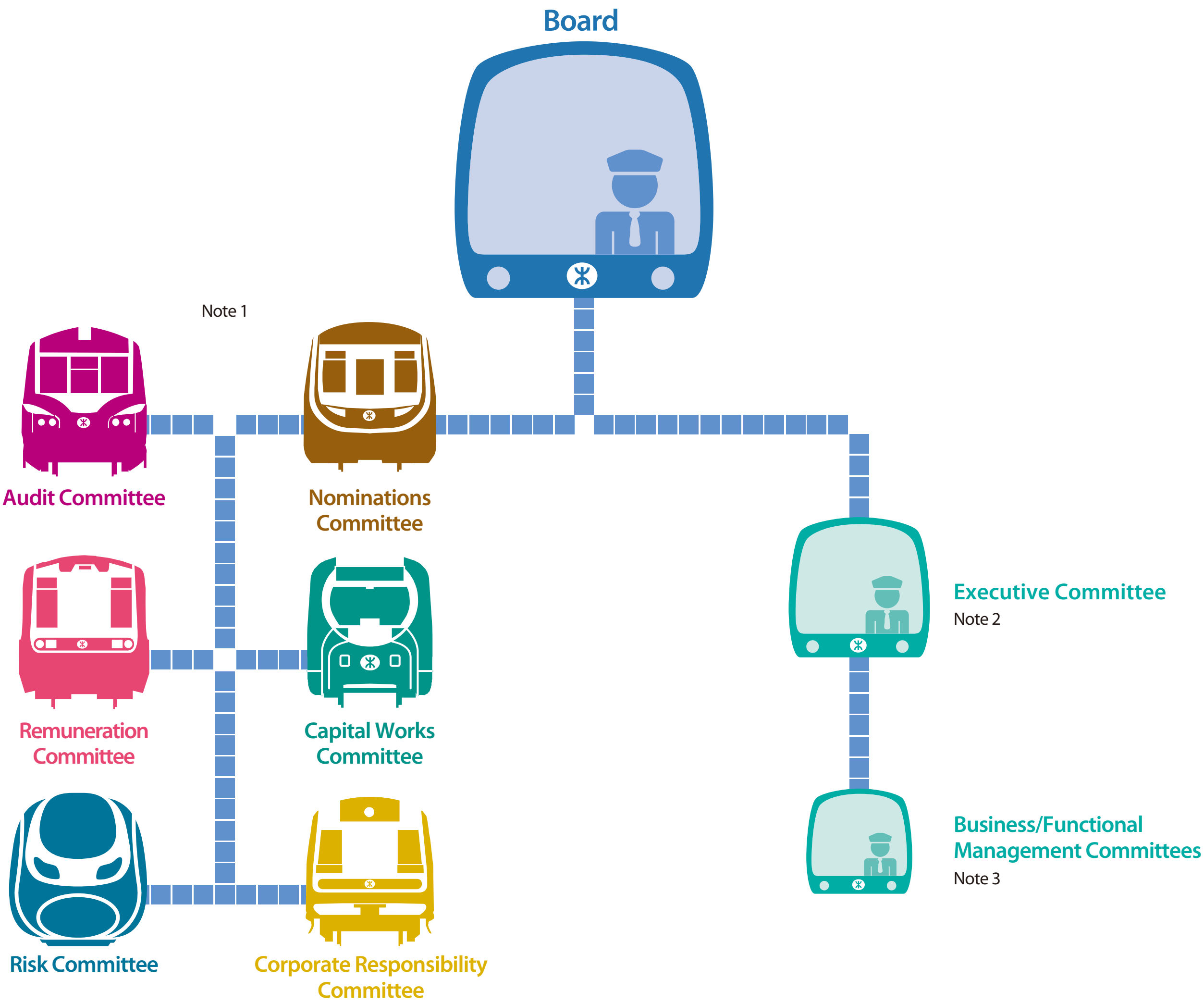
THE BOARD OF DIRECTORS

Overall Management

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

In 2018, recognising the public concern over the issues related to the SCL project, the Board and the Company's Capital Works Committee (with delegated authority from the Board) had held a number of Special Meetings to consider and monitor the incidents and issues relating to the SCL project.

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") and made up of nine other Members of the Executive Directorate.*
3. *Key Business/Functional Management Committees are listed out on pages 131 to 132 of this Annual Report.*

Members of the Board and the Executive Directorate Attendance of Meetings and Training in 2018

	Attendance										
	Board Meetings			Board Committees Meetings						Annual General Meeting 2018	Training[Ω]
	RM	SM	PM	AC	NC	RC	CWC	RiskC	CRC		
Total Number of Meetings	7	4	5	4	1	2	10	4	2	1	
Members of the Board											
Non-executive Directors ("NED")											
Professor Frederick Ma Si-hang[1] (Chairman)	7/7	4/4	5/5		1/1	2/2			2/2[C]	1/1	√
James Henry Lau Jr[2] (Secretary for Financial Services and the Treasury)	3/7	0/4	2/5		0/1	1/2				0/1	√
Secretary for Transport and Housing (Frank Chan Fan)[3]	4/7	2/4	3/5		0/1	1/2				0/1	√
Permanent Secretary for Development (Works) (Lam Sai-hung)[4]	1/1	N/A	0/1				1/1	1/1		N/A	√
Commissioner for Transport (Mable Chan)[5]	6/7	3/4	5/5	4/4				4/4		0/1	√
Independent Non-executive Directors ("INED")											
Andrew Clifford Winawer Brandler[6]	6/7	4/4	4/5	4/4				4/4[C]		1/1	√
Dr Pamela Chan Wong Shui	7/7	4/4	5/5		1/1				2/2	1/1	√
Dr Dorothy Chan Yuen Tak-fai[7]	6/7	2/4	3/5			2/2[C]	9/10			1/1	√
Vincent Cheng Hoi-chuen[8]	7/7	3/4	3/5			2/2			1/2	1/1	√
Dr Anthony Chow Wing-kin[9]	6/7	3/4	3/5			2/2	8/10			0/1	√
Dr Eddy Fong Ching	7/7	3/4	4/5	4/4[C]	1/1					1/1	√
James Kwan Yuk-choi	7/7	4/4	5/5				9/10	3/4		1/1	√
Lau Ping-cheung, Kaizer	5/7	3/4	4/5				9/10		1/2	1/1	√
Rose Lee Wai-mun[10]	4/4	4/4	3/4	2/3				3/3		N/A	√
Lucia Li Li Ka-lai	7/7	4/4	5/5	3/4					2/2	1/1	√
Abraham Shek Lai-him[11]	7/7	4/4	5/5		1/1[C]		9/10			1/1	√
Benjamin Tang Kwok-bun	6/7	3/4	4/5			2/2		4/4		1/1	√
Dr Allan Wong Chi-yun[12]	7/7	3/4	4/5		1/1		10/10[C]			1/1	√
Johannes Zhou Yuan[13]	7/7	2/4	4/5	3/4				3/4		1/1	√
Executive Director ("ED")											
Lincoln Leong Kwok-kuen (CEO)[14]	7/7	4/4	5/5						2/2	1/1	√
Members of the Executive Directorate & the Executive Committee											
Lincoln Leong Kwok-kuen	7/7	4/4	5/5						2/2	1/1	√
Dr Jacob Kam Chak-pui[15]										1/1	√
Margaret Cheng Wai-ching									2/2	1/1	√
Dr Peter Ronald Ewen										1/1	√
Herbert Hui Leung-wah										1/1	√
Adi Lau Tin-shing										1/1	√
Gillian Elizabeth Meller										1/1	√
Linda So Ka-pik									2/2	1/1	√
David Tang Chi-fai										1/1	√
Jeny Yeung Mei-chun										1/1	√
Changes during 2018											
NED											
ex-Permanent Secretary for Development (Works) (Hon Chi-keung)[16]	4/6	3/4	3/4				5/9	2/3		0/1	√
INED											
Alasdair George Morrison[17]	3/3	N/A	1/1	1/1				1/1[C]		0/1	√
Members of the Executive Directorate & the Executive Committee											
Morris Cheung Siu-wa[18]										1/1	√
Dr Philco Wong Nai-keung[19]										1/1	√

Legend:

Board Meetings

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

Board Committee Meetings

AC – Audit Committee

NC – Nominations Committee

RC – Remuneration Committee

CWC – Capital Works Committee

RiskC – Risk Committee

CRC – Corporate Responsibility Committee

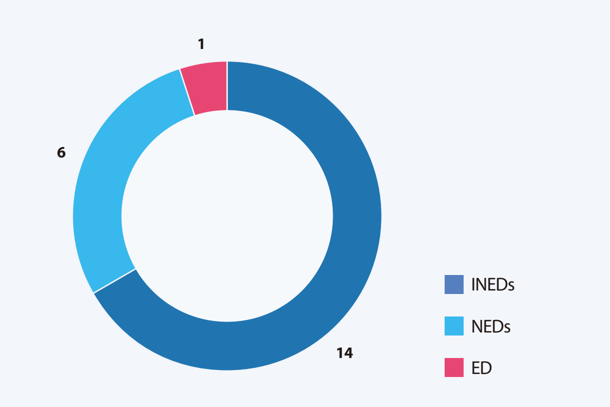
C – Chairman of the committee

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

Notes:

1. *Professor Frederick Ma Si-hang has been re-appointed by The Financial Secretary Incorporated as Chairman of the Board for a term of six months commencing from 1 January 2019 to 30 June 2019 (both dates inclusive). As announced by the Company on 7 March 2019, Professor Ma will be retiring from the position of Chairman, and will also retire as a Member of the Board, chairman of the CRC and a member of each of the NC and the RC of the Company when his tenure expires after 30 June 2019.*
2. *The alternate director of Mr James Henry Lau Jr (Secretary for Financial Services and the Treasury), acting on his behalf, attended four RM, three SM, three PM, one NC meeting, one RC meeting and the 2018 Annual General Meeting held on 16 May 2018 ("2018 AGM"). Mr Lau did not attend the SM held on 20 August 2018 in relation to the operational arrangements for the Express Rail Link to avoid any actual or perceived conflict of interest.*
3. *The alternate directors of Mr Frank Chan Fan (Secretary for Transport and Housing), acting on his behalf, attended three RM, one SM, one PM, one NC meeting and one RC meeting. Mr Chan did not attend the SM held on 20 August 2018 in relation to the operational arrangements for the Express Rail Link to avoid any actual or perceived conflict of interest.*
4. *Mr Lam Sai-hung, who was appointed to the post of the Permanent Secretary for Development (Works) with effect from 13 October 2018, had, by virtue of his aforesaid appointment, become a NED and a member of each of the CWC and the RiskC of the Company, with effect from the same date.*
5. *Ms Mable Chan did not attend the SM held on 20 August 2018 in relation to the operational arrangements for the Express Rail Link to avoid any actual or perceived conflict of interest.*
6. *Mr Andrew Clifford Winawer Brandler, a member of the RiskC, was appointed by the Board as the chairman of the RiskC with effect from the conclusion of the 2018 AGM. He attended one RM and one SM by teleconference.*
7. *Dr Dorothy Chan Yuen Tak-fai attended one CWC meeting by teleconference.*
8. *Mr Vincent Cheng Hoi-chuen attended one SM by teleconference.*
9. *Dr Anthony Chow Wing-kin attended one RM, one SM and one PM by teleconference.*
10. *Ms Rose Lee Wai-mun was elected as a new Member of the Board and became an INED after the conclusion of the 2018 AGM, and was appointed by the Board as a member of each of the AC and the RiskC of the Company at the same time.*
11. *Mr Abraham Shek Lai-him attended three RM, one SM, two PM and one CWC meeting by teleconference.*
12. *Dr Allan Wong Chi-yun attended one CWC meeting by teleconference.*
13. *Mr Johannes Zhou Yuan attended two SM, one AC meeting and one RiskC meeting by teleconference.*
14. *As announced by the Company on 7 March 2019, Mr Lincoln Leong Kwok-kuen will retire from his role as the CEO and a Member of the Board, the CRC and the Executive Directorate of the Company, with effect from 1 April 2019.*
15. *Dr Jacob Kam Chak-pui has taken up managerial oversight of the Projects Division of the Company with effect from 7 August 2018 until such time as a new Projects Director is appointed and has reported for duty. As announced by the Company on 7 March 2019, Dr Kam will be appointed as the CEO, a Member of the Board, and a member of the CRC of the Company, with effect from 1 April 2019.*
16. *Mr Hon Chi-keung retired from the post of the Permanent Secretary for Development (Works) with effect from 13 October 2018, and, as a result, ceased to be a NED and a member of each of the CWC and the RiskC of the Company, with effect from the same date. The alternate director of Mr Hon, acting on his behalf, attended two RM, one PM, three CWC meetings and one RiskC meeting. Mr Victor Chan Fuk-yiu, a Government nominated representative, attended one CWC meeting on behalf of Mr Hon with the agreement of the CWC. Mr Hon did not attend the SM held on 20 August 2018 in relation to the operational arrangements for the Express Rail Link to avoid any actual or perceived conflict of interest.*
17. *Mr Alasdair George Morrison retired as an INED and ceased to be the chairman of the RiskC and a member of the AC of the Company, with effect from the conclusion of the 2018 AGM.*
18. *Mr Morris Cheung Siu-wa ceased to be the President of MTR Academy and a Member of the Executive Directorate of the Company, upon expiry of his service contract with the Company, with effect from 17 July 2018.*
19. *Dr Philco Wong Nai-keung resigned as Projects Director and ceased to be a Member of the Executive Directorate of the Company, with effect from 7 August 2018.*

Composition of the Board



A list of Members of the Board and the Executive Directorate and their roles and functions is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange. Biographical details of each of the Members of the Board and the Executive Directorate are set out on pages 154 to 169 of this Annual Report.

The Board currently has 21 Members, made up of 14 INEDs, 6 NEDs and 1 ED. As shown in the above chart, the number of INEDs currently comprises more than two-thirds of the Company's Board, which is well above the Listing Rules requirement of having one-third of a board made up of independent non-executive directors.

Government, through The Financial Secretary Incorporated, holds approximately 75.48% of the issued shares of the Company as at 31 December 2018, and is a substantial shareholder of the Company. The Chief Executive of the HKSAR, in the exercise of her right under Section 8 of the MTR Ordinance, has appointed three persons as "additional directors" of the Company (the "Additional Directors"). They are:

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

The Additional Directors are all NEDs and are treated for all purposes (other than the requirement to retire by rotation according to the Articles) 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.

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

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

Chairman and CEO

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

The non-executive Chairman is responsible for:

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

The CEO is:

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

Board Committees

The Board Committee memberships and the attendance record of each Member of the Board in 2018 are set out on pages 120 to 121 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 139 to 141) 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 146 to 147) 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 148) of this Annual Report.

Remuneration Committee

Details of the Remuneration Committee, including its duties and work performed during the year are set out in the Remuneration Committee Report (pages 149 to 153) of this Annual Report.

Nominations Committee

Principal responsibilities:

- Reviewing the structure, size and composition (including the perspectives, skills, diversity, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- Identifying individuals suitably qualified to become Members of the Board and putting forward nominations or recommendations to the Board for proposed appointments to the Board;
- Assessing the independence of INEDs and, in case a proposed director will be holding his/her seventh (or more) listed company directorship, his/her ability to devote sufficient time to Board matters;
- Making recommendations to the Board on the appointment or re-appointment of Members of the Board and succession planning for Members of the Board; and
- Nominating and recommending to the Board, candidates for filling the positions of CEO, Finance Director and Chief Operating Officer (provided that the Chief Operating Officer position exists);

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

- The size, structure and composition of the Board and a list of desirable skills/experience/perspectives for the Board;
- The appointment of a new Member of the Board by shareholders at the 2018 AGM;
- The re-election of Members of the Board retiring at the 2018 AGM; and
- An annual assessment of the independence of each INED of the Company.

The Nominations Committee has conducted an annual review of the current size, structure and composition of the Board and considered the same is appropriate in light of the Company's strategy. The Nominations Committee also assessed that the Board currently possesses a balanced mix of skills, experience and diversity of perspectives and is appropriate for continuing to support the execution of the Company's business strategies in an efficient and effective manner.

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 106 to 111) of this Annual Report.

Work performed during the year:

- Monitoring of the progress of various youth, elderly and district-level community engagement and investment programmes in Hong Kong and overseas;
- Review and recommendation of the 2017 Sustainability Report to the Board for approval;

- Consideration of the Company's performance on various local and international sustainability indices; and
- Review of a new Sustainability Report Framework.

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 and Members of the Executive Directorate, 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 2018, 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 during a year must retire at the first annual general meeting after their appointment and are eligible for election at that meeting.

Except for the Additional Directors, all other Members of the Board are required to retire by rotation. At each annual general meeting of the Company, Members of the Board who were last elected or re-elected at the annual general meeting which was held in the third calendar year prior to the annual general meeting in question, are those who will retire by rotation.

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

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

Nomination Policy

A Nomination Policy (the "Nomination Policy") for documenting the current procedures and practices of the Company was approved by the Board in January 2019, and was posted on the Company's website (www.mtr.com.hk).

The Nomination Policy sets out the process and procedures for governing the nomination of Members of the Board applicable both to new appointments and re-appointments, except for appointments made by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance and nomination by shareholders of the Company in accordance with the Articles of Association of the Company.

The Board has delegated to the Nominations Committee the authority to identify and assess potential candidates for appointment to the Board through different means and channels, including recommendations from Members of the Board, use of external search firms, and any other means or channels that it deems appropriate.

Nomination Procedures

In relation to appointments by the Board or by shareholders at a general meeting of the Company, the Nominations Committee will request the candidate to provide his/her biographical information and other information deemed necessary. The Nominations Committee will review and take reasonable steps to verify the information obtained from the candidate and seek clarification, where required. The Nominations Committee may, at its discretion, invite any candidate to meet with the Nominations Committee members to assist them in their consideration of the proposed nomination or recommendation. The Nominations Committee will then submit its nomination proposal to the Board for consideration and approval or making recommendation to the shareholders for approval.

In case of re-appointments of Members of the Board at a general meeting, the Nominations Committee will review the profile of the Members of the Board who have offered themselves for re-appointment to consider their suitability in light of the strategy of the Company as well as the structure, size and composition of the Board at that time. The Nominations Committee will then make recommendations for the Board's consideration and the Board will, at its discretion, make recommendations to the shareholders.

Selection Parameters

In evaluating a proposed candidate, including a Member of the Board eligible for re-appointment, the Nominations Committee will consider the following factors (which are by no means exhaustive):

(i) the strategy of the Company;

(ii) the structure, size, composition and needs of the Board and its respective Board Committees at the time, taking into account succession planning, where appropriate;

(iii) the required skills, which should be complementary to those of the existing Members of the Board;

(iv) the Board Diversity Policy ("BD Policy") of the Company as adopted/amended by the Board from time to time;

(v) any information obtained through third party references or background checks;

(vi) any other factors that may be used as reference in assessing the suitability of a proposed candidate, including but not limited to the candidate's reputation for integrity, accomplishments and likely commitment in terms of time and interest;

(vii) if a proposed candidate will be holding his/her seventh (or more) listed company directorship, the candidate's ability to devote sufficient time to the Board; and

(viii) the independence of a candidate proposed to be appointed as an INED, in particular by reference to the independence requirements under the Listing Rules.

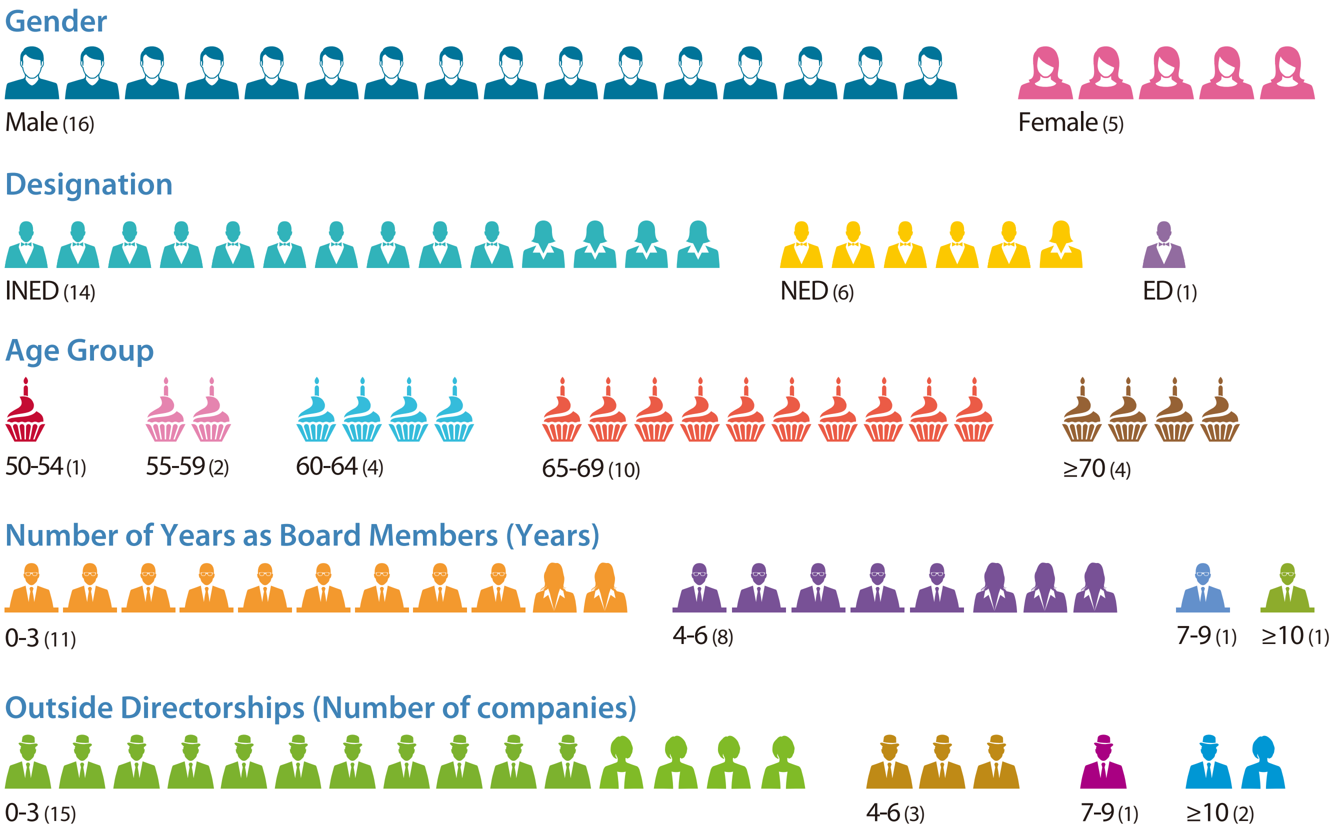
The Nominations Committee is vested with discretion to take into account such other factors that it may consider appropriate.

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 Members of the Board have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. The Company is conscious of maintaining a Board made up with INEDs as the majority, together with an appropriate level of female Members on the Board. While conscious efforts are being taken by the Company to fulfil its pledges, all appointments are ultimately made on a merit basis taking into account available and suitable candidates.

The Board 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 Ms Rose Lee Wai-mun as a new INED for appointment at the 2018 AGM. The Committee formed the view that the extensive experience of Ms Lee in listed companies as well as in the banking sector, coupled with her advisory roles in various trade development committees across Hong Kong and the Mainland of China would be a valuable addition to the Board and would further enrich the spectrum of skills, experience and diversity of perspectives of the Board, thereby enhancing the diversity and effectiveness of the Board.



Statutory Confirmations

For the year ended 31 December 2018, the Company has received confirmation from each INED about his/her independence under the Listing Rules. In light of the amendments to the Listing Rules which have come into effect since 1 January 2019, each INED was also requested to confirm his/her immediate family member(s)' interests (as defined under the Listing Rules).

In discharge of its duties under its Terms of Reference, the Nominations Committee has reviewed the above confirmations and assessed the independence of the INEDs, and continues to consider each of them to be independent.

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

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

DIRECTORS' INSURANCE

As permitted under the Articles of Association, it has been the practice of the Company to arrange Directors' and Officers' ("D&O") Liability Insurance for which Members of the Board and officers of the Company do not have to bear any excess. To ensure sufficient cover is provided, the Company undertakes an annual review of the Company's D&O insurance policy in light of recent trends in the insurance market and other relevant factors. The review benchmarks the amount of cover against other similar companies and considers whether separate cover will be required for Members of the Executive Directorate or Members of the Board. The conclusion of the review in year 2018 was that the level of cover was adequate and, given this, together with the indemnity provided by the Company to Members of the Board, the broad policy wording and the financial strength of the insurance panel, no additional cover was required.

CORPORATE GOVERNANCE FUNCTIONS REVIEW

The Board conducted an annual review of its Corporate Governance duties in accordance with its Terms of Reference on Corporate Governance Functions and the latest review was done in March 2019. Below is a summary of the work performed during the year ended 31 December 2018 and up to the date of the Report:

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

In spite of the areas identified for improvement arising from the SCL incidents as set out in the Corporate Governance Practices section on pages 117 to 118 of this Annual Report, the Board considers that, overall, the Company's Corporate Governance Functions are adequate and appropriate for the Company in light of its current corporate strategy. They will be kept under review in light of the changing legal and regulatory environment and any changes to the Company's business.

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

BOARD PROCEEDINGS

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

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

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

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

The CEO Report (formerly known as the "CEO Executive Summary"), provided to the Board on a monthly basis, covers the overall strategies, principal issues and key events of the Company for the relevant month, with a look ahead to key issues or events in the following three to six months. During the year, the contents of the CEO Report have been further enriched through inclusion of summary reports to provide key information to the Board in areas such as the Group's safety performance in different business sectors, financial activities, contingent liabilities, human resources developments and new railway projects. The layout has also been revamped to make the CEO Report more user friendly through the use of more segmentation and appendices. This CEO Report together with the discussions at Board meetings, ensures that Members of the Board have a general understanding of the Company's business and other key information about the Company, and provides up-to-date information to enable them to make informed decisions for the benefit of the Company.

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

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

MATERIAL INTERESTS AND VOTING

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

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

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

There are a number of contractual arrangements that have been entered into between the Company and Government (and its related entities), some of which are continuing in nature. As Government is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The sections headed "Connected Transactions" and "Continuing Connected Transactions" (pages 183 to 202) of this Annual Report explain how, in accordance with the Listing Rules, these transactions have been treated.

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

BOARD MEETINGS

The Board held 16 meetings in 2018 (seven Regular Meetings, four Special Meetings and five Private Meetings), well exceeding the requirement of the Code which requires every listed issuer to hold board meetings at least four times a year.

Regular Meetings

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

In addition, other key matters discussed at Board meetings held in 2018 included:

- Corporate Governance matters, including:
  - Receipt of shareholder analysis and investors' feedback;
  - Approval of Directors' Manual updates;
  - Review of the structure, size and composition of the Board;
  - Review of the Board's Corporate Governance Functions;
  - Review of Enterprise Risk Management Reports;
  - Review of the effectiveness of the Company's risk management and internal control systems;
  - Assessment of the independence of the INEDs;
  - Receipt of Corporate Safety Governance Annual Report 2017;
  - Receipt of the proceedings of various Board Committee meetings and MTR Academy Council meetings;
  - Approval of Sustainability Report 2017;
  - Approval of Board Committee composition; and
  - Approval of amendments to the Terms of Reference of the Capital Works Committee;
- 2018 AGM:
  - Recommendation of the election/re-election of Retiring Members of the Board; and
  - Recommendation of the election of a new Member of the Board ;
- Projects:
  - Approval of the Company's proposals for submission to Government for various railway projects under the Railway Development Strategy 2014; and
  - Receipt of updates on the SCL project and related matters;
- Operations:
  - Receipt of updates on signalling replacement and Works Management Office projects;
  - Receipt of updates on major incidents;
  - Receipt of updates on proposed enhancements to the operations of certain railway lines;
  - Approval of asset replacement and upgrading projects;
  - Approval of the operational arrangements for the Express Rail Link project; and
  - Receipt of updates on initial operations of the High Speed Rail;
- Mainland China and International Businesses:
  - Receipt of updates on Mainland China and International Businesses and business development opportunities and approval of potential business investment and partnership opportunities;
  - Approval of tender submission for railway projects overseas;
  - Approval of additional investment in an Australian project; and
  - Approval of entry into a contract for the Operations and Maintenance of the Macau Light Rapid Transit Taipa Line;
- Property:
  - Approval of property development tender awards in Hong Kong; and
  - Receipt of updates on property development projects in Hong Kong;
- Human Resources:
  - Approval of 2018 Annual Pay Review;
- Commercial and Marketing:
  - Award of contract for advertising sales agency services relating to some of the railway lines in Hong Kong;
  - Review of the principles for revising the Company's fares under the Fare Adjustment Mechanism (the "FAM");
  - Approval of the Controlled Fares for 2018 under the FAM; and
  - Approval of tender award for Duty Free Shops at Hong Kong West Kowloon Station;

- Financial:
  - Approval of 2017 Annual Report and Accounts;
  - Approval of 2018 Interim Report and Accounts;
  - Receipt of Ngong Ping 360 Limited 2017 annual results;
  - Approval of 2019 Budget and Longer Term Forecast; and
  - Approval of the renewal of US$5 Billion Debt Issuance Programme.

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

During 2018, a total of four Special Meetings were held of which three were designated to consider matters relating to the SCL project, senior management changes of the Company and associated interim organisation arrangements, and the remaining meeting was held to consider the operational arrangements for the Express Rail Link.

Private Meetings

During 2018, the Chairman held five Private Meetings at which a range of matters, including management organisation and personnel matters, the SCL project, and certain internal policies and practices of the Company were discussed and considered. In addition, the Chairman met with INEDs only without the presence of other Board Members to discuss general strategy matters of the Company.

The attendance record of each Member of the Board (and each Member of the Executive Directorate) during the year is set out on pages 120 to 121 of this Annual Report.

INDUCTION PROGRAMME AND OTHER TRAINING

Induction Programme

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

- the roles of a director from the strategic, planning and management perspectives, as well as the essence of corporate governance and the trends in these areas; and
- the general and specific duties of a director under general law (common law and legislation) and the Listing Rules.

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

All Members of the Board, Alternate Directors and Members of the Executive Directorate are also given a Directors' Manual on their appointment which sets out, amongst other things, directors' duties and the Terms of Reference of the Board on its Corporate Governance Functions and of its Board Committees. The Directors' Manual is updated from time to time to reflect developments in those areas. The latest update to the Directors' Manual was approved by the Board on 8 January 2019.

Training and Continuous Professional Development

Members of the Board and the Executive Directorate

To assist Members of the Board and the Executive Directorate in continuing their professional development, the Company Secretary recommends them to attend relevant seminars and courses at the cost of the Company.

Training

Materials on the subject of corporate governance and e-learning provided by the Stock Exchange are provided/notified to Members of the Board, Alternate Directors and Members of the Executive Directorate from time to time to keep them abreast of the latest developments on this front.

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

Senior Executives

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

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

ACCOUNTABILITY

Members of the Board are responsible for the consolidated accounts of the Group. The consolidated accounts are prepared on a going concern basis and give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, 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 2018, 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 2018, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the external auditor of the Company (the "External Auditor") are set out on page 136 of this Annual Report.

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

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

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

Systems Overview

The Executive Committee is responsible for:

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

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

Business/Functional Management Committees

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

- Operations Executive Management Committee
- Property Executive Management Committee
- Project Control Group
- Investment Committee
- European Business Management Committee
- Australian and International Consultancy Business Management Committee
- Mainland China Business Management Committee
- Macau Business Management Committee
- Information Technology Executive Management Committee
- Financial Planning Committee
- Corporate Safety Management Committee
- Enterprise Risk Committee
- Executive Tender Panel/Tender Board
- Corporate Responsibility Steering Committee
- Cost Control Committee (Projects)
- Executive Cost Control Committee (Projects)
- Corporate Cyber Security Committee
- Corporate Security Management Committee
- Railway Development Steering Group

Internal Audit

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

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

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

ERM system

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

More details of the features of the ERM system, the process used to identify, evaluate and manage significant risks, the significant risks being managed and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section (pages 142 to 145) of this Annual Report.

Board Oversight

The Board, assisted by the Risk Committee and the Audit Committee respectively, oversees the Company's ERM system and internal control system on an ongoing basis and reviews the effectiveness of the systems at least annually. The duties of and work performed in 2018 by the Risk Committee and Audit Committee respectively are set out in the "Risk Committee Report" (pages 146 to 147) and "Audit Committee Report" (pages 139 to 141) 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, Corporation General Instruction(s) ("CGI(s)"), divisional/departmental procedures and manuals, committees, working groups and quality assurance units are established to achieve, monitor and enforce internal controls and evaluate their effectiveness.

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

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

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

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

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

Whistle-blowing Policy

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

Inside Information Policy

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

- A CGI sets out:
  - (i) the internal processes for identifying, assessing and escalating potential Inside Information to the Executive Committee and the Board;
  - (ii) the responsibilities of Model Code Managers (as defined below) in preserving the confidentiality of Inside Information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and
  - (iii) the process for disclosure of Inside Information;
- Training is provided to Members of the Board and the Executive Directorate, Executive Managers, Department Heads and managers who are classified as Model Code Managers (on the basis that they are likely to be in possession of Inside Information because of their positions in the Company) from time to time. In particular, Members of the Executive Directorate, Executive Managers, Department Heads and Model Code Managers have been required to complete a computer-based training programme ("CBT Programme") on Inside Information. The CBT Programme was re-run in October 2018 and will be re-run periodically to provide continuous training; and
- On-going training sessions on the latest developments/ requirements of the SFO are arranged as appropriate.

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

Evaluation of the Effectiveness of the Risk Management System

The Company has surpassed the relevant best practices in the Code by completing an effectiveness review of the ERM system for the Company and its subsidiaries, and extending the review to the Company's associates operating in Mainland China and overseas. For the year ended 31 December 2018, the Risk Committee, with delegated authority from the Board, evaluated the effectiveness of the ERM system of the Company and considered that it was overall effective and adequate. The details are set out in the "Process of System Effectiveness Review" of the Risk Management section (page 145) of this Annual Report. Nonetheless, as mentioned in the section on Corporate Governance Practices above (pages 117 to 118 of this Annual Report), with regard to the incidents relating to the SCL project in 2018, an analysis has been undertaken to identify areas for continuous enhancement of the Company's risk management and internal control systems. A summary of the key actions identified are set out on pages 117 to 118 of this Annual Report.

Evaluation of the Effectiveness of the Internal Control System

For the year ended 31 December 2018, the Audit Committee, with delegated authority from the Board, evaluated the effectiveness of the internal control system of the Company and its subsidiaries based on the following:

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

The Audit Committee concluded that the internal control system was overall effective. Nonetheless, there are areas for improvement in relation to the Company's project management regime as revealed by the SCL incidents, for which control improvement actions are being undertaken to enhance the relevant project management organisation and processes.

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

For the year ended 31 December 2018, 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 risk management and internal control systems of the Company and its subsidiaries and key associates for the year ended 31 December 2018, and considers that such systems are overall effective and adequate, notwithstanding the shortcomings identified in certain areas of the Company's project management processes and execution in relation to which improvement actions have been identified.

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 2018, and considers the above resource components to be adequate.

CRISIS MANAGEMENT

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

GOVERNANCE OF SUBSIDIARIES AND ASSOCIATES

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

In 2018, the Company refined the Governance Framework to promote collaboration between the corresponding functions in the Company on the one hand and the subsidiaries and associates on the other hand and enhanced the implementation process to promote a proper Governance Framework in the Company's subsidiaries and associates from inception of any new business operations/investments.

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

BUSINESS ETHICS

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

The Code of Conduct is reviewed and updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements. Following a regular review in 2017, the revised Code of Conduct has been released to all staff in early May 2018. Education programmes including seminars and mandatory computer-based training 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 programme. New recruits are also required to complete the mandatory computer-based training programmes within three months of joining the Company. The Code of Conduct is also uploaded onto the Company's website (www.mtr.com.hk).

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

EXTERNAL AUDITOR

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

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

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of KPMG nationally or internationally) are set out in note 9D to the consolidated accounts on page 233 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 2018 AGM was held on 16 May 2018 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 2019 AGM has been scheduled on 22 May 2019 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. The Company is committed to making available meeting facilities to enable all eligible attendees to be able to participate in the AGM. As such, simultaneous sign language interpretation will be provided for the first time at the 2019 AGM.

Resolutions passed at the 2018 AGM

The Chairman proposed separate resolutions for each substantially separate issue at the 2018 AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the 2018 AGM under Article 71 of the Articles of Association to call a poll on all resolutions conducted by electronic means.

A total of 12 resolutions were passed at the 2018 AGM (with resolution no. 3 comprising six separate resolutions), each supported by over 99% of the votes cast. The full text of the resolutions is set out in the 2018 AGM Circular (which comprised Notice of the 2018 AGM) dated 12 April 2018.

For the benefit of those shareholders who did not attend the 2018 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 2017;

(2) Declaration of a final dividend of HK$0.87 per share for the year ended 31 December 2017;

(3) (a) Re-election of Dr Eddy Fong Ching as a Member of the Board of Directors of the Company;

(b) Re-election of Mr James Kwan Yuk-choi as a Member of the Board of Directors of the Company;

(c) Re-election of Mr Lincoln Leong Kwok-kuen as a Member of the Board of Directors of the Company;

(d) Re-election of Mrs Lucia Li Li Ka-lai as a Member of the Board of Directors of the Company;

(e) Re-election of Mr Benjamin Tang Kwok-bun as a Member of the Board of Directors of the Company;

(f) Election of Mr James Henry Lau Jr as a Member of the Board of Directors of the Company;

(4) Election of Ms Rose Lee Wai-mun 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 as at the date of passing of this resolution*; and

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

* *(The full text of the resolution is set out in the Notice of the 2018 AGM.)*

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

Calling General Meetings

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

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

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

The Directors of the Company are required to call the general meeting within 21 days after the date on which the Company receives such requests, and the general meeting must be held on a date not more than 28 days after the date of the notice convening the general meeting. If the requests include a resolution to be moved at the general meeting, the notice of the general meeting must include notice of the resolution. If the resolution is to be proposed as a special resolution, the Directors of the Company are required to specify the intention to propose the resolution as a special resolution in the notice of the general meeting.

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

Procedures for Shareholders Putting Forward Proposals

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

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

Enquiries from Shareholders

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

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

Please also refer to the Investor Relations section (pages 104 to 105) of this Annual Report on other means of communication with shareholders.

CONSTITUTIONAL DOCUMENT

The Company's Articles of Association (in both English and Chinese) are available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange. During the year ended 31 December 2018, 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 2019

AUDIT COMMITTEE REPORT

As at the date of this Report, the Audit Committee of the Company (referred to as the "Committee" in this Report) consists of six Non-executive Directors, five of whom are Independent Non-executive Directors of the Company. Details of the Committee's membership and members' attendance records during 2018 are set out on pages 120 to 121 of this Annual Report. None of the Committee members is a partner or former partner of KPMG, the Company's external auditor.

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

TERMS OF REFERENCE OF THE COMMITTEE

The Terms of Reference of the Committee (the "ToR") has been updated following an amendment to the Corporate Governance Code which came into effect on 1 January 2019, which extends the cooling off period for a former partner, principal, shareholder, or professional employee of the Company's existing external auditor from acting as a Committee member from one year to two years. The updated ToR is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

DUTIES OF THE COMMITTEE

Under the ToR, the duties of the Committee primarily comprise the following:

Oversight of the relationship with the Company's external auditor

- Making recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor, and approving the remuneration and terms of such engagement;
- Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- Discussing with the external auditor the nature and scope of its audit and reporting obligations before the audit commences; and
- Pre-approving non-audit services and ensuring that the external auditor's provision of non-audit services does not impair its independence or objectivity.

Review of the financial information of the Company

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

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

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

- Reviewing periodic reports from the Head of IA and the follow-up of major action plans recommended, and putting forward recommendations to the Board, where appropriate; and
- Reviewing the annual assessment conducted by the Head of IA on the adequacy of the resources, qualifications and experience of staff of the Company's internal audit function, and its training programmes and budget.

Further details of the above are set out in the "Risk Management and Internal Control Systems" section of the Corporate Governance Report on pages 131 to 135 of this Annual Report.

Reporting to the Board

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

The minutes of Committee meetings are prepared by the secretary of the meetings with details of the matters considered by the Committee members and decisions reached, including any concerns raised by the Committee members, dissenting views expressed and suggestions for enhancing the governance and internal control systems of the Company. The draft minutes are circulated to Committee members for comment 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 advance of the first regular Committee meeting each year, the secretary of the meetings pre-agrees key agenda items for the year with the Chairman of the Committee who makes a final determination on the agenda for the regular Committee meetings.

WORK PERFORMED BY THE COMMITTEE IN 2018

In 2018, the Committee held four meetings. Representatives of the external auditor, the FD and the Head of IA attended all four meetings to report and answer questions about their work. The Committee devoted its attention to the review of the Company's annual and interim results announcement/accounts at the February and August meetings respectively, allowing more time to review and discuss the Company's internal controls, internal audit and other activities at the May and November meetings.

The Committee from time to time invited relevant Members of the Executive Directorate to join the financial presentation by the FD and the presentation on the latest cost positions of the Company's railway projects under construction by General Manager – Procurement and Contracts (Projects).

As mentioned in the Corporate Governance Report, in light of the incidents relating to the Shatin to Central Link project in 2018, an analysis has been undertaken to identify areas for continuous enhancement of the Company's risk management and internal control systems. A summary of the key actions identified are set out on pages 117 to 118 of this Annual Report. The coverage of future audits will cover specifically implementation of improvement actions that have been identified within the checks and balances processes surrounding the construction quality management.

The Committee has also mandated management to carry out a review of the Company's internal control and risk management systems for Hong Kong operations, with the support of an external consultant, for continuous improvement. Processes and procedures of the Company's Projects Division are excluded under this review in light of the various investigations, validation and enhancement efforts that are going on separately. The review has adopted a phased approach and the first phase of work has started in February 2019.

Other major works performed by the Committee in 2018 included:

Financial

- Review of the draft 2017 Annual Report and Accounts and 2018 Interim Report and Accounts, including the financial impact of the Company's new railway projects in progress, and the relevant disclosure notes in the said Accounts and recommendation of the same for the Board's approval;
- Received updates on the carrying value of the Group's fixed assets;
- Received updates on the latest cost positions of the Company's railway projects under construction;

- Review of and recommendation for presentation to the Remuneration Committee of the paper headed "2017 payout under '2008 Variable Incentive Scheme' - confirmation of the financial figures"; and
- Preview of 2018 interim and annual accounting and financial reporting issues.

Internal Audit

- Review of Internal Audit Department's Reports;
- Review and endorsement of an evaluation paper on Risk Management and Internal Control Systems Effectiveness for 2017 for submission to the Board (focused on the internal control system, as the risk management system effectiveness was separately reviewed and endorsed by the Risk Committee of the Company);
- Review and endorsement of a paper on Continuing Connected Transactions for 2017 for submission to the Board;
- Review of Whistle-blowing Progress Reports;
- Review of the Report on Evaluation of Effectiveness of Internal Audit Department for 2017;
- Received an update on the Hong Kong Railway Projects Assurance Framework and the Audit Process;
- Approval of the 2019 Internal Audit Plan;
- Received the result of the Quality Assurance Review of Internal Audit Department; and
- Holding of private sessions with the Head of IA without the presence of Management.

External Auditor

- Review of KPMG's Audit Plan and strategy for the year ended 31 December 2018;
- Received a summary of KPMG services provided to the Company and fees received by them;
- Pre-approval of audit and non-audit services provided by KPMG;
- Received KPMG's reports on the salient features of the 2017 Annual Accounts and 2018 Interim Accounts respectively;
- Review of the 2017 Auditor's Report;
- Review and approval of KPMG's fee proposal for the 2018 audit, other audit related and tax services;
- Considered KPMG's independence and other relevant factors when approving the appointment of KPMG in providing non-audit services; and receiving/noting KPMG's confirmation of independence in its audit report in respect of the 2017 Annual Accounts and 2018 Interim Accounts respectively; and
- Holding of private sessions with representatives of KPMG without the presence of management.

Others

- Received the 2017 report on outstanding litigation/ potential litigation, compliance with statutes and regulations, Operating Agreement and Rail Merger Related Agreements; and
- Received the Audit/Risk/Governance Committee Minutes of various subsidiaries of the Company.

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 2019 for approval by the Company's Shareholders at the 2019 Annual General Meeting.

Dr Eddy Fong Ching
Audit Committee Chairman
Hong Kong, 7 March 2019

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

RISK MANAGEMENT

SYSTEM FEATURES

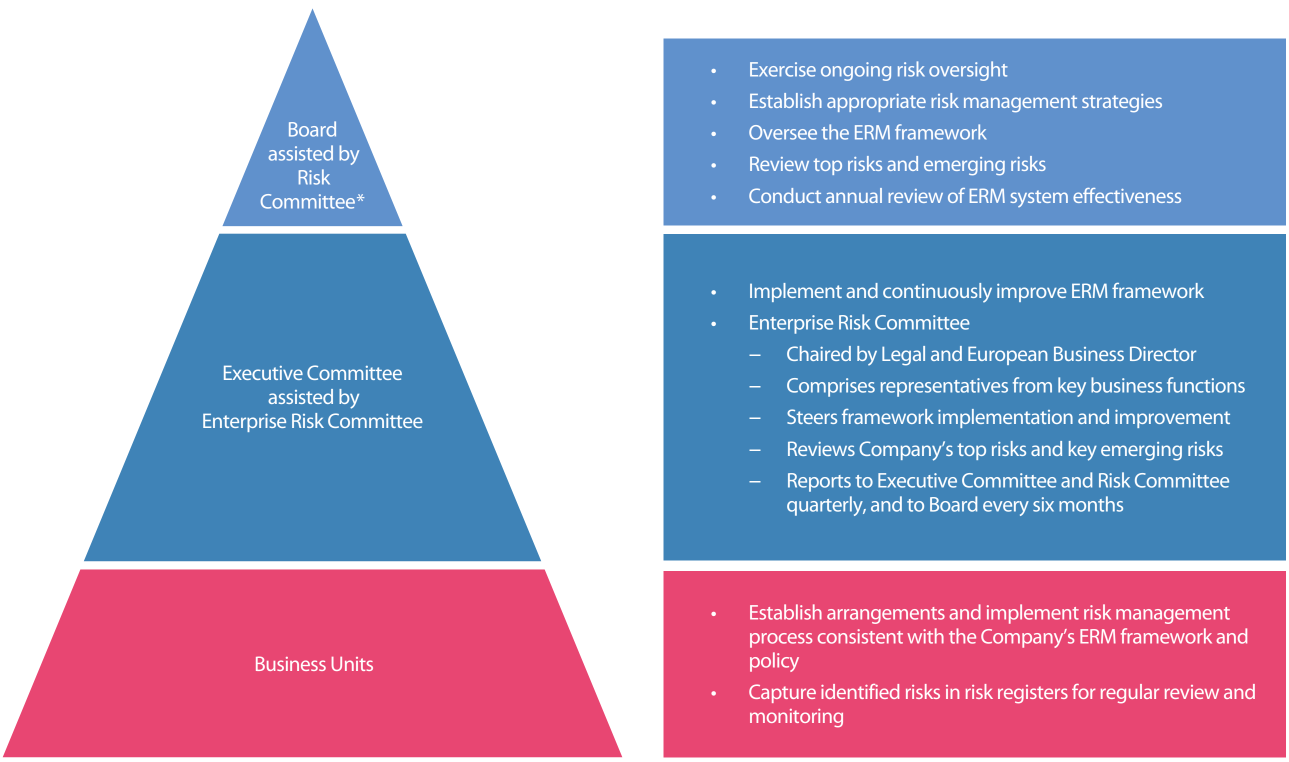
Business units across the Company embrace the Company's Enterprise Risk Management ("ERM") framework that underpins their day-to-day business activities. The framework provides a simple and effective management process to:

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

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

Since its establishment in 2017, the Risk Oversight Group, attended by Executives on a rotational basis, had continued to provide top-down views on the key risks of the Company during the year. Two "Blue Sky" workshops were also held in 2018 for the Executives to conduct in-depth discussions on selected key risk areas of the Company.

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.



* *See the Risk Committee Report (pages 146 to 147 of this Annual Report) for duties and work performed by the Committee in 2018*

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.

"New Projects Delivery and Cost" has long been identified as one of the Company's key risk areas, with quality of work inherent therein. The focus of the enterprise level risk has, historically, been centered on the project programme and cost related risks following the programme delay and cost overrun encountered in the Express Rail Link project. Since the unearthing of the work quality issues relating to the Shatin to Central Link ("SCL") project, the key risk area of "New Projects Delivery and Cost" has been updated to become "New Projects Quality, Delivery and Cost" to make explicit reference to, and ensure appropriate focus on, the quality element. Improved controls for enhancing the checks and balances within relevant processes and procedures relating to the Company's project management regime have been identified for implementation.

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*

Focus areas for risk management of the Company include:

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

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

New Projects Quality, Delivery and Cost	
Key Challenges	• Compliance with quality standards • 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 • Compliance with record keeping requirements
Key Controls	• Periodic audit and assurance of compliance with processes and procedures • Training for staff of the Company to ensure familiarization with the processes and procedures relevant to their work • Training for contractors' staff and workers on safe working adjacent to railways and developments • Adoption of technology to strengthen record keeping • Close coordination with parties involved in interfacing activities and enhancement of design and construction methodology • Stringent control of contingency funds • Monitoring of project progress against approved Key Performance Indicators

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

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

Delivery of Growth Strategy	
Key Challenges	• Challenging business model for future new lines in Hong Kong • Strong competition for business opportunities outside Hong Kong • Business performance below the bid models and assumption
Key Controls	• Formulate innovative business models for new lines in Hong Kong • Maximise branding effect of the Company • Conduct regular environmental scan for new business opportunities outside Hong Kong • Formulate and implement business plans for underperforming businesses for improvement and monitoring

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

Process of System Effectiveness Review

On behalf of the Executive Committee, the ERC evaluates the effectiveness of the ERM system at least annually. The Legal and European Business Director, who chairs the ERC, presented the ERM system effectiveness review results for the year ended 31 December 2018 to the Executive Committee, which confirmed the review results, on 31 January 2019, and to the Risk Committee on 25 February 2019.

For the year ended 31 December 2018, the Risk Committee, with delegated authority from the Board, has evaluated the effectiveness and adequacy of the Company's ERM system and considers that it is overall effective and adequate, based on a number of review areas. Nonetheless, there are areas for improvement in relation to the Company's project management regime as revealed by the SCL incidents, for which improvement opportunities have been identified for implementation.

Factors considered during the review

- Review areas suggested in the Corporate Governance Code for the Board's annual review of the risk management system
- Annual internal certification of risk management effectiveness by Department Heads and Heads of subsidiaries/associates
- Results of an in-house survey conducted in 2018
- Risk management of subsidiaries and associates
- Benchmarking/roundtable/peer group ideas exchange
- Risk management trainings and promotions held in 2018

Conclusion

The ERM system was considered overall effective and adequate for the year ended 31 December 2018, notwithstanding the shortcomings identified in certain areas of the Company's project management processes and execution in relation to which improvement actions have been identified.

CONTINUOUS PROCESS IMPROVEMENT

Key improvements in the ERM system implemented within 2018 include:

- The enterprise risk matrix has been reviewed and updated to more appropriately align with the latest internal protocols
- Enterprise risks have been reviewed for further differentiation and those risks assessed to be more appropriately monitored and managed by business units as part of normal business have been archived from the enterprise risk map, to enable more focused risk discussion at the enterprise level
- In October 2018, the Company launched its Risk Awareness Week ("RAW") event for the fifth consecutive year to continue promoting risk awareness across all levels of the organisation. The event included a workshop attended by the Executives and senior managers on emerging risk themes and their relevance to the Company, a lunchtime seminar on effective risk management system and cyber threats, a series of interactive half-day workshops for different levels of staff, including senior managers, managers, supervisors and general staff, and an online quiz. The RAW events were well received with over 1,000 participations.

We keep ourselves abreast of the latest developments in risk management through reviews with users, cross-industry benchmarking and experience sharing, including our attendance at the eleventh UK ERM Roundtable and the tenth HK ERM Roundtable meetings.

RISK COMMITTEE REPORT

As at the date of this Report, the Risk Committee of the Company (referred to as the "Committee" in this report) consists of seven non-executive Directors, five of whom are Independent Non-executive Directors of the Company ("INEDs"). Details of the Committee's members and their attendance records during 2018 are set out on pages 120 to 121 of this Annual Report.

The Committee, with delegated authority from the Board, has evaluated the effectiveness and adequacy of the Company's Enterprise Risk Management ("ERM") system and considers that it is overall effective and adequate. Nonetheless, in light of the issues revealed in relation to the Shatin to Central Link project ("SCL"), the Committee is in agreement with the Company's Audit Committee and fully supports a review of the Company's internal control and risk management systems (the "Review") for continuous improvement as mentioned in the Corporate Governance Report. The Review has adopted a phased approach, with the first phase of work starting in February 2019.

Further, as mentioned in the Corporate Governance Report, with regard to the incidents relating to the SCL project in 2018, an analysis has been undertaken to identify areas for continuous enhancement of the Company's risk management and internal control systems. A summary of the key actions identified are set out on pages 117 to 118 of this Annual Report.

DUTIES OF THE COMMITTEE

The Committee's Terms of Reference are available on the respective websites of the Company (www.mtr.com.hk) and The Stock Exchange of Hong Kong Limited.

The principal duties of the Committee include reviewing the Company's ERM framework, guidelines, policy and procedures for risk assessment and risk management; reviewing the Company's top risks and key emerging risks and the controls in place to mitigate such risks; monitoring the Company's risk profile; conducting "deep dive" reviews on selected key risk areas; reviewing the effectiveness of the ERM function; and reviewing the Company's crisis management arrangements.

The Committee assists the Board in overseeing the Company's ERM system on an ongoing basis. The Committee reviews the effectiveness of the Company's ERM system annually, and reports to the Board in relation to such review. More details of the features of the ERM system and processes, the significant areas of risk being managed, and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section on pages 142 to 145 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 2019.

WORK PERFORMED BY THE COMMITTEE IN 2018

In 2018, the Committee held four meetings. During the year, the Committee reviewed the Company's ERM quarterly reports and the effectiveness of the Company's ERM system for the year ended 31 December 2017. A review of the Company's ERM annual report and ERM system effectiveness for the year ended 31 December 2018 was conducted by the Committee on 25 February 2019.

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.

In particular, following the unearthing of the work quality issues relating to the SCL project, the key risk area of "New Projects Delivery and Cost" of the Company has been updated to become "New Projects Quality, Delivery and Cost" to make explicit reference to, and ensure appropriate focus on, the quality element. Improved controls for enhancing the checks and balances within relevant processes and procedures relating to the Company's project management regime have been identified for implementation.

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 2018 to report and answer questions on ERM related matters.

The Committee considered the following matters in 2018:

- Light rail and bus risk management
- Near capacity operation and crowd management in stations
- Unexploded ordnance found during construction of Exhibition Centre Station
- Readiness for Express Rail Link Day 1 opening in September 2018
- Update on Corporate Security Governance Structure for physical security and cyber security
- Cyber security update on IT and operations systems (Hong Kong)
- Strategic risks of Mainland China and International Businesses
- Future-proof design for extreme weather, ageing population and automation
- Update on Building Information Modelling application in a proposed new railway project
- Insurance summary update
- Challenges from e-commerce
- Property asset bubble
- Major global rail accidents summary overviews

Andrew Brandler
Risk Committee Chairman
Hong Kong, 7 March 2019

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 2018 are set out on pages 120 to 121 of this Annual Report.

DUTIES OF THE COMMITTEE

The Committee's Terms of Reference had been reviewed and updated by the Committee in 2018 to include explicit oversight in respect of matters related to quality management. The updated Terms of Reference was approved by the Board in October 2018 and 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; reviewing matters that could have a material impact on the quality, delivery and management of such projects, including processes and protocols adopted by the Company in supervising and managing the projects and non-compliances in relation to materials, works and processes; checking that there are adequate resources for and supervision of such projects; keeping under review the Company's communication strategy and protocols, 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 2018

In 2018, the Committee held ten meetings at which the following key matters were reviewed and considered:

- reports on the progress and cost status of the Company's capital projects under construction including the Express Rail Link and Shatin to Central Link
- half-yearly reports on projects-related audits conducted by the Company's Internal Audit Department
- half-yearly reports on the construction programme and cost status of all the awarded development projects of the Company's Property Division in Hong Kong, and quarterly updates on the Tai Wai Station Property Development
- special reports on Exhibition Centre Station, To Kwa Wan Station and Hung Hom Station under Shatin to Central Link
- Quality Process & Procedures Review by independent consultant, Turner & Townsend

As mentioned in the Corporate Governance Report, with regard to the incidents relating to the Shatin to Central Link in 2018, an analysis has been undertaken to identify areas for continuous enhancement of the Company's risk management and internal control systems. A summary of the key actions identified are set out on pages 117 to 118 of this Annual Report.

Projects Director had attended six Committee meetings before his resignation in August 2018, Engineering Director attended nine Committee meetings in 2018, Managing Director – Operations & Mainland Business attended four Committee meetings in 2018, and General Manager – Procurement & Contracts attended four Committee meetings in 2018 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 2019

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

REMUNERATION COMMITTEE REPORT

INTRODUCTION

The Remuneration Committee has been delegated the authority to consider and recommend to the Board the Company's remuneration policy and the remuneration packages of the Non-executive Directors, as well as to review and determine the remuneration packages for the Chief Executive Officer and other Members of the Executive Directorate.

Throughout the year, the Committee met regularly to discuss and approve remuneration issues pertaining to the Company's core incentive scheme, long-term incentive scheme, and also the remuneration packages of the Chief Executive Officer and other Members of the Executive Directorate in the light of the Company's remuneration policy, and to consider and make recommendations to the Board on the remuneration packages of the Non-executive Directors. In determining the remuneration of the Chief Executive Officer, the Committee consults with the Chairman and in the case of other Members of the Executive Directorate, the Committee consults with both the Chairman and the Chief Executive Officer in respect of their recommendations.

Currently, the Committee has seven Non-executive Directors, four of whom are independent Non-executive Directors. The Chairman of the Remuneration Committee is an independent Non-executive Director. As necessary and with the agreement of the Chairman, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues. No individual Director or any of his associates is involved in deciding his own remuneration.

The principal responsibilities of the Remuneration Committee include:

- Formulating a remuneration policy and practices that facilitate the employment of top quality personnel;
- Recommending to the Board the remuneration of the Non-executive Directors;
- Determining, with delegated responsibility, the remuneration packages of Members of the Executive Directorate; and
- Reviewing and approving performance-based remuneration of Members of the Executive Directorate by reference to the Board's corporate goals and objectives.

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

This Remuneration Committee Report has been reviewed and authorised by the Remuneration Committee of the Company.

REMUNERATION POLICY

It is the Company's policy to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. To achieve this, the Company has taken into consideration a number of relevant factors such as salaries paid by comparable companies, job responsibilities, duties and scope, employment conditions elsewhere in the Company and its subsidiaries, market practices, financial and non-financial performance, and the desired mix of fixed and performance-based remuneration.

The Company is committed to effective corporate governance and employing and motivating top quality personnel. The Company also recognizes 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 the remuneration for Non-executive Directors are set out in note 10 to the accounts. The current Non-executive Director remuneration framework, in effect since 1 January 2017, is set out below:

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

REMUNERATION FOR EMPLOYEES

The Company's remuneration structure for its employees, including the Chief Executive Officer and other Members of the Executive Directorate, comprises:

- fixed compensation – base salary, allowances and benefits-in-kind (e.g. medical);
- variable incentives – discretionary or performance-based payment and other business-specific cash incentive plans;
- long-term incentives – e.g. restricted shares and performance shares; and
- retirement schemes.

The specifics of these components are described below.

Fixed Compensation

Base salary and allowances are set and reviewed annually. The annual review process takes into consideration the Company's remuneration policy, competitive market positioning, market practice, as well as the Company's and the individuals' performance. Benefits-in-kind are reviewed as and when appropriate taking into consideration market practices.

Variable Incentives

In 2017, the Company appointed an independent consultant to conduct a thorough review of the Variable Incentive Scheme ("VIS") and obtained the Remuneration Committee's approval to implement the Core Incentive Scheme ("CIS") which came into effect on 1 January 2018. The CIS replaces the Discretionary Awards and VIS for all Senior Management, including the Chief Executive Officer and other Members of the Executive Directorate, and the Discretionary Awards for Managers. The Chief Executive Officer, other Members of the Executive Directorate and management of the Company are eligible to receive an annual cash incentive under the Company's CIS, the terms and rules of which are regularly reviewed by the Remuneration Committee.

Under the current scheme rules, the payouts are based on the performance of the Company and the individuals. The Company's performance is measured by both financial and non-financial factors including:

Financial Factors

- Operating profit;
- EBITDA margin; and
- Hong Kong property development profits.

Non-financial Factors

- Results from Customer feedback surveys;
- 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.

Target incentive levels for the Chief Executive Officer and other Members of the Executive Directorate represent approximately 25-35% 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 2018, 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 2018, the Company maintained the 2007 Share Option Scheme and the Executive Share Incentive Scheme (formerly the "2014 Share Incentive Scheme").

(i) 2007 Share Option Scheme

The 2007 Share Option Scheme was approved and adopted by shareholders at the Company's Annual General Meeting on 7 June 2007 and terminated on 6 June 2014. 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 2018 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 & 44 to the accounts.

(ii) Executive Share Incentive Scheme

On 15 August 2014, the Board approved the adoption of the Executive Share Incentive Scheme, following the expiry of the 2007 Share Option Scheme on 6 June 2014. The Scheme took effect on 1 January 2015 for a term of 10 years (unless terminated earlier by the Company).

The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the Executive Share Incentive Scheme as award holders in accordance with the rules of the Executive Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares. Awards under the Executive Share Incentive Scheme were granted to selected employees of the Company, including Members of the Executive Directorate, in 2018. Award holders are entitled to cash dividends accrued in respect of unvested Restricted Shares that are granted on or after 1 January 2018.

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 over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period, and any other performance conditions, as determined by the Remuneration Committee from time to time.

In general, the Company will pay to the third party trustee (the "Trustee") monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from shares held as part of the funds of the trust to acquire existing shares from the market. Such shares will be held on trust by the Trustee for the relevant award holder. The Trustee shall not exercise any voting rights in respect of any shares held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested award shares.

As part of the overall governance of the Executive Share Incentive Scheme, the Company reviews scheme features on a regular basis to ensure continued relevance and effectiveness.

Details of the Executive Share Incentive Scheme and shares granted to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme are set out in notes 10 & 44 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 ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme", with details as follows:

(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 an MPF Exemption Certificate by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and 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.

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted an MPF Exemption Certificate by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

(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.

(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.

The executive Directors who were hired by the Company before 1 April 1999 are eligible to join the MTR Retirement Scheme. Other executive Directors are eligible to join either the MTR Provident Fund Scheme or the MTR MPF Scheme.

Mr. Lincoln Leong, the Company's Chief Executive Officer effective from 16 March 2015, participates in the MTR Provident Fund Scheme.

For subsidiary companies in Hong Kong, Macau, the Mainland of China, United Kingdom, Sweden and Australia the Group operates retirement schemes established in accordance with, in the case of subsidiaries in Hong Kong, the MPFSO and, in the case of subsidiaries in Macau, the Mainland of China and overseas, their respective local laws and regulations.

WORK PERFORMED BY THE REMUNERATION COMMITTEE DURING THE YEAR

- Approved the 2017 Remuneration Committee Report as incorporated in the 2017 Annual Report;
- reviewed and approved payouts under the Company's performance-based VIS for the 2017 performance period;
- reviewed and approved restricted share and/or performance share awards for eligible employees under the Executive Share Incentive Scheme;
- conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2018;
- reviewed and approved the contract renewal and contract expiry arrangement for Members of the Executive Directorate; and
- approved the appointment of a service provider for the 2007 Share Option Scheme and Executive Share Incentive Scheme

REMUNERATION OF NON-EXECUTIVE AND EXECUTIVE DIRECTORS

The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 10 to the accounts.

in HK$ million	2018	2017
Fees	**10.0**	9.8
Base salaries, allowances and other benefits-in-kind	**61.4**	61.0
Variable remuneration related to performance	**23.1**	19.5
Retirement scheme contributions	**7.7**	11.7
Total	**102.2**	102.0

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 2018.

Dr Dorothy Chan Yuen Tak-fai
Remuneration Committee Chairperson
Hong Kong, 21 February 2019

BOARD AND EXECUTIVE DIRECTORATE

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

MTR Sub – Director of the Company's Subsidiary(ies)

Chairman of the relevant Board Committee

MEMBERS OF THE BOARD

Professor Frederick Ma Si-hang

Age 67

Chairman CRC NC RC MTR Sub

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

Professor Ma has extensive experience in the banking and financial sectors. He is currently an independent non-executive director of FWD Group, a director of Husky Energy Inc., and a director nominee (independent) of New Frontier 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 also a non-executive director of China Mobile Communications Corporation and COFCO Corporation. He was previously the Secretary for Financial Services and the Treasury of the HKSAR Government and a Non-executive Director of the Company from 2002 to 2007. Professor Ma held the position of the Secretary for Commerce and Economic Development of the HKSAR Government from 2007 to July 2008.

He is a non-official member of the Chief Executive's Council of Advisers on Innovation and Strategic Development, the Council Chairman of The Education University of Hong Kong, a member of the International Advisory Council of China Investment Corporation and the Global Advisory Council of the Bank of America.

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

Lincoln Leong Kwok-kuen

Age 58

CEO CRC MTR Sub

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

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

He is a non-executive director of Mandarin Oriental International Limited, chairman of the Quality Assurance Council of the University Grants Committee, and a vice-patron of The Community Chest of Hong Kong. Mr Leong was the vice-chairman of The Hong Kong Housing Society.

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

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

Rex Auyeung Pak-kuen

Age 66

NED *

*(Appointed on 7 March 2019)

Mr Auyeung has joined the Board since 7 March 2019.

He is an independent non-executive director of Standard Life (Asia) Limited, Sompo Insurance China Co., Ltd. and China Construction Bank (Asia) Corporation Limited, and the Senior Strategy and Business Advisor at Athenex Inc., a company listed on NASDAQ in the United States of America.

Mr Auyeung has over 40 years of experience in the insurance industry in Canada and Hong Kong. Before his retirement in June 2017, Mr Auyeung was Chairman – Asia of the Principal Financial Group Inc. ('PFG'), a Fortune 500 company, responsible for PFG's overall businesses in Asia. During his time with PFG, Mr Auyeung represented PFG and its member companies across Asia in building and expanding PFG's relationship with clients, joint venture partners and strategic investors, and assisting in business development across all products lines of PFG.

He also actively serves the public sector and is currently the chairman of the Council of Lingnan University, an observer of the Independent Police Complaints Council Observers Scheme, and a member of the Executive Committee of the Investor and Financial Education Council under the Securities and Futures Commission. In addition, Mr Auyeung is a member of the Investment Sub-committee of The Community Chest of Hong Kong, a board member of Bo Charity Foundation (Food Angel) and a convenor of the Jockey Club Community eHealth Care Project.

He was previously the chairman of Hong Kong Strategy for Financial Literacy Sub-committee on Stakeholder Coordination and Collaboration and a member of the Independent Review Committee on Hong Kong's Franchised Bus Service.

Mr Auyeung holds a Bachelor of Environmental Studies (Urban and Regional Planning) Honours Degree from the University of Waterloo, Canada.

He was awarded an Honorary Fellowship by the City University of Hong Kong in 2013 and was appointed a Justice of the Peace in 2018.

Andrew Clifford Winawer Brandler

Age 62

INED RiskC AC

Mr Brandler has joined the Board since 17 May 2017.

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

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

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

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

Dr Pamela Chan Wong Shui

Age 72

INED NC CRC

Dr Chan has joined the Board since July 2013.

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

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

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

Dr Dorothy Chan Yuen Tak-fai

Age 69

INED RC CWC MTR Sub

Dr Chan has joined the Board since July 2013.

She is currently the Deputy Director (Administration and Resources), Head of Centre for Logistics & Transport and advisor of International College of HKU School of Professional and Continuing Education, and a council member of HKU SPACE Po Leung Kuk Stanley Ho Community College. Dr Chan is an independent non-executive director of AMS Public Transport Holdings Limited, the chairperson of the Sustainable Agricultural Development Fund Advisory Committee, a director of TWGHs E-Co Village Limited, an advisor to the Serco Group (HK) Limited and a member of the Board of Governors of the Hong Kong Institute for Public Administration. She is also an Honorary Fellow of the Chartered Institute of Logistics and Transport ('CILT') and CILT's Global Advisor for Women in Logistics and Transport.

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

She holds a Bachelor of Social Sciences degree, a Master of Social Sciences degree in Public Administration and a Doctor of Philosophy degree from The University of Hong Kong.

Vincent Cheng Hoi-chuen

Age 70

INED RC CRC

Mr Cheng has joined the Board since July 2009.

He is an independent non-executive director of CLP Holdings Limited, Great Eagle Holdings Limited, Hui Xian Asset Management Limited, Shanghai Industrial Holdings Limited, Wing Tai Properties Limited, Hutchison Whampoa Limited, and CK Hutchison Holdings Limited.

Mr Cheng was an executive director of HSBC Holdings plc and the Advisor to its Group Chief Executive, a non-executive director of Swire Properties Limited, and an independent non-executive director of China Minsheng Banking Corp., Ltd.. In public service, he was vice chairman of the China Banking Association, chairman of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR, a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority and a member of the Advisory Committee on Post-service Employment of Civil Servants. In 2008, Mr Cheng was appointed a member of the National Committee of the 11th Chinese People's Political Consultative Conference (the 'CPPCC') and a senior adviser to the 11th Beijing Municipal Committee of the CPPCC.

He holds a Bachelor of Social Science degree in Economics from The Chinese University of Hong Kong and a Master of Philosophy degree in Economics from The University of Auckland. In 2005, Mr Cheng was conferred the degree of Doctor of Social Science, *honoris causa*, by The Chinese University of Hong Kong and the degree of Doctor of Business Administration, *honoris causa*, by The Open University of Hong Kong. He was also awarded the Gold Bauhinia Star medal in 2005.

Dr Anthony Chow Wing-kin

Age 68

INED RC CWC

Dr Chow has joined the Board since May 2016.

He is a solicitor admitted to practise in Hong Kong and England and Wales. Dr 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. Dr Chow is currently the 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. and Ping An Healthcare and Technology Company Limited.

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

Dr Chow was conferred Doctor of Social Sciences, *honoris causa*, by The Open University of Hong Kong in 2018. He was appointed a Justice of the Peace in 1998 and awarded the Silver Bauhinia Star medal in 2003.

Dr Eddy Fong Ching

Age 72

INED AC NC MTR Sub

Dr Fong has joined the Board since January 2015.

He is currently the chairman of the Process Review Panel in relation to the Regulation of Mandatory Provident Fund Intermediaries, and an independent non-executive director of Standard Chartered Bank (Hong Kong) Limited and Standard Chartered Bank (China) Limited.

Dr Fong was the non-executive chairman of the Securities and Futures Commission from 2006 to 2012 and the past chairman of the Council of The Open University of Hong Kong. His other past public duties include director of The Hong Kong Mortgage Corporation Limited, the Mandatory Provident Fund Schemes Authority and the Exchange Fund Investment Limited, a member of The Hong Kong Housing Authority and the Greater Pearl River Delta Business Council, and a council member of The Hong Kong Academy for Performing Arts. Dr Fong was also a senior audit partner with PricewaterhouseCoopers specializing in capital markets work in Hong Kong and the Mainland of China until his retirement in 2003.

He is a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

Dr Fong holds a Bachelor degree in Social Science from and was awarded an Honorary Doctor of Civil Law by the University of Kent in the United Kingdom, and an Honorary Doctor of Social Sciences by The Open University of Hong Kong. He was appointed as a Justice of the Peace in 1996 and was awarded Gold Bauhinia Star medal in 2008.

James Kwan Yuk-choi

Age 67

INED CWC RiskC

Mr Kwan has joined the Board since October 2014.

He is currently an independent non-executive director of Towngas China Company Limited. Mr Kwan was previously a senior adviser, an executive director and the chief operating officer of The Hong Kong and China Gas Company Limited, and a director of Shenzhen Gas Corporation Limited.

He was also the President of The Institution of Gas Engineers (currently known as The Institution of Gas Engineers & Managers) ('IGEM') in the United Kingdom in 2000/2001 and The Hong Kong Institution of Engineers ('HKIE') in 2004/2005. Mr Kwan is a former member of the Construction Industry Council, the Transport Advisory Committee, the Vocational Training Council, and the Standing Committee on Disciplined Services Salaries and Conditions of Service of the HKSAR Government.

He was awarded an Honorary Fellowship by The Hong Kong University of Science and Technology in 2011 and is a Registered Professional Engineer (Gas), a Chartered Engineer, Honorary Fellow of the HKIE, Fellow of the Institution of Mechanical Engineers, Fellow of the IGEM, Fellow of the Energy Institute and Fellow of the Chartered Institution of Building Services Engineers of the United Kingdom.

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

Lau Ping-cheung, Kaizer

Age 67

INED CWC CRC MTR Sub

Mr Lau has joined the Board since August 2015.

He is a chartered surveyor and has substantial experience and involvements in construction, real estate and infrastructure projects both in Hong Kong and the Mainland of China. Currently, Mr Lau is the managing director of Biel Asset Management Co., Ltd. and an independent non-executive director of Kingboard Laminates Holdings Limited. He is one of the Founders of Hong Kong Coalition of Professional Services and has been the Chairman since June 2012. Mr Lau is also a member of the Lantau Development Advisory Committee, the Basic Law Promotion Steering Committee, the Council of The Hong Kong Polytechnic University, and the Vice-Chairman of the Vetting Committee of the Professional Services Advancement Support Scheme. He is also a member of the National Committee of the Chinese People's Political Consultative Conference, and a fellow of The Hong Kong Institute of Surveyors.

Mr Lau is a former president of The Hong Kong Institute of Surveyors, a former chairman of the Royal Institution of Chartered Surveyors (HK Branch), and a former member of the HKSAR Legislative Council. He is also a former non-executive director of the Urban Renewal Authority, a former member of the Council of the City University of Hong Kong, a former member of the defunct Economic Development Commission and the Long Term Housing Strategy Steering Committee and a former member of the Chinese People's Political Consultative Conference of Shanghai.

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.

Rose Lee Wai-mun

Age 66

INED AC RiskC

Ms Lee has joined the Board since 16 May 2018.

She is an independent non-executive director of CK Hutchison Holdings Limited and Swire Pacific Limited. Ms Lee is also a member of the Election Committee of the 13th National People's Representative Meeting, a board member of the West Kowloon Cultural District Authority, and a board member and deputy chairman of the Executive Committee of The Community Chest of Hong Kong.

She was previously an executive director, vice-chairman and chief executive of Hang Seng Bank Limited, an independent non-executive director of Hutchison Whampoa Limited, the group general manager of HSBC Holdings plc, a director of The Hongkong and Shanghai Banking Corporation Limited, a member of the Board of Trustees of Ho Leung Ho Lee Foundation, and the chairman of the Board of Governors of Hang Seng Management College. In addition, Ms Lee was previously the vice president of The Hong Kong Institute of Bankers, vice-chairman of the Inaugural Financial Consulting Committee for the Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen, a member of the Consulting Committee of Qianhai and Shekou Area of Shenzhen, China (Guangdong) Pilot Free Trade Zone, and Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen, and a member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council.

She is a fellow of The Hong Kong Institute of Bankers.

Ms Lee holds a Bachelor's degree in Business Administration from the University of Hawaii. She was appointed a Justice of the Peace in 2014.

Lucia Li Li Ka-lai

Age 64

INED AC CRC

Mrs Li has joined the Board since October 2014.

She is a retired civil servant. Mrs Li was Director of Accounting Services of the HKSAR Government from October 2003 to January 2009. She has been a member of a task force formed by the Commissioner for Innovation and Technology to follow up the Director of Audit's Report No. 61 with regard to the Small Entrepreneur Research Assistance Programme since 15 July 2014.

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

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

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

Abraham Shek Lai-him

Age 73

INED NC CWC

Mr Shek has joined the Board since December 2007.

He is an independent non-executive director of Paliburg Holdings Limited, Lifestyle International Holdings Limited, Chuang's Consortium International Limited, NWS Holdings Limited, Regal Portfolio Management Limited, Eagle Asset Management (CP) Limited, Country Garden Holdings Company Limited, SJM Holdings Limited, China Resources Cement Holdings Limited, Cosmopolitan International Holdings Limited, Hop Hing Group Holdings Limited, Lai Fung Holdings Limited, Goldin Financial Holdings Limited, Everbright Grand China Assets Limited, and CSI Properties 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 holds a Bachelor of Arts degree and a Diploma in Education from The University of Sydney. He was appointed as Justice of the Peace in 1995 and was awarded the Gold Bauhinia Star medal in 2013.

Benjamin Tang Kwok-bun

Age 67

INED RC RiskC

Mr Tang has joined the Board since October 2014.

He joined the Hong Kong Civil Service in 1974. From the late 1990s to early 2000s, Mr Tang served as the Government Printer and the Commissioner of Insurance. He was appointed by the Central Government of the People's Republic of China as the Director of Audit of the HKSAR in December 2003 until he retired in July 2012. Mr Tang was appointed a Commissioner of the Commission of Inquiry Into the Collision of Vessels Near Lamma Island in 2012 and the Commission's report was presented to the Chief Executive in April 2013.

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

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

Dr Allan Wong Chi-yun

Age 68

INED CWC NC MTR Sub

Dr Wong has joined the Board since August 2015.

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

Dr Wong holds a Bachelor of Science degree in Electrical Engineering from The University of Hong Kong, a Master of Science degree in Electrical and Computer Engineering from the University of Wisconsin and an Honorary Doctorate of Technology from The Hong Kong Polytechnic University. He was appointed as a Justice of the Peace in 1995, and awarded a member of the Most Excellent Order of the British Empire in 1997. Dr Wong was awarded the Silver Bauhinia Star medal and the Gold Bauhinia Star medal in 2003 and 2008 respectively.

Johannes Zhou Yuan

Age 63

INED AC RiskC

Mr Zhou has joined the Board since 17 May 2017.

He is an independent director of Citibank (China) Co., Ltd.

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

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

James Henry Lau Jr

Age 68

NED NC RC

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

He sits on the boards of several public bodies including the Airport Authority Hong Kong, Mandatory Provident Fund Schemes Authority, 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-officio member of the Financial Services Development Council, Hong Kong in his official capacity. Mr Lau is also, in his official capacity, a director of Hongkong International Theme Parks Limited.

He joined the Hong Kong Government as an Administrative Officer ('AO') in 1979 and was promoted through the ranks to AO Staff Grade C in April 1988. Mr Lau joined the Hong Kong Monetary Authority ('HKMA') in April 1993 and was the Head and Executive Director of various divisions of the HKMA until 2004. In July 2004, he was seconded to The Hong Kong Mortgage Corporation Limited as Chief Executive Officer until he retired in December 2012. Mr Lau was the Under Secretary for Financial Services and the Treasury from January 2014 to June 2017.

He holds a Bachelor of Mathematics (Computer Science and Statistics) Honours Degree and a Master of Mathematics Degree in Computer Science from the University of Waterloo, Canada.

Secretary for Transport and Housing (Frank Chan Fan)

Age 61

NED NC RC

Secretary for Transport and Housing (Frank Chan Fan has joined the Board as a Non-executive Director appointed by the Chief Executive of the HKSAR pursuant to the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) since 1 July 2017.

Mr Chan, in his official capacity, acts as the chairman of The Hong Kong Housing Authority and a board member of Airport Authority Hong Kong. He is also a non-executive director of The Hong Kong Mortgage Corporation Limited.

Mr Chan joined the Electrical and Mechanical Services Department as an Assistant Electronics Engineer in August 1982. He was promoted to Chief Electronics Engineer in February 2001 and to Government Electrical and Mechanical Engineer in May 2005. Mr Chan was appointed as the Deputy Director of Electrical and Mechanical Services in January 2009 and was the Director of Electrical and Mechanical Services and the General Manager of the Electrical and Mechanical Services Trading Fund from December 2011 to June 2017.

He is an Honorary Fellow of the Institution of Mechanical Engineers, United Kingdom, and a Fellow of The Hong Kong Institution of Engineers.

Mr Chan holds a Bachelor of Science degree in Engineering and a Master degree in Business Management from The University of Hong Kong, and a Master degree in Medical Physics from the University of Aberdeen, United Kingdom.)

Permanent Secretary for Development (Works) (Lam Sai-hung)

Age 57

NED CWC RiskC

Permanent Secretary for Development (Works) (Lam Sai-hung 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 13 October 2018.

Mr Lam joined the Hong Kong Government in August 1986 and was the Director of Civil Engineering and Development from September 2016 to October 2018.

He is a fellow of The Hong Kong Institution of Engineers, the Institution of Civil Engineers, United Kingdom, and the China Hong Kong Railway Institution. Mr Lam is also an adjunct professor of The University of Hong Kong.

He is a graduate of The University of Hong Kong and holds a Bachelor of Science degree in Engineering.)

Commissioner for Transport (Mable Chan)

Age 53

NED AC RiskC

Commissioner for Transport (Mable Chan has joined the Board as a Non-executive Director appointed by the Chief Executive of the HKSAR pursuant to the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) since 11 October 2017.

She joined the Administrative Service of the Hong Kong Government in 1989 and has served in various policy bureaux and departments.

Ms Chan is also, in her official capacity, a director of several transport-related companies including The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, New World First Bus Services Limited, New Lantao Bus Company (1973) Limited, Citybus Limited, The "Star" Ferry Company, Limited, New Hong Kong Tunnel Company Limited, Western Harbour Tunnel Company Limited, Tate's Cairn Tunnel Company Limited and Route 3 (CPS) Company Limited.

She holds a Bachelor of Business Administration degree in General Business Management from The Chinese University of Hong Kong.)

From left to right:
Gillian Elizabeth Meller, Dr Peter Ronald Ewen, Herbert Hui Leung-wah, Lincoln Leong Kwok-kuen, Dr Jacob Kam Chak-pui, Linda So Ka-pik, David Tang Chi-fai, Adi Lau Tin-shing, Margaret Cheng Wai-ching, Jeny Yeung Mei-chun

MEMBERS OF THE EXECUTIVE DIRECTORATE

Lincoln Leong Kwok-kuen

His biographical details are set out on pages 154 and 155.

Dr Jacob Kam Chak-pui

Managing Director – Operations and Mainland Business

Age 57

MTR Sub

Dr Kam joined the Company in 1995 and had held various management positions in Operations, Projects and China and International Business Divisions. He was the Operations Director between January 2011 and April 2016. Dr Kam has been the Managing Director – Operations and Mainland Business since 1 May 2016 and a Member of the Executive Directorate since January 2011. He is responsible for


A composite photograph at the South Horizons Station.

overseeing the Company's transport operations in Hong Kong and its rail and property businesses in the Mainland of China. In addition, Dr Kam is responsible for overseeing railway operations standards and ensuring mutual learning of best practices among all the Company's railway operations globally.

He qualified as a chartered engineer in the United Kingdom in 1989. Dr Kam is a vice-president and a chartered fellow of The Chartered Institute of Logistics and Transport in Hong Kong, and a chartered fellow of The Institution of Occupational Safety and Health in the United Kingdom. He is also a corporate member of both the Institution of Mechanical Engineers in the United Kingdom and The Hong Kong Institution of Engineers.

Dr Kam is the chairman of the Regional and Suburban Railways Assembly of the International Association of Public Transport (UITP), a council member of the Vocational Training Council, a member of Hong Kong Quality Assurance Agency Governing Council and a member of the Board of Directors of The Community Chest of Hong Kong.

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, both in the United Kingdom.

Margaret Cheng Wai-ching

Human Resources Director

Age 53

CRC MTR Sub

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 the president and a fellow member, of the Hong Kong Institute of Human Resource Management, and a council member of The Hong Kong Management Association. She is also serving as the vice chairman of the Cross-Industry Training Advisory Committee for the Human Resource Management Sector under the Qualifications Framework, a member of the Standing Committee on Language Education and Research, Education Bureau, a member of The Standing Committee on Disciplined Services Salaries and Conditions of Service of the HKSAR Government and the chairman of its Police Sub-Committee, a council member of the Hong Kong Council for Accreditation of Academic and Vocational Qualifications, a member of the Labour Advisory Board Committee on Employment Services of Labour Department, and an honorary advisor of the ERB Manpower Developer Award Scheme of the Employees Retraining Board.

Ms Cheng holds a Bachelor of Arts degree in Business Administration from The California State University, the United States of America.

Dr Peter Ronald Ewen

Engineering Director

Age 59

MTR Sub

Dr Ewen has been the Engineering Director and a Member of the Executive Directorate since 22 February 2016. He is responsible for driving excellence in the Company's engineering functions and strengthening its control and check and balance processes, and overseeing the procurement and contract administration function.

Dr Ewen started his career in the Royal Air Force of the United Kingdom in 1976 and attained the rank of Air Vice-Marshal. He served in different capacities, including Chief of Staff Support, Executive Officer and Chief Engineer (Air). In his last role as Director Air Support, Dr Ewen was responsible for the procurement, in-service support and airworthiness of the fleets of large aircraft of the Royal Air Force, including Strategic and Tactical Airlift, Air-to-Air Refuelling, Maritime Patrol, and Air Intelligence Surveillance Target Acquisition and Reconnaissance capabilities. Before joining the Company, he was a Procurement Advisor for Rail Franchising in the Department for Transport – Rail, United Kingdom and the Head of Air for Airbus Defence and Space, United Kingdom respectively.

Dr Ewen is a chartered engineer and a fellow of the Royal Aeronautical Society.

He holds a Bachelor of Science (First Class Honours) degree in Engineering Management from the University of Lincoln, United Kingdom and a Doctor of Philosophy degree from International Management Centres Association, United Kingdom. Dr Ewen was awarded Companion of the Most Honourable Order of the Bath in 2015.

Herbert Hui Leung-wah

Finance Director

Age 56

MTR Sub

Mr Hui joined the Company as Finance Director – Designate and a Member of the Executive Committee on 1 June 2016. He has been the Finance Director and a Member of the Executive Directorate since 2 July 2016. Mr Hui is responsible for the financial management of all of the Company's affairs, including financial planning and control, budgeting, accounting and reporting, corporate finance, and the treasury function. He also leads the Company's investor relations as well as materials and stores functions.

Mr Hui is a chartered financial analyst and has extensive corporate finance and investment banking experience. He began his career at Morgan Stanley Asia Limited in 1988. Mr Hui left in 1990 to pursue a career in corporate finance with Wardley Corporate Finance Limited (later known as Corporate, Investment Banking and Markets Division of The Hongkong and Shanghai Banking Corporation Limited) and was the Chief Operating Officer, Investment Banking, Asia Pacific and Co-Head, Corporate Finance Execution when he left in 2004. Mr Hui was General Manager – Corporate Finance of the Company from 2004 to 2011, and the Chief Financial Officer of Digital China Holdings Limited from 2011 to 2012. He was the Chief Financial Officer of K. Wah International Holdings Limited before re-joining the Company in 2016.

Mr Hui holds a Bachelor of Science degree in Business Studies (First Class Honours) from the City University Business School, London and a Master of Business Administration degree from The Chinese University of Hong Kong. He has completed the Advanced Management Program in Wharton Business School, University of Pennsylvania.

Adi Lau Tin-shing

Operations Director

Age 59

MTR Sub

Mr Lau joined the Company in 1982 and had held various management positions related to the design, construction, operations and maintenance of the Company's railway system in Hong Kong and the Company's rail businesses in the Mainland of China. He took up the position of Chief of Operating in October 2011 and was appointed as the Deputy Director – Operating between August 2013 and April 2016, and Chairman of Ngong Ping 360 Limited between January 2012 and December 2017. Mr Lau has been the Operations Director and a Member of the Executive Directorate since 1 May 2016. He is responsible for overseeing the Company's railway operations in Hong Kong.

Mr Lau is a chartered engineer, a corporate member of the Institution of Civil Engineers in the United Kingdom and a fellow of The Hong Kong Institution of Engineers. He is also a chartered fellow of The Chartered Institute of Logistics and Transport in Hong Kong. Mr Lau is the president of the China Hong Kong Railway Institution, vice president of the International Association of Public Transport (UITP) Asia-Pacific Executive Committee and the chairman of the UITP Asia-Pacific Urban Rail Platform.

He holds a Bachelor of Science (Honour) degree in Civil Engineering from The University of Hong Kong and an MBA degree from the University of Michigan in the United States of America.

Gillian Elizabeth Meller

Legal and European Business Director

Age 46

MTR Sub

Ms Meller joined the Company in August 2004 as Legal Adviser and became Deputy Legal Director in December 2010. She was the Legal Director & Secretary between September 2011 and June 2016. Ms Meller has been the Legal and European Business Director since 1 July 2016 and a Member of the Executive Directorate since September 2011. She is responsible for the provision of commercial legal support and advice to all aspects of the Company's business. Ms Meller is also responsible for managing and overseeing the growth of the Company's European Business, in addition to her responsibility for the strategic management of the Company's insurance programmes and its governance and risk management function.

Before joining the Company, she was Director of Legal Services for Metronet Rail SSL Limited in London, the United Kingdom, and a solicitor at CMS Cameron McKenna in London, the United Kingdom.

Ms Meller is qualified to practise as a solicitor in Hong Kong and England and Wales. She is a vice chairman of the Legal Committee of The Hong Kong General Chamber of Commerce, a member of the Standing Committee on Company Law Reform, a vice-president of The Hong Kong Institute of Chartered Secretaries ('HKICS') and a fellow of both The Institute of Chartered Secretaries and Administrators and the HKICS.

Ms Meller holds a Master of Arts degree in Geography from the University of Oxford and obtained her postgraduate qualifications in law from The College of Law in Guildford, both in the United Kingdom.

Linda So Ka-pik

Corporate Affairs Director

Age 51

CRC

Ms So has been the Corporate Affairs Director and a Member of the Executive Directorate since September 2015. She is responsible for overseeing stakeholder engagement, external communications and corporate responsibility.

Ms So has extensive administrative and public relations experience. She worked in the Hong Kong Government from 1989 to 2013 in various policy bureaux and departments including Constitutional Affairs Branch, Transport Branch and Security Bureau. Ms So also served as the Press Secretary to the Chief Secretary for Administration and the Financial Secretary from 1999 to 2001 and acted as the Spokesman and Coordinator of the HKSAR Government team sent to Thailand in 2004 to assist Hong Kong residents affected by the tsunami. Before she left the Administrative Service, Ms So was the Deputy Secretary of Commerce and Economic Development (Commerce & Industry) from 2009 to 2011. After leaving the Government, she took up the role of the Director General of the Federation of Hong Kong Industries.

Ms So is currently a member of the Hong Kong Public Libraries Advisory Committee and the Advisory Board of The Hong Kong Red Cross.

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

David Tang Chi-fai

Property Director

Age 54

MTR Sub

Mr Tang joined the Company in August 2004 as Contracts & Commercial Manager – China Business. He held senior management positions in the Legal and Procurement Division, and the China and International Business Division before he was transferred to Property Division in 2009. Mr Tang was appointed Deputy Property Director in July 2011 and has been the Property Director and a Member of the Executive Directorate since October 2011. He is responsible for all of the property development projects of the Company in Hong Kong from layout planning, scheme design through to project construction completion, as well as asset and leasing management of investment properties (including shopping malls and offices) and property management of office buildings and residential units. Mr Tang is also a director and an alternate director of Octopus Holdings Limited and two members of its group.

Before joining the Company, Mr Tang was Commercial Manager – Hong Kong & China Region, and Deputy General Manager – Hong Kong & China Region for Acciona, S.A. He had almost 20 years' working experience in contract administration, project management and quantity surveying in the United Kingdom and Hong Kong after starting his career as a Group Trainee of George Wimpey Plc.

Mr Tang is a chartered surveyor and a member of the Royal Institution of Chartered Surveyors and The Hong Kong Institute of Surveyors. He is a non-executive director of the Urban Renewal Authority and a co-opted member of the Public Private Partnership Projects Committee under the Board of the West Kowloon Cultural District Authority, of the HKSAR Government.

Mr Tang holds a Bachelor of Science (Honours) degree in Quantity Surveying from the University of the West of England (formerly Bristol Polytechnic) in the United Kingdom.

Jeny Yeung Mei-chun

Commercial Director

Age 54

MTR Sub

Ms Yeung joined the Company in November 1999 as the Marketing Manager and became a member of the Executive Committee in 2004. She was then appointed as General Manager – Marketing & Station Commercial until August 2011. Ms Yeung has been the Commercial Director and a Member of the Executive Directorate since September 2011. She is responsible for the marketing of the Company's railway services as well as managing and enhancing the MTR Brand. Ms Yeung is also responsible for customer service development and the management of various non-fare businesses. She is also the chairman of the board of Ngong Ping 360 Limited.

Before joining the Company, Ms Yeung held various marketing and business development positions in Standard Chartered Bank (Hong Kong) Limited and Citibank in Hong Kong.

She is a fellow of The Chartered Institute of Marketing and a chartered fellow of The Chartered Institute of Logistics and Transport in Hong Kong. Ms Yeung is a member of the Hong Kong Tourism Board, the Advisory Committee on Enhancing Self-Reliance Through District Partnership Programme, the Advisory Committee on Enhancing Employment of People with Disabilities, the Marketing Management Committee of The Hong Kong Management Association, the Hong Kong Trade Development Council Infrastructure Development Advisory Committee, the Cyberport Advisory Panel of Hong Kong Cyberport Management Company Limited ('Hong Kong Cyberport'), and a non-official member of the Immigration Department Users' Committee.

She was a director of Hong Kong Cyberport and a member of the Advisory Committee on Publicity and Public Education in Innovation and Technology of the Innovation and Technology Commission of the HKSAR Government.

Ms Yeung holds a Bachelor of Social Sciences degree majoring in Management Studies from The University of Hong Kong.

CHANGES IN INFORMATION

Changes in information of Directors during 2018 and up to the date of this Report which are required to be disclosed pursuant to the Listing Rules are set out below:

(i) Changes in Biographical Details

Name of Director	Changes in Information	Nature and Effective Date of Change
Members of the Board		
Professor Frederick Ma Si-hang	Chief Executive's Council of Advisers on Innovation and Strategic Development (Hong Kong) • Non-official Member	Appointment (21 March 2018)
	New Frontier Corporation • Director Nominee (Independent)	Appointment (27 June 2018)
James Henry Lau Jr	The Hong Kong Mortgage Corporation Limited • Non-executive Director	Appointment (19 April 2018)
Secretary for Transport and Housing (Frank Chan Fan)	The Hong Kong Mortgage Corporation Limited • Non-executive Director	Appointment (19 April 2018)
Permanent Secretary for Development (Works) (Hon Chi-keung) (up to 12 October 2018)	Gold Bauhinia Star medal awarded by the Chief Executive of the HKSAR	Award (1 July 2018)
Dr Pamela Chan Wong Shui	City University of Hong Kong • Chairman of the Advisory Committee of the Department of Social Behavioural Sciences	Appointment (1 January 2018)
	The Insurance Complaints Bureau (Hong Kong) • Chairman	Appointment (16 January 2018)
	Judicial Officers Recommendation Commission (Hong Kong) • Member	Appointment (1 July 2018)
Dr Dorothy Chan Yuen Tak-fai	TWGHs E-Co Village Limited • Director	Appointment (1 August 2018)
	Logistics and Supply Chain MultiTech R&D Centre Limited • Board member	Cessation (31 December 2018)
Vincent Cheng Hoi-chuen	China Minsheng Banking Corp., Ltd. • Independent Non-executive Director	Cessation (21 June 2018)
Dr Anthony Chow Wing-kin	Ping An Healthcare and Technology Company Limited • Independent Non-executive Director	Appointment (4 May 2018)
	The Hong Kong Jockey Club • Chairman of the board of stewards • Deputy chairman of the board of stewards	Appointment (30 August 2018) Cessation (30 August 2018)
	The Open University of Hong Kong • Doctor of Social Sciences, *honoris causa*	Conferment (December 2018)
Lau Ping-cheung, Kaizer	Chinese People's Political Consultative Conference of Shanghai • Member	Cessation (January 2018)
	National Committee of the Chinese People's Political Consultative Conference • Member	Appointment (March 2018)
	Economic Development Commission (Hong Kong) • Member	Cessation (March 2018)
Rose Lee Wai-mun	Hang Seng Management College • Chairman of the Board of Governors	Cessation (1 July 2018)
	West Kowloon Cultural District Authority (Hong Kong) • Member of the Board	Appointment (23 October 2018)
Lucia Li Li Ka-lai	Public Service Commission of the Government of the HKSAR • Member	Cessation (1 February 2018)

Name of Director	Changes in Information	Nature and Effective Date of Change
Abraham Shek Lai-him	Everbright Grand China Assets Limited • Independent Non-executive Director	Appointment (16 January 2018)
	Midas International Holdings Limited • Independent Non-executive Director	Cessation (26 January 2018)
	CSI Properties Limited • Independent Non-executive Director	Appointment (20 July 2018)
Benjamin Tang Kwok-bun	Independent Commission Against Corruption (Hong Kong) • Chairman of the Operations Review Committee • Member of the Advisory Committee on Corruption	Appointment (1 January 2018) Appointment (1 January 2018)
Members of the Executive Directorate		
Lincoln Leong Kwok-kuen	The Community Chest of Hong Kong • Member of the Board of Directors	Cessation (26 June 2018)
	The Hong Kong Housing Society • Vice-Chairman	Cessation (6 September 2018)
Dr Jacob Kam Chak-pui	The Community Chest of Hong Kong • Member of the Board of Directors	Appointment (26 June 2018)
Margaret Cheng Wai-ching	The Standing Committee on Disciplined Services Salaries and Conditions of Service of the Government of the HKSAR • Chairman of the Police Sub-Committee	Appointment (1 January 2018)
	Labour and Welfare Bureau (Hong Kong) • Member of the Manpower Development Committee	Cessation (1 April 2018)
	Hong Kong Institute of Human Resource Management • President • Vice President of the Executive Council	Appointment (9 July 2018) Cessation (9 July 2018)
	Employees Retraining Board (Hong Kong) • Honorary Advisor of the ERB Manpower Developer Award Scheme	Appointment (1 November 2018)
	Labour Department (Hong Kong) • Member of the Labour Advisory Board Committee on Employment Services	Appointment (1 January 2019)
Adi Lau Tin-shing	Ngong Ping 360 Limited • Chairman of the board	Cessation (1 January 2018)
Gillian Elizabeth Meller	The Hong Kong Institute of Chartered Secretaries • Vice-President	Appointment (1 March 2018)
David Tang Chi-fai	West Kowloon Cultural District Authority (Hong Kong) • Co-opted Member of the Public Private Partnership Projects Committee under the board	Appointment (6 March 2019)
Dr Philco Wong Nai-keung (Resigned on 7 August 2018)	Construction Industry Council • Council Member	Cessation (1 February 2018)
	The Hong Kong Institution of Engineers • President of the Council • Senior Vice-President of the Council	Appointment (21 June 2018) Cessation (21 June 2018)
Jeny Yeung Mei-chun	Ngong Ping 360 Limited • Chairman of the board	Appointment (1 January 2018)
	Hong Kong Cyberport Management Company Limited • Director • Member of the Cyberport Advisory Panel	Cessation (1 April 2018) Appointment (3 August 2018)
	Immigration Department (Hong Kong) • Non-official Member of Users' Committee	Appointment (1 January 2019)
	Social Welfare Department (Hong Kong) • Member of the Advisory Committee on Enhancing Employment of People with Disabilities	Appointment (1 January 2019)

(ii) Changes in Directors' Remuneration

For details of the changes in Directors' remuneration, please refer to pages 149 to 150 and 234 to 238 of the Annual Report.

KEY CORPORATE MANAGEMENT

Lincoln Leong Kwok-kuen
Chief Executive Officer (up to 31 March 2019)

Jacob Kam Chak-pui#
Chief Executive Officer (w.e.f. 1 April 2019)

Commercial & Marketing

Jeny Yeung Mei-chun
Commercial Director

Karen Woo Kit-sum
General Manager – Branding and 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

Andy Lau Wai-ming
Managing Director of Ngong Ping 360 (Acting)

Corporate Affairs

Linda So Ka-pik
Corporate Affairs Director

Osbert Kwan Wing-cheung
Deputy General Manager – Media & Corporate Communications

Lam Chan Lam-sang
Deputy General Manager – Projects & Property Communications

Eric Lee Ka-chun
General Manager – Public Affairs

Engineering

Peter Ewen
Engineering Director

Andrew Mead
Chief Architect (ARBUK)

Lawrence Chung Kwok-leung
General Manager – Planning & Civil Engineering

Scott Mackenzie
General Manager – Procurement & Contracts

Vincent Simon Ho
Head of Corporate Safety

Wong Sha
Head of E&M Engineering

Tim Edmonds
Principal Contracts Administration Manager – HSR

Raymond Au Koon-shan
Principal Contracts Administration Manager – SCL

Nicholas Zhang Xiaolong
Procurement & Contracts Manager – Operations & General

Stephen Hamill
Project Manager – Technical Support

Finance

Herbert Hui Leung-wah
Finance Director

Sammy Jim Kwok-wah
General Manager – Corporate Finance

Lisa Seto Siu-wah
General Manager – Financial Control

Candy Ng Chui-lok
Head of Investor Relations and Retirement Benefits

David Pang Hoi-hing
Treasurer

Human Resources & Administration

Margaret Cheng Wai-ching
Human Resources Director

Ray Ng Shan-ho
General Manager – Corporate Security

Alison Wong Yuen-fan
General Manager – Human Resources

Vinnie Chi Man-yan
General Manager – Human Resources (International & Talent Management)

Denise Ng Kee Wing-man
General Manager – Learning & Organisation Development

Doreen Siu Wai-man
General Manager – Reward Management

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

Leah Waymark
Chief Executive Officer – Metro Trains Australia (w.e.f. 1 January 2019)

Raymond O'Flaherty
Chief Executive Officer – Metro Trains Melbourne

Ivan Lai Ching-kai
Chief Executive Officer – Metro Trains Sydney

Tommy Lam Choi-fung
Design & Delivery Director – SMC&SW

David Yam Pak-nin
General Manager – Business Development

Edmund Wong Wai-ming
General Manager – Operations Planning (w.e.f. 1 January 2019)

Andrew Lezala
Managing Director – Metro Trains Australia (up to 31 December 2018)

Roger Ho Ho-wai
Trains and Systems Director – Sydney Metro Northwest Project

Europe

Jeremy Long
Chief Executive Officer – European Business

Mats Johannesson
Chief Executive Officer – MTR Express

Håkan Nilsson
Chief Executive Officer – MTR Nordic (Acting) (up to 6 January 2019)

Mark Jensen
Chief Executive Officer – MTR Nordic (w.e.f. 7 January 2019)

Henrik Dahlin
Chief Executive Officer – MTR Pendeltågen

Erika Enestad
Chief Executive Officer – MTR Tech

Johan Oscarsson
Chief Executive Officer – MTR Tunnelbanan

Steve Murphy
Managing Director – MTR Crossrail

Headquarters

Choi Tak-tsan
General Manager – Global Operations Standards

Macau

Angus Lee Chun-ming
General Manager – Macau Light Rapid Transit

Mainland China

Jeremy Xu Muhan
Deputy Director – Mainland China Business

Yi Min
Chief Advisor – Mainland China Business

Paul Wong Kah-ming
Deputy General Manager – Operations (Acting) (Beijing) (w.e.f. 1 January 2019)

Ben Lui Gon-yee
Deputy General Manager – Operations (Hangzhou)

Charles Lau Kam-keung
Deputy General Manager – Projects (Beijing)

Charles Fok Chi-cheong
Deputy General Manager – Projects (Hangzhou Line 5)

Wilson Shao Shing-ming
General Manager – Beijing & Tianjin

Jia Jun
General Manager – Business Development (Mainland China)

Frank Liu Zhui-ming
General Manager – Hangzhou

Nelson Ng Wai-hung
General Manager – Hangzhou Line 5

Oscar Ho Ka-wa
General Manager – Mainland China Property

Sammy Wong Kwan-wai
General Manager – Shenzhen Line 4

MTR Academy

Morris Cheung Siu-wa
President of MTR Academy (up to 16 July 2018)

Margaret Cheng Wai-ching
President of MTR Academy (Acting) (w.e.f. 17 July 2018)

Operations

Adi Lau Tin-shing
Operations Director

Alan Cheng Kwan-hing
Chief of Operating

Francis Li Shing-kee
Chief of Operating – HSR (up to 31 December 2018)

John Woo Shui-wah
Chief of Operating – HSR & Intercity (Acting) (w.e.f. 1 January 2019)

Tony Lee Kar-yun
Chief of Operations Engineering

Gordon Lam Bik-shun
Chief Signal Engineer (Operations)

Cheris Lee Yuen-ling
Deputy Chief of Operating – HSR (w.e.f. 1 January 2019)

Manho John-william
Deputy General Manager – Special Duties

Michael Leung Yu-hing
Deputy General Manager – Technical & Asset Engineering

Chan Hing-keung
Deputy General Manager – Train Services & Systems Engineering

Carmen Li Wai-ching
General Manager – HSR & Intercity (w.e.f. 1 January 2019)

Terry Wong Wing-kin
General Manager – Infrastructure Maintenance

Ronald Cheng Kin-wai
General Manager – Planning & Development

Lu Wong Ho-leung
General Manager – Rolling Stock Fleet

Chan Keng-sam
General Manager – Works Management

Rick Wong Hoi-wah
Head of Infrastructure Works

Allen Ding Ka-chun
Head of Operating – North & East Regions

Ronnie Tong Chai-ming
Head of Operating – South Region

Cheung Chi-keung
Head of Operating – West Region

Siman Tang
Head of Operations Strategic Business Management

Lee Kim-hung
Head of Workshops

Joseph Sin Chi-man
Project Manager – Signalling (DUAT)

Projects

Philco Wong Nai-keung
Projects Director (up to 7 August 2018)

Roger Bayliss
Projects Director (w.e.f. 18 March 2019)

James Chow So-hung
Divisional General Manager – Projects

Thomas Lau Ming-yu
Chief Design Manager (w.e.f. 14 January 2019)

Henry Young
Chief Programming Engineer

Peter Leung Man-fat
General Manager – Operations Projects

Ken Wong Kin-wai
General Manager – Projects

Leung Chi-lap
Head of E&M Construction

Clement Ngai Yum-keung
Head of Project Engineering

Neil Ng Wai-hang
Lead Project Manager – SCL Civil – NSL (w.e.f. 14 January 2019)

Nelson Cheng Wai-hung
Project Manager – Cost Control (up to 28 February 2019)

Andrew Yim Kin-on
Project Manager – HSR Terminus Building Services

Chan Chun-sing
Project Manager – Rolling Stock

David Salisbury
Project Manager – SCL Civil – EWL (up to 31 January 2019)

Lesly Leung Po-po
Project Manager – SCL Civil – EWL (w.e.f. 1 February 2019)

Walter Lam Wai-tak
Project Manager – SCL Civil – Exhibition Station (w.e.f. 14 January 2019)

Nelson Yeung Kin-wa
Project Manager – SCL Civil – HUH

Tim Leung Chi-tim
Project Manager – SCL E&M

Terence Law Che-chung
Project Manager – Signalling

Property

David Tang Chi-fai
Property Director

James Hor Wai-hong
Head of Business Development (Property) (up to 31 March 2019)

Kenneth Lung Tze-ho
Head of Investment Property – East Region

Debbie Chan Yuen-ping
Head of Investment Property – West Region

Melissa Pang Mee-yuk
Head of Property Development

Kenny Chow Chun-ling
Head of Property Management

Wilfred Yeung Sze-wai
Head of Property Project

Strategy, Innovation & Technology

Jerry Li Zhe
Deputy Director – Strategy, Innovation and Technology

Ted Suen Yiu-tat
Chief Information Officer

Jacob Kam Chak-pui held the position of Managing Director – Operations and Mainland Business from 1 May 2016 to 31 March 2019.

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 2018.

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, Macau, the Mainland of China and a number of overseas cities; project management in relation to railway and property development businesses in Hong Kong and the Mainland of China; station commercial business including leasing of station retail space, leasing of advertising space inside trains and stations and enabling of telecommunication services on the railway system in Hong Kong; property business including property development and investment, management and leasing management of investment properties (including shopping malls and offices) in Hong Kong and the Mainland of China; investment in Octopus Holdings Limited; and provision of railway management, engineering and technology training.

The principal businesses of the Company's subsidiaries and associates as at 31 December 2018 are set out in notes 26 and 27 to the Consolidated Accounts.

BUSINESS REVIEW

The Company has always been committed to providing comprehensive reviews of the Group's business and performance in different sections of its Annual Reports. A summary of the relevant sections in the Company's Annual Report 2018 covering the required disclosures under the Companies Ordinance is set out below for ease of reference.

Required Disclosures	Relevant Sections
(1) A fair review of the Group's business and a discussion and an analysis of the Group's performance during the year ended 31 December 2018	• Chairman's Letter (pages 12 to 17) • CEO's Review of Operations and Outlook (pages 18 to 38) • Business Review (pages 40 to 89) • Financial Review (pages 90 to 101)
(2) Particulars of important events affecting the Group that have occurred since the end of the financial year 2018	• Chairman's Letter (pages 12 to 17) • CEO's Review of Operations and Outlook (pages 18 to 38) • Business Review (pages 40 to 89)
(3) Description of the significant risks and uncertainties facing the Group	• CEO's Review of Operations and Outlook (pages 18 to 38) • Business Review (pages 40 to 89) • Risk Management (pages 142 to 145)
(4) Outlook for the Group's business	• Chairman's Letter (pages 12 to 17) • CEO's Review of Operations and Outlook (pages 18 to 38) • Business Review (pages 40 to 89)
(5) Details regarding the Group's compliance with relevant laws and regulations which have a significant impact on the Group	• Corporate Governance Report (pages 117 to 138)
(6) Description of the Group's relationships with its key stakeholders and the Group's environmental policies and performance	• Chairman's Letter (pages 12 to 17) • CEO's Review of Operations and Outlook (pages 18 to 38) • Business Review (pages 40 to 89) • Investor Relations (pages 104 to 105) • Corporate Responsibility (pages 106 to 111) • Human Resources (pages 112 to 115) • Corporate Governance Report (pages 117 to 138) • Company's 2018 Sustainability Report to be published in late May 2019

DIVIDENDS

The Board has recommended to pay a final dividend of HK$0.95 per share (2017: HK$0.87 per share) and proposes that a scrip dividend option will be offered to all shareholders except for shareholders with registered addresses in New Zealand or the United States of America or any of its territories or possessions. Subject to the approval of the shareholders at the forthcoming annual general meeting ("AGM"), the proposed 2018 final dividend, with a scrip dividend option, is expected to be distributed on 16 July 2019 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 31 May 2019.

ACCOUNTS

The financial position of the Group as at 31 December 2018 and the Group's financial performance and cash flows for the year are set out in the Consolidated Accounts on pages 211 to 306.

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 102 to 103.

MEMBERS OF THE BOARD

Members of the Board during the year and up to the date of this Report (unless otherwise stated) were:

Name	First Elected at AGM	Last Re-elected at AGM	To be elected / re-elected at 2019 AGM
Non-Executive Directors			
Professor Frederick Ma Si-hang[1] (Chairman)	2014	2017	
Rex Auyeung Pak-kuen[2] (Since 7 March 2019)			✓
James Henry Lau Jr (Secretary for Financial Services and the Treasury)	2018		
Secretary for Transport and Housing (Frank Chan Fan)	Not subject to retirement by rotation*		
Permanent Secretary for Development (Works) (Lam Sai-hung (since 13 October 2018) and Hon Chi-keung (up to 12 October 2018))	Not subject to retirement by rotation*		
Commissioner for Transport (Mable Chan)	Not subject to retirement by rotation*		
Independent Non-Executive Directors			
Andrew Clifford Winawer Brandler	2017		
Dr Pamela Chan Wong Shui	2014	2017	
Dr Dorothy Chan Yuen Tak-fai	2014	2017	
Vincent Cheng Hoi-chuen[3]	2010	2016	
Dr Anthony Chow Wing-kin	2016		✓
Dr Eddy Fong Ching	2015	2018	
James Kwan Yuk-choi	2015	2018	

MEMBERS OF THE BOARD (CONTINUED)

Name	First Elected at AGM	Last Re-elected at AGM	To be elected / re-elected at 2019 AGM
Lau Ping-cheung, Kaizer[3]	2016		
Lee Wai-mun, Rose (since 16 May 2018)	2018		
Lucia Li Li Ka-lai	2015	2018	
Alasdair George Morrison	Retired at 2018 AGM held on 16 May 2018		
Abraham Shek Lai-him[4]	2008	2017	
Benjamin Tang Kwok-bun	2015	2018	
Dr Allan Wong Chi-yun[5]	2016		✓
Johannes Zhou Yuan	2017		
Executive Director			
Lincoln Leong Kwok-kuen[6]	2015	2018	

1 *As previously announced, Professor Frederick Ma Si-hang has been re-appointed by the FSI as the Chairman of the Company for a term of six months from 1 January 2019 to 30 June 2019 (both dates inclusive).*

2 *On 7 March 2019, the Company announced that Mr Rex Auyeung Pak-kuen has been appointed as a Non-executive Director of the Company on the same day. Subject to his election as a Director at the Company's 2019 AGM, Mr Auyeung is appointed by the FSI as the Chairman of the Company with effect from 1 July 2019 until 31 December 2021 (both dates inclusive). Upon Mr Auyeung becoming the Chairman of the Company, he will also become chairman of the Corporate Responsibility Committee and a member of each of the Nominations Committee and the Remuneration Committee, of the Company.*

3 *Mr Vincent Cheng Hoi-chuen and Mr Lau Ping-cheung, Kaizer have informed the Company that they will not stand for re-election at the Company's 2019 AGM.*

4 *As previously announced, Mr Abraham Shek Lai-him had informed the Company that he would retire after the conclusion of the Company's 2019 AGM.*

5 *Dr Allan Wong Chi-yun has informed the Company that he will offer himself for re-election for a term until the conclusion of the Company's AGM in 2020.*

6 *As announced by the Company on 7 March 2019, Mr Lincoln Leong Kwok-kuen would retire as the Chief Executive Officer, and as a Member of the Board, the Corporate Responsibility Committee and the Executive Directorate, of the Company, all with effect from 1 April 2019.*

* *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.*

In addition, resolutions for electing Mr Walter Chan Kar-lok, Mr Cheng Yan-kee and Mr Jimmy Ng Wing-ka as new Directors will be proposed at the 2019 AGM. Please refer to the Company's circular containing the Notice of 2019 AGM sent together with this Report.

Biographical details of Members of the Board are set out on pages 154 to 163.

ALTERNATE DIRECTORS

The Alternate Directors in office during the year and up to the date of this Report (unless otherwise stated) were:

Name	Alternate to
Andrew Lai Chi-wah	James Henry Lau Jr
(i) Under Secretary for Transport and Housing (Dr Raymond So Wai-man) (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 Kevin Choi)	Secretary for Transport and Housing
Deputy Secretary for Development (Works)2 (Mak Shing-cheung)	Permanent Secretary for Development (Works)
Deputy Commissioner for Transport/Transport Services and Management (Macella Lee Sui-chun)	Commissioner for Transport

EXECUTIVE DIRECTORATE

Members of the Executive Directorate during the year and up to the date of this Report (unless otherwise stated) were:

Name	Position Held
Lincoln Leong Kwok-kuen	Chief Executive Officer and a Member of the Board (up to 31 March 2019)
Dr Jacob Kam Chak-pui*	Managing Director – Operations and Mainland Business
Margaret Cheng Wai-ching	Human Resources Director
Morris Cheung Siu-wa	President of MTR Academy (up to 16 July 2018)
Dr Peter Ronald Ewen	Engineering Director
Herbert Hui Leung-wah	Finance Director
Adi Lau Tin-shing	Operations Director
Gillian Elizabeth Meller	Legal and European Business Director
Linda So Ka-pik	Corporate Affairs Director
David Tang Chi-fai	Property Director
Dr Philco Wong Nai-keung	Projects Director (up to 7 August 2018)
Jeny Yeung Mei-chun	Commercial Director

* *On 7 March 2019, the Company announced that Dr Jacob Kam Chak-pui has been appointed as the Chief Executive Officer, a Member of the Board, and a member of the Corporate Responsibility Committee, of the Company, all to take effect from 1 April 2019.*

On 8 February 2019, the Company announced that Mr Roger Francis Bayliss has been appointed as Projects Director of the Company to take effect from 18 March 2019.

Biographical details of Members of the Executive Directorate are set out on pages 164 to 169.

DIRECTORS OF SUBSIDIARY UNDERTAKINGS

The directors of the subsidiary undertakings of the Company during the year and up to the date of this Report (unless otherwise stated) are listed on page 204.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for election or re-election at the forthcoming AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for, in respect of Mr James Henry Lau Jr (Secretary for Financial Services and the Treasury), Secretary for Transport and Housing (Mr Frank Chan Fan), Permanent Secretary for Development (Works) (Mr Hon Chi-keung (up to 12 October 2018) and Mr Lam Sai-hung (since 13 October 2018)), and Commissioner for Transport (Ms Mable Chan), 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 183 to 202, there was no transaction, arrangement or contract of significance in relation to the Group's business, to which the Company or any of its subsidiary undertakings 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 2018, 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:

Members of the Board/ Alternate Directors/ Members of the Executive Directorate	No. of Ordinary Shares held				No. of Share Options#	No. of Award Shares#	Total interests	Percentage of aggregate interests to total no. of voting shares in issue∆
	Personal interests*	Family interests†	Other interests	Corporate interests	Personal interests*	Personal interests*		
Professor Frederick Ma Si-hang	–	270,000 (Note 1)	270,000 (Note 1)	–	–	–	270,000	0.00440
Lincoln Leong Kwok-kuen (Note 2)	1,540,141	–	–	23,000 (Note 2)	–	457,468	2,020,609	0.03291
Dr Pamela Chan Wong Shui	9,072	1,675 (Note 3)	–	–	–	–	10,747	0.00018
Vincent Cheng Hoi-chuen	1,675	1,675 (Note 4)	–	–	–	–	3,350	0.00005
Lucia Li Li Ka-lai	–	1,614 (Note 5)	2,215 (Note 5)	–	–	–	3,829	0.00006
Mak Shing-cheung	558	8,058 (Note 6)	–	–	–	–	8,616	0.00014
Dr Raymond So Wai-man	–	1,675 (Note 7)	–	–	–	–	1,675	0.00003
Dr Jacob Kam Chak-pui	258,121	–	–	–	–	97,884	356,005	0.00580
Margaret Cheng Wai-ching	81,013	–	–	–	–	103,160	184,173	0.00300
Dr Peter Ronald Ewen	37,599	–	–	–	–	72,734	110,333	0.00180
Herbert Hui Leung-wah	32,861	2,233 (Note 8)	–	–	–	74,784	109,878	0.00179
Adi Lau Tin-shing	75,338	–	–	–	26,000	81,500	182,838	0.00298
Gillian Elizabeth Meller	89,282	–	–	–	–	83,068	172,350	0.00281
Linda So Ka-pik	56,235	–	–	–	–	80,318	136,553	0.00222
David Tang Chi-fai	172,693	–	–	–	–	84,784	257,477	0.00419
Jeny Yeung Mei-chun	646,786	–	–	–	–	85,884	732,670	0.01193

Notes

1 *The 270,000 shares were indirectly held by The Ma Family Trust established by Professor Frederick Ma Si-hang for himself and his family of which his spouse was also a beneficiary.*

2 *Mr Lincoln Leong Kwok-kuen will retire as the Chief Executive Officer, and as a Member of the Board, the Corporate Responsibility Committee and the Executive Directorate, of the Company, all with effect from 1 April 2019. The 23,000 shares were held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr Leong.*

3 *The 1,675 shares were held by Dr Pamela Chan Wong Shui's spouse.*

4 *The 1,675 shares were held by Mr Vincent Cheng Hoi-chuen's spouse.*

5 *The 1,614 shares were held by Mrs Lucia Li Li Ka-lai's spouse and the 2,215 shares were jointly held by Mrs Li and her spouse.*

6 *The 8,058 shares were held by Mr Mak Shing-cheung's spouse.*

7 *The 1,675 shares were held by Dr Raymond So Wai-man's spouse.*

8 *The 2,233 shares were held by Mr Herbert Hui Leung-wah's spouse.*

\# *Details of the Share Options and Award Shares are set out in the sections headed "2007 Share Option Scheme" and "Executive Share Incentive Scheme" respectively on pages 179 to 181*

* *Interests as beneficial owner*

† *Interests of spouse or child under 18 as beneficial owner*

∆ *The Company's total number of voting shares in issue as at 31 December 2018 was 6,139,485,589*

Save as disclosed above and in the sections headed "2007 Share Option Scheme" and "Executive Share Incentive Scheme":

A as at 31 December 2018, 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 2018, 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 2018 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares Held	Percentage of Ordinary Shares to all the voting shares in issue$^{\Delta}$
The Financial Secretary Incorporated ("FSI") (in trust on behalf of Government)	4,634,173,932	75.48%

$^{\Delta}$ *The Company's total number of voting shares in issue as at 31 December 2018 was 6,139,485,589*

The Company has been informed by the Hong Kong Monetary Authority that, as at 31 December 2018, approximately 0.38% of the Ordinary Shares in issue (not included in the FSI shareholding set out in the above table) were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

OTHER PERSONS' INTERESTS

Pursuant to section 337 of the SFO, the Company has maintained a register recording the shareholding information provided by persons in response to the Company's requests pursuant to section 329 of the SFO.

Save as disclosed above and in the sections headed "Directors' Interests in Shares and Underlying Shares of the Company" and "Substantial Shareholders' Interests", as at 31 December 2018, the Company has not been notified of any other persons who had any interests or short positions in the shares or underlying shares of the Company which would be required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

2007 SHARE OPTION SCHEME

Movements in the outstanding share options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme during the year ended 31 December 2018 are set out below:

Members of the Executive Directorate and eligible employees	Date granted	Options granted (Notes 1 to 3)	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2018	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2018	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Adi Lau Tin-shing	30/5/2014	80,000	23/5/2015 – 23/5/2021	26,000	–	–	–	28.65	26,000	–
Dr Philco Wong Nai-keung (Note 6)	30/5/2014	83,000	23/5/2015 – 23/5/2021	55,000	–	55,000	–	28.65	–	–
Other eligible employees	30/3/2012	15,868,500	23/3/2013 – 23/3/2019	1,793,500	–	–	953,500	27.48	840,000	41.69
	6/5/2013	20,331,500	26/4/2014 – 26/4/2020	4,014,500	–	–	1,305,500	31.40	2,709,000	41.70
	30/5/2014	19,812,500	23/5/2015 – 23/5/2021	7,905,000	–	–	3,309,500	28.65	4,595,500	41.86

Notes

1 *No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme on 7 June 2007. The 2007 Share Option Scheme expired at 5.00 p.m. on 6 June 2014, with no further option granted since then.*

2 *Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the 2007 Share Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 0.2% of the shares of the Company in issue at the date of offer in respect of such option under the 2007 Share Option Scheme.*

3 *The share options granted were subject to a vesting schedule in tranches of one-third each per annum starting from the first anniversary of the date of offer of the options (the "Offer Anniversary") and became fully vested on the third Offer Anniversary.*

4 *Pursuant to the terms of the 2007 Share Option Scheme, each grantee undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the options.*

5 *Other details of the 2007 Share Option Scheme are set out in notes 10B and 44(i) to the Consolidated Accounts.*

6 *Dr Philco Wong Nai-keung resigned as Projects Director and ceased to be a Member of the Executive Directorate of the Company, in both cases with effect from 7 August 2018.*

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 2018 or subsisted at the end of the year.

EXECUTIVE SHARE INCENTIVE SCHEME

The Company adopted the Executive Share Incentive Scheme (formerly the "2014 Share Incentive Scheme") on 15 August 2014. The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interests with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the Executive Share Incentive Scheme as award holders in accordance with the rules of the Executive Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares (together, the "Award Shares").

Restricted Shares are awarded to selective eligible employees and vested ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). Performance Shares are awarded to eligible employees generally on a three-year performance cycle ("Performance Period"), subject to review and approval by the Remuneration Committee from time to time. The vesting of the Performance Shares is subject to the performance of the Company, assessed by reference to certain pre-determined performance metrics approved by the Board for the relevant Performance Period and such other performance conditions as determined by the Remuneration Committee from time to time.

The Award Shares to be granted under the Executive Share Incentive Scheme are issued Ordinary Shares. In general, the Company will pay to the third party trustee (the "Trustee") monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from Ordinary Shares held as part of the funds of the trust to acquire existing Ordinary Shares from the market. Such Ordinary Shares will be held on trust by the Trustee for the relevant award holders. The Trustee shall not exercise any voting rights in respect of any Ordinary Shares held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested Award Shares.

As part of the overall governance of the Executive Share Incentive Scheme, the Company reviews scheme features on a regular basis to ensure continued relevance and effectiveness.

In 2017, the Company appointed an independent consultant to conduct a review of the Executive Share Incentive Scheme and obtained the Remuneration Committee's approval on certain refinements which came into effect on 1 January 2018. Changes include the renaming of the 2014 Share Incentive Scheme to become "Executive Share Incentive Scheme" and the entitlement of award holders to cash dividends accrued in respect of unvested Restricted Shares that are granted on or after 1 January 2018. Certain administrative provisions of the scheme rules were also updated to streamline the administration of the Executive Share Incentive Scheme.

The maximum number of Award Shares that may at any time be the subject of an outstanding award granted under the Executive Share Incentive Scheme shall not exceed 2.5% of the number of issued Ordinary Shares as at 1 January 2015, the effective date of the Executive Share Incentive Scheme (the "Effective Date").

During the year ended 31 December 2018, the Performance Shares awarded for the previous Performance Period (2015 to 2017) vested to the eligible employees and new Performance Shares were awarded to eligible employees in April 2018 for the Performance Period from 2018 to 2020. For the year ended 31 December 2018, a total of 4,061,850 Award Shares (2017: 2,357,400 Award Shares) were awarded under the Executive Share Incentive Scheme. As at 31 December 2018, a total of 5,758,295 Award Shares (2017: 6,142,188 Award Shares) were neither vested, lapsed nor had been forfeited, representing 0.10% of the issued Ordinary Shares (2017: 0.11%) as at the Effective Date.

Further details of the Executive Share Incentive Scheme are set out in the section headed "Long-Term Incentives" under the Remuneration Committee Report (pages 151 to 152) and notes 10C and 44(ii) to the Consolidated Accounts.

The particulars of the Award Shares granted are as follows:

Members of the Executive Directorate and eligible employees	Date of award	Types of Award Shares granted: Restricted Shares	Types of Award Shares granted: Performance Shares	Award Shares outstanding as at 1 January 2018	Award Shares vested during the year	Award Shares lapsed and/or forfeited during the year	Award Shares outstanding as at 31 December 2018
Lincoln Leong Kwok-kuen	27/4/2015	60,200	255,000	275,068	252,803	22,265	–
(Note 1)	8/4/2016	64,850	–	43,234	21,616	–	21,618
	10/4/2017	63,900	–	63,900	21,300	–	42,600
	16/3/2018	80,000	–	–	–	–	80,000
	10/4/2018	73,300	239,950	–	–	–	313,250
Dr Jacob Kam Chak-pui	27/4/2015	22,050	57,600	64,950	59,920	5,030	–
	8/4/2016	21,550	–	14,367	7,183	–	7,184
	10/4/2017	22,050	–	22,050	7,350	–	14,700
	10/4/2018	25,550	50,450	–	–	–	76,000
Margaret Cheng Wai-ching	19/8/2016	71,428	–	47,619	23,809	–	23,810
	10/4/2017	16,950	30,400	47,350	33,395	2,655	11,300
	10/4/2018	17,600	50,450	–	–	–	68,050
Morris Cheung Siu-wa	27/4/2015	–	28,800	28,800	26,285	2,515	–
(Note 2)	8/4/2016	14,950	–	9,967	9,967	–	–
	10/4/2017	13,950	–	13,950	13,950	–	–
	10/4/2018	8,850	–	–	8,850	–	–
Dr Peter Ronald Ewen	8/4/2016	–	35,700	35,700	32,583	3,117	–
	10/4/2017	15,050	–	15,050	5,016	–	10,034
	10/4/2018	12,250	50,450	–	–	–	62,700
Herbert Hui Leung-wah	10/4/2017	15,200	30,400	45,600	32,811	2,655	10,134
	10/4/2018	14,200	50,450	–	–	–	64,650
Adi Lau Tin-shing	27/4/2015	8,600	12,550	15,418	14,322	1,096	–
	8/4/2016	8,400	–	5,600	2,800	–	2,800
	10/4/2017	17,700	25,050	42,750	28,762	2,188	11,800
	10/4/2018	16,450	50,450	–	–	–	66,900
Gillian Elizabeth Meller	27/4/2015	16,950	57,600	63,250	58,220	5,030	–
	8/4/2016	17,300	–	11,534	5,766	–	5,768
	10/4/2017	16,200	–	16,200	5,400	–	10,800
	10/4/2018	16,050	50,450	–	–	–	66,500
Linda So Ka-pik	8/4/2016	16,400	44,050	54,984	45,669	3,847	5,468
	10/4/2017	15,300	–	15,300	5,100	–	10,200
	10/4/2018	14,200	50,450	–	–	–	64,650
David Tang Chi-fai	27/4/2015	18,450	57,600	63,750	58,720	5,030	–
	8/4/2016	17,950	–	11,967	5,983	–	5,984
	10/4/2017	17,250	–	17,250	5,750	–	11,500
	10/4/2018	16,850	50,450	–	–	–	67,300
Dr Philco Wong Nai-keung	27/4/2015	21,700	57,600	64,834	59,804	5,030	–
(Note 3)	8/4/2016	21,200	–	14,134	7,066	7,068	–
	10/4/2017	19,900	–	19,900	6,633	13,267	–
	10/4/2018	21,500	50,450	–	–	71,950	–
Jeny Yeung Mei-chun	27/4/2015	19,350	57,600	64,050	59,020	5,030	–
	8/4/2016	18,850	–	12,567	6,283	–	6,284
	10/4/2017	17,700	–	17,700	5,900	–	11,800
	10/4/2018	17,350	50,450	–	–	–	67,800
Other eligible employees	27/4/2015	2,172,750	1,051,650	1,524,228	1,389,491	134,737	–
	8/4/2016	2,199,700	107,450	1,420,417	786,631	44,118	589,668
	10/4/2017	1,994,050	26,350	1,958,750	720,097	76,060	1,162,593
	10/4/2018	1,954,800	1,028,450	–	32,000	166,800	2,784,450

Notes

1 *Mr Lincoln Leong Kwok-kuen will retire as the Chief Executive Officer, and as a Member of the Board, the Corporate Responsibility Committee and the Executive Directorate, of the Company, all with effect from 1 April 2019.*

2 *Mr Morris Cheung Siu-wa ceased to be the President of MTR Academy and a Member of the Executive Directorate of the Company, in both cases with effect from 17 July 2018.*

3 *Dr Philco Wong Nai-keung resigned as Projects Director and ceased to be a Member of the Executive Directorate of the Company, in both cases with effect from 7 August 2018.*

SHARES ISSUED

	No. of Ordinary Shares issued	Consideration/Value (HK$)
As at 31 December 2017	6,007,777,302	N/A
Shares issued under the 2007 Share Option Scheme (Further details can be found in note 44(i) to the Consolidated Accounts)	5,568,500	162 million (received by the Company)
Scrip shares issued in respect of 2017 final dividend	93,790,912	4,175 million
Scrip shares issued in respect of 2018 interim dividend	32,348,875	1,298 million
As at 31 December 2018	6,139,485,589	N/A

Details of the movements in share capital of the Company during the year are set out in note 41 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 2018. However, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the HKSE a total of 5,351,600 Ordinary Shares for a total consideration of approximately HK$239 million during the year ended 31 December 2018 (2017: Nil).

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 2018 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	21.37%
	As a percentage of the Group's total revenue
Total revenue attributable to the Group's five largest customers	34.77%
Total revenue attributable to the Group's largest customer	13.76%

As at 31 December 2018, no Members of the Board or the Executive Directorate or any of their respective close associates or any Shareholder including the FSI, the substantial shareholder of the Company, (which to the knowledge of the Members of the Board or the Executive Directorate, owned more than 5% of all the Company's voting shares in issue) had any beneficial interests in the Group's five largest customers.

DONATIONS

During the year, the Group donated and sponsored approximately HK$12.2 million (2017: approximately HK$21.8 million) to charitable and other organisations.

BANK OVERDRAFTS, BANK LOANS AND OTHER BORROWINGS

The total borrowings of the Group as at 31 December 2018 amounted to HK$40,205 million (2017: HK$42,043 million). Particulars of the borrowings are set out in note 35 to the Consolidated Accounts.

BONDS AND NOTES ISSUED

The Group issued notes with total face value amounting to HK$1,491 million equivalent during the year ended 31 December 2018 (2017: HK$7,655 million equivalent), details of which are set out in note 35C 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 2018, the Group had borrowings of HK$32,446 million (2017: HK$37,770 million) with maturities ranging from 2019 to 2055 and undrawn committed banking facilities of HK$9,775 million (2017: HK$11,900 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 64 and 65.

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 of Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and Government, subject to certain conditions (the "Waiver").

Consequently, the Company makes the disclosures below in accordance with Rule 14A.71 of the Listing Rules and in accordance with the conditions of the Waiver.

Land Agreements

A On 18 May 2018, the Company accepted an offer dated 6 April 2018 from Government to proceed with the proposed Yau Tong Ventilation Building Development at New Kowloon Inland Lot No. 6602 subject to payment of a land premium of HK$1,514,990,000 and on the terms and conditions of the relevant Conditions of Exchange No.20325.

B On 17 August 2018, the Company accepted an offer dated 29 June 2018 from Government to proceed with the proposed Wong Chuk Hang Station Package Three Property Development at Site C of Aberdeen Inland Lot No. 467 subject to payment of a land premium of HK$12,971,290,000 and on the terms and conditions of the relevant Conditions of Exchange No. 20304.

C On 1 November 2018, the Company accepted an offer dated 21 September 2018 from Government to proceed with the proposed Ho Man Tin Station Package Two Property Development at Site B of Kowloon Inland Lot No. 11264 subject to payment of a land premium of HK$7,486,530,000 and on the terms and conditions of the relevant Conditions of Exchange No. 20296.

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 Government and they are also connected persons of the Company as defined in the Listing Rules.

Metro Trains Melbourne Pty. Ltd. is a company incorporated in Australia, which is wholly-owned by Metro Trains Australia Pty Ltd ("MTA"). The Company, UGL and John Holland MTA Pty Ltd ("JHMTA") own 60%, 20% and 20% respectively of MTA and are, therefore, substantial shareholders of MTA. Accordingly, UGL and JHMTA are connected persons of the Company. In addition, as JHL is an associate of JHMTA, JHL is also a connected person of the Company.

Since both UGL and LCAL are indirect wholly-owned subsidiaries of CIMIC Group Limited, LCAL is an associate of UGL and is also a connected person of the Company.

Therefore, each of Government, KCRC, the AA, UGL, LCAL, and JHL is a "connected person" of the Company for the purposes of the Listing Rules and, during 2018, each transaction set out at paragraphs I, II III and IV below constituted a continuing connected transaction for the Company under the Listing Rules.

In accordance with Guidance Letter GL 73-14 issued by the Stock Exchange and taking into account the Stock Exchange's recommendation issued in January 2016, the Company's Internal Audit Department ("IAD") has reviewed the Company's continuing connected transactions set out below and the related internal control procedures. IAD found that the internal control procedures put in place by the Company were adequate and effective and reported the same to the Audit Committee of the Company to assist the Company's Independent Non-executive Directors in their annual review and confirmation required to be given pursuant to the Merger-related Waiver (as defined below), the Waiver and the Listing Rules (as appropriate).

I Merger-related Continuing Connected Transactions

Each of the transactions listed in paragraphs A to D below (together, the "Merger-related Continuing Connected Transactions") and which formed part of the Rail Merger, was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. These paragraphs should be read in conjunction with the paragraphs contained in the section below headed "Additional Information in respect of the Rail Merger".

As disclosed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to continuing connected transactions between the Company, Government and/or KCRC arising as a result of the Rail Merger, subject to certain conditions (the "Merger-related Waiver").

A Merger Framework Agreement

The Merger Framework Agreement was entered into on 9 August 2007 between the Company, KCRC and the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury for and on behalf of Government.

The Merger Framework Agreement contains provisions for the overall structure and certain specific aspects of the Rail Merger, including in relation to:

- a seamless interchange programme;
- corporate governance of the Company Post-Rail Merger;
- payments relating to property enabling works;
- arrangements relating to the establishment of a rolling programme on the level of flat production arising from tenders for railway property development;
- arrangements in relation to the assessment of land premium amounts;
- arrangements in relation to the employees of the Company and KCRC, including provisions preventing the Company from terminating the employment of relevant frontline staff for any reason that relates to the process of integrating the operations of the Company and KCRC;
- the implementation of certain fare reductions;
- arrangements in relation to the proposed Shatin to Central Link;
- KCRC's continuing responsibility for its existing financial arrangements;
- treatment of KCRC's cross border leases;

- the payment of HK$7.79 billion in respect of the Property Package (as described on pages 185 to 187 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 certain counterparties, and became effective on 3 December 2007, with respect to each of the US cross border leases originally entered into between KCRC and certain counterparties (each, a "CBL"). Pursuant to each US CBL Assumption Agreement, the Company undertakes to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs. As a result thereof, the Company is generally liable to the CBL counterparties in respect of KCRC's obligations under the CBLs and has the right to exercise certain of KCRC's rights under the CBLs.

US CBL Allocation Agreement

The US CBL Allocation Agreement was entered into between the Company, KCRC and the subsidiaries of KCRC (the "KCRC Subsidiaries") on 2 December 2007. Pursuant to the US CBL Allocation Agreement, rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between KCRC and the Company (each of which is jointly and severally liable to specified CBL counterparties, as referred to in the paragraph above headed "US CBL Assumption Agreements"). Under the terms of the US CBL Allocation Agreement, entered into 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.

By the end of the year, all purchase options under the CBLs had been exercised and therefore all of the CBLs have now been terminated. As a result, the rights and obligations of the Company under the US CBL Assumption Agreements and US CBL Allocation Agreement have lapsed.

D Property Package Agreements

Category 2A Properties

On 9 August 2007, Government entered into an undertaking that it would issue to KCRC an offer for the grant at nil premium of Government leases in respect of the land upon which certain properties (the "Category 2A Properties") are situated (the "said Government Leases"). The Category 2A Properties were held by KCRC as vested land under the Kowloon-Canton Railway Corporation Ordinance (Cap. 372 of the Laws of Hong Kong). On 9 August 2007, KCRC entered into an undertaking that it would, immediately after the grant of the said Government Leases referred to in the preceding sentence, enter into agreements for sale and purchase to sell the Category 2A Properties to the Company (the "said Agreements for Sale and Purchase"). Assignments of the Category 2A Properties to the Company shall then take place pursuant to the said Agreements for Sale and Purchase (the "said Assignments").

The said Government Leases were issued to KCRC respectively on 27 March 2009 and 31 March 2009. The said Agreements for Sale and Purchase were entered into between KCRC and the Company on 27 March 2009 and 31 March 2009 respectively and the said Assignments to the Company were executed on 27 March 2009 and 31 March 2009 respectively. Deeds of Mutual Grant were also entered into between the Company and KCRC on 27 March 2009 and 31 March 2009 respectively setting out the easements, rights, entitlements, privileges and liberties of the Company and KCRC in the land on which the Category 2A Properties are situated.

Category 2B Property

On 9 August 2007, Government entered into an undertaking that it would issue to the Company an offer for the grant of a Government Lease of a certain property (the "Category 2B Property") on terms to be agreed.

The basic terms offer for the Category 2B Property (i.e. Trackside Villas) was issued and accepted by the Company on 31 December 2009 and Government Lease in respect of Tai Po Town Lot No. 199 dated 29 March 2010 was issued for a term of 50 years from 2 December 2007.

Category 3 Properties

On 9 August 2007, the Company entered into three agreements (the "Category 3 Agreements") and related powers of attorney with KCRC. Each Category 3 Agreement relates to a certain property (each a "Category 3 Property"). KCRC has previously entered into a development agreement in respect of each Category 3 Property. None of the rights and obligations granted to or undertaken by the Company under the Category 3 Agreements may be exercised or performed by the Company if they relate exclusively to concession property situate on any Category 3 Property. Matters affecting the concession property situate on any Category 3 Property are dealt with under the terms of the Service Concession Agreement (as defined and summarised on page 201).

Pursuant to the terms of each Category 3 Agreement, the Company has been appointed to act as KCRC's agent, and donee under powers of attorney, to exercise rights and to perform obligations of KCRC which relate to the Category 3 Property (but excluding the right or obligation to dispose of the relevant Category 3 Property).

The Company is required at all times to comply with statutory restrictions and obligations binding on KCRC which relate to the Category 3 Properties, and shall pay all amounts due and payable from KCRC which have been incurred by KCRC as a result of the Company's actions.

In acting as KCRC's agent, the Company is required to act according to prudent commercial principles, and aim to maximise gross profits under the Category 3 Properties and to run a safe and efficient railway. In order to assist the Company in performing its agency functions, KCRC has granted powers of attorney to the Company. The Company may only use the powers of attorney to exercise rights and perform obligations conferred or undertaken by it under the relevant Category 3 Agreement. As well as acting as KCRC's agent, the Company has the right to give KCRC instructions in respect of any action or matter relating to each Category 3 Property (including its related development agreement) which the Company is unable to take by reason of the limitation of the scope of its agency powers. KCRC is required to comply promptly with those instructions provided that it is permitted under law, and under the relevant Government grant, to carry out those instructions.

KCRC is required to account for revenue received in respect of a Category 3 Property by way of balance sheet movement (rather under its profit and loss account), provided that such treatment is permitted under law and accounting principles and practices.

KCRC shall not take any action in respect of a Category 3 Property which is not carried out by the Company (acting as KCRC's agent), or according to the Company's instructions, or otherwise in accordance with the terms of the Category 3 Agreement.

As consideration for acting as KCRC's agent, the Company shall be paid a fee which is expected to be similar in quantum to the profits made by KCRC in respect of the relevant Category 3 Property (after deducting certain initial and upfront payments and consultant contribution costs, in each case paid or to be paid by the relevant developer to KCRC). Generally, the Company's fee shall be payable in instalments promptly following receipt of relevant funds by KCRC (but subject to specified deductions of amounts due from KCRC to the relevant Category 3 Property developer).

The Company has agreed to give certain indemnities to KCRC in respect of each Category 3 Property.

The Company shall be the first manager, or shall ensure that a manager is appointed in respect of, each Category 3 Property (once developed).

The Company's appointment as agent shall terminate when KCRC ceases to have any undivided share in the relevant Category 3 Property, other than concession property, and neither KCRC nor the developer nor the guarantors have any further rights to exercise, or obligations to perform, under the development agreement relating to the relevant Category 3 Property.

II Non Merger-related Continuing Connected Transactions

The following disclosures, in paragraphs A1 to D below together with the Third XRL Agreement (as defined below) (together, the "Non Merger-related Continuing Connected Transactions"), are made in accordance with the conditions of the Waiver and Rule 14A.71 of the Listing Rules.

A1 Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link

The Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link (the "First SCL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First SCL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Shatin to Central Link, including in relation to:

- Government's obligation to pay the Company up to a maximum aggregate amount of HK$1,500 million in respect of certain costs incurred by the Company pursuant to the First SCL Agreement, including the Company's in-house design costs and certain on-costs and preliminary costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First SCL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Shatin to Central Link;
- the limitation of the Company's liability to Government under the First SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$600 million; and
- should the railway scheme for the Shatin to Central Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Shatin to Central Link.

A2 Entrustment Agreement for Advance Works Relating to the Shatin to Central Link

The Entrustment Agreement for Advance Works Relating to the Shatin to Central Link (the "Second SCL Agreement") was entered into on 17 May 2011 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Second SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second SCL Agreement and carrying out its other obligations under the Second SCL Agreement, Government shall pay to the Company the Company's project management cost. The amount of such project management cost is to be agreed between the Company and Government and prior to such agreement, the project management cost shall be paid by Government to the Company on a provisional basis calculated in accordance with the Second SCL Agreement;
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works").

Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Second SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;

- Government shall bear all of the "Works Cost" (as defined in the Second SCL Agreement). In this connection, Government will make payments to the Company in respect of the Works Cost on a provisional basis, subject to adjustments when the final outturn cost of the Works Cost is determined;
- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Second SCL Agreement is limited to approximately HK$3,000 million per annum and a total in aggregate of approximately HK$15,000 million;
- the Company shall carry out or procure the carrying out of certain enabling works on the expanded Admiralty Station and the to be constructed Ho Man Tin Station, the reprovisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other works as described under the Second SCL Agreement;
- the Company's total liability to Government under the First SCL Agreement and the Second SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement and the Second SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the completion of the relevant works, a final report on the activities required to be carried out under the Second SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

A3 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link

The Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link (the "Third SCL Agreement") was entered into on 29 May 2012 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Third SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Third SCL Agreement and carrying out its other obligations under the First SCL Agreement and the Second SCL Agreement, Government shall pay to the Company the Company's project management cost. The amount of the project management cost is HK$7,893 million and will be paid by Government to the Company on a quarterly basis;
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Third SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Third SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear certain "Third Party Costs", any "Interface Works Costs" and any "Direct Costs" (each as defined in the Third SCL Agreement);
- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Third SCL Agreement is limited to HK$3,000 million per annum and a total in aggregate of HK$15,000 million;
- the maximum aggregate amount payable by the Company to Government under the Third SCL Agreement in relation to its contribution to certain railway works under the Third SCL Agreement is limited to HK$4,000 million per annum and a total in aggregate of HK$15,000 million;
- the Company's total liability to Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Third SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the handover of the Shatin to Central Link project to Government, a final report on the activities required to be carried out under the Third SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Third SCL Agreement that relate to the provision of project management services, such activities shall be carried

out with the skill and care reasonably to be expected of a professional and competent project manager;

- in the case of those activities under the Third SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
- in the case of those activities under the Third SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and

- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

B1 Entrustment Agreement for Design and Site Investigation in Relation to the Express Rail Link

The Entrustment Agreement for Design and Site Investigation in Relation to the Express Rail Link (the "First XRL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First XRL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Express Rail Link, including in relation to:

- Government's obligation to pay the Company, up to a maximum aggregate amount of HK$1,500 million, in respect of certain costs incurred by the Company pursuant to the First XRL Agreement, including the Company's in-house design costs and certain on-costs, preliminary costs and recruited staff costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First XRL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Express Rail Link;
- the limitation of the Company's liability to Government under the First XRL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$700 million; and
- should the railway scheme for the Express Rail Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Express Rail Link.

B2 Entrustment Agreement for Construction, Testing and Commissioning of the Express Rail Link

The Entrustment Agreement for the construction and commissioning of the Express Rail Link was entered into on 26 January 2010 between the Company and the Secretary for Transport and Housing for and on behalf of Government (the "Second XRL Agreement").

The scheme in respect of the Express Rail Link was first gazetted under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong) on 28 November 2008, with amendments and corrections gazetted on 30 April 2009. The scheme, as amended with such minor modifications as deemed necessary, was authorised by the Chief Executive in Council on 20 October 2009 and funding support approved by the Finance Committee on 16 January 2010.

The Second XRL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second XRL Agreement and carrying out its other obligations under the Second XRL Agreement and the First XRL Agreement, Government shall pay to the Company HK$4,590 million (further details relating to the amendments to this provision are set out in the section below headed "The Third Agreement in Relation to the Express Rail Link"), to be paid in cash quarterly in advance on a scheduled basis as such sum may be varied in accordance with the Second XRL Agreement, subject to the maximum payment limits stated in the Second XRL Agreement (being HK$2,000 million annually and HK$10,000 million in total) (the "Maximum Payment Limits");

- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second XRL Agreement and in consideration of the Company executing or procuring the execution of the miscellaneous works (if any) and carrying out its other obligations under the Second XRL Agreement in relation to the miscellaneous works (if any), Government shall pay to the Company an amount equal to an agreed fixed percentage of third party costs attributable to the miscellaneous works from time to time subject to the Maximum Payment Limits;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second XRL Agreement that were carried out in the immediately preceding calendar month and, within three months following the earlier of handover of the Express Rail Link project to Government or termination of the Second XRL Agreement, a final report on the activities required to be carried out under the Second XRL Agreement;
- the Company shall be responsible for the care of all works constructed under the Express Rail Link project from the commencement of construction until the date of handover of those works to Government (or to a third party directed by Government) and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second XRL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second XRL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second XRL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor;
- Government is required to bear (i) any costs payable to third parties, (ii) any charges, costs or amounts payable to any Government department, bureau, agency or body in relation to the activities to be carried out under the Second XRL Agreement, (iii) any and all amounts payable to KCRC as compensation for damage arising as a result of the Company and/or a third party contractor carrying out activities under the Second XRL Agreement; and (iv) all land acquisition, clearance and related costs (including all amounts arising as a result of any claim for compensation by any third party) and those costs which are incurred by the Lands Department in connection with the Express Rail Link project (further details relating to the amendments to this provision are set out in the section below headed "The Third Agreement in Relation to the Express Rail Link"); and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Express Rail Link are given or granted.

Government had agreed that the Company would 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 would be invited to undertake the operation of the Express Rail Link under the concession approach.

The Third Agreement in Relation to the Express Rail Link

On 30 November 2015, Government and the Company entered into the deed of agreement relating to the further funding and completion of the Express Rail Link project (the "Third XRL Agreement"). The Third XRL Agreement contains an integrated package of terms and provides that:

(i) Government will bear and finance the project cost up to HK$84.42 billion;

(ii) if the project cost exceeds HK$84.42 billion, the Company will bear and finance the portion which exceeds that sum (if any), except for certain agreed excluded costs;

(iii) the Company will pay a special dividend of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share, in cash in each tranche);

(iv) certain amendments will be made to the existing entrustment arrangements entered into in 2010 relating to the Express Rail Link, including an increase in the project management fee payable to the Company to HK$6.34 billion;

(v) Government reserves the right to refer to arbitration, after commencement of operations on the Express Rail Link, the question of the Company's liability for the current cost overrun (if any); and

(vi) the Third XRL Agreement was subject to (a) the obtaining of approval of the Company's independent shareholders (which was obtained on 1 February 2016) and (b) the obtaining of approval of the Legislative Council for Government's additional funding obligations (which was obtained on 11 March 2016).

The first tranche of the special dividend of HK$2.20 per share was distributed on 13 July 2016 and the second tranche, also of HK$2.20 per share, was distributed on 12 July 2017.

Pursuant to the Third XRL Agreement, certain amendments have been made to the Second XRL Agreement to reflect the arrangements contained in the Third XRL Agreement, including (i) amendments to the arrangements for the bearing and financing of the project cost; and (ii) an increase in the project management cost payable to the Company to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations in relation to the Express Rail Link project).

C1 Maintenance Agreement for the Automated People Mover System at the Hong Kong International Airport

On 5 July 2013, the Company entered into a Maintenance Contract with the AA for the renewal of the then expired maintenance agreement for the maintenance of the Automated People Mover system at the Hong Kong International Airport (the "System") for a seven year period (the "Maintenance Contract"), effective from 6 July 2013. It is expected that the highest amount per year receivable from the AA under the Maintenance Contract will be no more than HK$85 million.

The Maintenance Contract contains provisions relating to the operation and maintenance by the Company of the System and the carrying out by the Company of certain specified services in respect of the System, they including the following:

- provisions stating that the duration of the Maintenance Contract shall be seven years from 6 July 2013 up to and including 5 July 2020;
- provisions relating to the performance of scheduled maintenance works and overhaul of the System by the Company;
- provisions relating to monitoring the System for any breakdown and the Company providing repair services where necessary;
- provisions relating to the standards to which the Company must operate the System;
- provisions relating to the carrying out by the Company (as additional services), in certain circumstances, of upgrade work on the System; and
- provisions relating to the operations of and maintenance for the extension of the System to the Midfield Concourse.

C2 Subcontractor Warranty to the AA

On 18 May 2018, the Company provided a sub-contractor warranty to the AA as a result of obtaining a subcontract from Niigata Transys Co., Ltd. ("NTS") for the modification works of the existing System for a seven year period, effective from 25 September 2017 (the "Subcontract"). It is expected that the highest amount per year receivable from NTS will be no more than HK$60 million.

The Subcontract contains provisions covering the provision and modification of the power distribution, communication and control subsystems in respect of the System, which includes the following:

- Modification of the existing System for its extension to the new Automated People Mover Interchange Station;
- Provision of related electrical and mechanical systems, including power distribution system, telecommunication systems, platform screen door and maintenance equipment; and
- Relocation of existing maintenance equipment to the new Automated People Mover depot.

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, and further extended for a period ending on or before 31 March 2019 by a second supplemental agreement between the Company and Government dated 29 June 2018), payment by the Company to Government of any "Repayment Amounts" for any over-estimation of certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway works and reprovisioning, remedial and improvement works (together with interest);
- the design, construction and completion of the associated reprovisioning, remedial and improvement works (the cost of which shall be the responsibility of the Company) and the associated essential public infrastructure works (the cost of which shall be the responsibility of Government);
- the Company's responsibility for costs relating to land acquisition, clearance and related costs arising from the implementation of the West Island Line project (save for costs arising from certain claims for compensation by third parties) and all costs, expenses and other amounts incurred or paid by the Lands Department pursuant to the involvement of the Lands Department in connection with the implementation of the West Island Line project; and
- the Company carrying out measures specified in the environmental impact assessment and the environmental permit issued by Government to the Company in relation to the West Island Line on 12 January 2009.

III Continuing Connected Transactions relating to the Operation of the Express Rail Link

The following disclosures, in paragraphs A and B below (together, the "Continuing Connected Transactions relating to the Operation of the Express Rail Link"), are made in accordance with the conditions of the Waiver, the Merger-related Waiver and Rule 14A.71 of the Listing Rules.

A Amendment Operating Agreement

On 23 August 2018, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the Amendment Operating Agreement (the "AOA") to amend and supplement the Integrated Operating Agreement dated 9 August 2007 (as described in paragraph D of the section headed "Additional Information in respect of the Rail Merger" on pages 201 to 202), as amended ("Existing Integrated Operating Agreement"), in order to prescribe the operational requirements that would apply to the Express Rail Link. The intent and effect of the AOA is that the operational requirements that are applicable to the existing railway network would apply in substantially the same manner to the Express Rail Link, save where any amendments were necessary to reflect the particular characteristics of, and arrangements for, the Express Rail Link.

The AOA is an "operating agreement" for the purposes of the MTR Ordinance, forms part of the legal and regulatory regime for the operation of railways in Hong Kong and is required for the purposes of the MTR Ordinance so that the Express Rail Link is properly regulated under the MTR Ordinance.

Principal Terms of the AOA are as follows:

The terms of the AOA are based substantially on the terms of the Existing Integrated Operating Agreement. The AOA has taken effect on 23 September 2018 (the "Commercial Operation Date (Express Rail Link)") and will expire at the same time as the Supplemental Service Concession Agreement (the "SSCA") entered into between the Company and KCRC on 23 August 2018.

Certain principal terms of the AOA that are specific to the Express Rail Link include:

- obligations on the Company to maintain specific performance requirements in relation to train service delivery, ticket machine reliability, ticket-gate reliability and escalators and passenger lifts reliability;
- obligations on the Company to publish specific customer services pledges in relation to train service delivery, ticket machine reliability, ticket-gate reliability, escalators and passenger lifts reliability, temperature and ventilation levels, railway cleanliness (relating only to the Company's Express Rail Link trains) and passenger enquiry response time;
- obligations in relation to the carrying out of the maintenance of the Company's Express Rail Link trains outside Hong Kong;
- obligations on the Company to carry out design checks and tests to verify that the Mainland operator's Express Rail Link trains are compatible with the Company's infrastructure and can run on the Express Rail Link safely;
- establishing procedures with the Mainland operator for approving the Mainland operator's trains to run on the Express Rail Link safely and for informing Government of the modification of any such trains;
- developing and maintaining a training qualification system for drivers of Express Rail Link trains;
- facilitating the carrying out of inspections by the railway inspector, including liaising with the Mainland operator for this purpose, where necessary;
- security obligations in relation to maintaining the integrity and security of the boundaries of the Mainland Port Area and the Cross-Boundary Restricted Area; and
- mechanisms and Government approval procedures for setting fares for Express Rail Link train journeys, including that:
  - (i) prior to the Commercial Operation Date (Express Rail Link), the Company will seek prior written consent from Government before setting the fares for the various available Express Rail Link ticket types; and
  - (ii) thereafter, fares cannot be adjusted, introduced or withdrawn without the prior consent of Government.

B Supplemental Service Concession Agreement

On 23 August 2018, the Company and KCRC entered into the SSCA to supplement the Service Concession Agreement dated 9 August 2007 (as described in paragraph B of the section headed "Additional Information in respect of the Rail Merger" on page 201) (the "Existing Service Concession Agreement") in order for KCRC to grant a concession to the Company in respect of the Express Rail Link and to prescribe the operational and financial requirements that will apply to the Express Rail Link. The intent and effect of the SSCA is that the operational requirements that are applicable to the Company's operation of the existing KCRC railway system will apply in substantially the same manner to the Express Rail Link, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the Express Rail Link. The financial provisions in the SSCA have been designed to reflect the provisions of the Existing Integrated Operating Agreement that relate to new concession projects, such as the Express Rail Link subject as set out below.

The SSCA is a "service concession agreement" for the purposes of the MTR Ordinance, forms part of the legal and regulatory regime for the operation of railways in Hong Kong and is required for the purposes of the MTR Ordinance so that the Express Rail Link is properly regulated under the MTR Ordinance.

Principal Terms of the SSCA

The terms of the SSCA are based substantially on the terms of the Existing Service Concession Agreement. The operating period with respect to the Express Rail Link has commenced on the Commercial Operation Date (Express Rail Link) and will terminate automatically on the earlier of:

(i) a revocation of the Company's franchise under the MTR Ordinance in whole or in respect of the Express Rail Link; and

(ii) the date falling immediately before the tenth anniversary of the Commercial Operation Date (Express Rail Link), but may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA, in which case it shall terminate on such other date as is agreed between the Company and KCRC (the "Concession Period (Express Rail Link)").

Certain principal terms of the SSCA that are specific to the Express Rail Link include:

- Additional concession payments for the Express Rail Link

  (i) General

  The additional concession payments to be made by the Company to KCRC and by KCRC to the Company in respect of the Express Rail Link (described below) have been designed to reflect the requirements under the Existing Integrated Operating Agreement, inter alia, for the Company to retain 10% of the currently expected positive discounted net cash flow from the operation of the Express Rail Link (being discounted at a discount rate which reflects the Company's commercial rate of return in relation to the Express Rail Link).

  The SSCA provides for the fixed annual payments and variable annual payments structure for the additional concession payments, to reflect the current concession payments structure for the existing KCRC system under the Existing Service Concession Agreement.

  The additional concession payments for the Express Rail Link are in addition to, and do not replace, the payments made in respect of the existing KCRC system under the Existing Service Concession Agreement.

  (ii) Variable annual payments

  The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the Existing Service Concession Agreement whereby the Company pays to KCRC, for each financial year, a certain percentage of the revenue generated from the KCRC system (being 35% for revenues generated from the KCRC system that are beyond the first HK$7.5 billion). For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the Express Rail Link fares received or retained by the Company and revenue derived from businesses related to the Express Rail Link which may include, without limitation, advertising, telecommunications, duty free and kiosk rental.

(iii) Fixed annual payments for the Express Rail Link

In light of the variable annual payments described in paragraph (ii) above and in order for the Company to be able to retain 10% of the currently expected positive discounted net cash flow from the operation of the Express Rail Link as described above, the fixed annual payments shall comprise payments from KCRC to the Company which, in aggregate, over the Concession Period (Express Rail Link), will be equal to HK$7,965 million.

These fixed annual payments shall be without prejudice to the Company's obligation to pay the fixed annual payments of HK$750 million each financial year to KCRC under the Existing Service Concession Agreement.

- Revenue-related arrangements

In addition, the SSCA contains the following revenue-related arrangements:

(i) Patronage adjustment

In respect of actual deviations from the current patronage projections for the Express Rail Link:

(a) any excess or shortfall in actual patronage of up to 15% in relation to the currently projected patronage for the Express Rail Link will be borne by the Company; and

(b) any excess or shortfall in actual patronage greater than 15% in relation to the currently projected patronage for the Express Rail Link will be borne between the Company and KCRC in the proportions of 30% by the Company and 70% by KCRC.

(ii) Incremental revenue adjustment

In respect of actual deviations from the currently projected patronage for the Company's existing cross-boundary services to and from Lo Wu and Lok Ma Chau, and the existing intercity service, the Company may receive two payments from KCRC (in respect of the period from and including the Commercial Operation Date (Express Rail Link) up to and including 31 December 2023 and in respect of the period from and including 1 January 2024 up to and including the day falling immediately before the tenth anniversary of the Commercial Operation Date (Express Rail Link), respectively) and which will be capped at HK$500 million and HK$1,000 million, respectively.

(iii) Mainland discount programme loss

In respect of revenue loss resulting from the Mainland Student Ticket Discount and the Mainland Disabled Military/Police Officer Discount programmes adopted by the Mainland operator, the Company will receive reimbursement payments from KCRC on an annual basis.

KCRC and the Company will also discuss in good faith similar reimbursement arrangements should the Mainland operator introduce any other discount programmes in future.

(iv) Service fees subsidy

In respect of the proportion of the service fee charged in respect of tickets sold at West Kowloon Station for journeys originating from and terminating at any railway station in the Mainland which Government has directed should be borne by the Company, the Company will receive reimbursement payments from KCRC on an annual basis.

- Pre-operating costs reimbursements

In addition, KCRC shall reimburse the Company for the pre-operating costs that are agreed between the Company and KCRC, being costs and expenses reasonably incurred by the Company prior to the Commercial Operation Date (Express Rail Link) that satisfy all of the following criteria:

(i) that directly resulted from the planning and commencement of the operation of the relevant Express Rail Link assets;

(ii) that have not already been paid, and will not be paid or payable, by Government to the Company under any relevant agreement or which the Company and Government otherwise agree in writing should be treated as a pre-operating cost;

(iii) that are not covered in any of the payments to be made by KCRC to the Company under the SSCA; and

(iv) that fall within certain other types of agreed costs and expenses in connection with the operation of the Express Rail Link (including, mobilisation activities in preparation for the opening of the Express Rail Link and trial operations prior to the opening of the Express Rail Link, and other items as may be agreed between KCRC and the Company).

- Equalisation payment

If the franchise is revoked by Government prior to 31 December 2023, KCRC is required to make a payment to the Company of an amount that is equivalent to the aggregate fixed annual payment payable by KCRC over the ten year life of the concession, reduced pro rata to take account of the time at which termination occurs, and less any amounts of the fixed annual payment already paid to the Company. The intention of this equalisation payment is to ensure that the Company is partly protected in the event of early termination of the concession in respect of the Express Rail Link.

- Express Rail Link services

The Company is obliged to operate the Express Rail Link during the Concession Period (Express Rail Link) to the standards prescribed in the MTR Ordinance and the Existing Operating Agreement (subject as otherwise stated herein). The Company is not regarded as having failed to meet a requirement under the MTR Ordinance or the Existing Integrated Operating Agreement if the failure has resulted from anything done or omitted to be done by the Mainland operator, any Mainland authority or persons directly under their control.

- Return requirements

If the Concession Period (Express Rail Link) expires or is terminated, the Company shall, at no cost to KCRC, redeliver possession of the Express Rail Link concession property.

IV Non-Governmental Continuing Connected Transactions

The following disclosures, in paragraphs A and B below (together, the "Non-Governmental Continuing Connected Transactions") are made in accordance with Rule 14A.71 of the Listing Rules.

A Contract 903 between the Company and LCAL relating to certain works on the South Island Line (East)

As explained above, LCAL is a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. Contract 903 (as defined below) is therefore a "continuing connected transaction" within the meaning of Rule 14A.31 of the Listing Rules.

On 17 May 2011, the Company and LCAL entered into Contract 903 (as amended by a supplemental agreement on 14 November 2014) (the "Contract 903") for the construction of certain works relating to the Aberdeen Channel Bridge, Wong Chuk Hang Station and Ocean Park Station in respect of the South Island Line (East) (the "Contract 903 Works").

Contract 903 is in substantially the same form as the Company's standard conditions of contract for target cost construction and contains the following provisions:

- the principal obligation of LCAL under Contract 903 is the construction of the Contract 903 Works;
- LCAL shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 903 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 903 Works, or the right of the Company to execute the Contract 903 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by LCAL;
- LCAL shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of LCAL or its sub-contractors or suppliers arising out of and in the course of such employment;

- LCAL shall effect and maintain insurance with a limit of not less than HK$200 million in relation to certain of its liabilities;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of LCAL under Contract 903;
- LCAL's liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 903 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage. The total liability of LCAL to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the target cost plus fees as calculated under Contract 903;
- the total amount payable by the Company to LCAL under Contract 903 includes costs 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 costs for the Contract 903 Works to LCAL on a scheduled basis set out in Contract 903. If the final total cost of the Contract 903 Works exceeds or is less than the target cost for the Works, the deficit or, as the case may be, the excess will be borne by or, as the case may be, distributed to the Company and LCAL on a basis calculated in accordance with Contract 903;
- the maximum aggregate amount payable annually by the Company under Contract 903 is approximately HK$1,400 million. As payments by the Company to LCAL are paid on a scheduled basis as set out in Contract 903, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$700 million. In addition, LCAL has agreed to separately purchase additional cover for "Third Party Liability" insurance in the amount of HK$3,638 million; and
- the Company may at any time, by giving 30 days' notice in writing to LCAL, terminate Contract 903 but without prejudice to any claims by the Company for breach of contract.

B Contract 904 between the Company, LCAL and JHL relating to certain works on the South Island Line (East)

As explained above, each of LCAL and JHL is a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. Contract 904 (as defined below) is therefore a "continuing connected transaction" within the meaning of Rule 14A.31 of the Listing Rules.

On 17 May 2011, the Company, LCAL and JHL (LCAL and JHL being "the Contractors") entered into Contract 904 (as amended by a supplemental agreement on 7 June 2013 and a second supplemental agreement on 19 December 2018) (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"). The final payment certificate was issued on 19 December 2018.

Contract 904 is in substantially the same form as the Company's standard conditions of contract for engineering works and contains the following provisions:

- the principal obligation of the Contractors is the construction of the Contract 904 Works. The obligations of the Contractors under Contract 904 are joint and several;
- the Contractors shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 904 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 904 Works, or the right of the Company to execute the Contract 904 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by the Contractors;
- the Contractors shall indemnify the Company against all damages and compensation and against all claims,

demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of the Contractors or their subcontractors or suppliers arising out of and in the course of such employment;

- the Contractors shall effect and maintain insurance with a limit of not less than HK$200 million in relation to certain of its liabilities;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of the Contractors under Contract 904;
- the Contractors' liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 904 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage;
- the total liability of the Contractors to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the contract sum under the Contract;
- the total amount payable by the Company to the Contractors under Contract 904 is the Contract Sum. From time to time the scope of Works may vary and the Company will be obliged to revise the Contract Sum in accordance with the terms of Contract 904;
- the maximum aggregate amount payable annually by the Company under Contract 904 is approximately HK$1,400 million. As payments by the Company to the Contractors are paid on a scheduled basis as set out in Contract 904, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$700 million. In addition, the Contractors have agreed to separately purchase additional cover for "Third Party Liability" insurance in the amount of AU$485 million; and
- the Company may at any time, by giving 30 days' notice in writing to the Contractors, terminate Contract 904 but without prejudice to any claims by the Company for breach of contract.

In relation to the Merger-related Continuing Connected Transactions, the Non Merger-related Continuing Connected Transactions, the Continuing Connected Transactions relating to the Operation of the Express Rail Link and the Non-Governmental Continuing Connected Transactions (collectively "Transactions") and in accordance with (i) in the case of the Merger-related Continuing Connected Transactions, paragraph B(I)(i) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(I)(iii)(a) of the Waiver; (iii) in the case of the Continuing Connected Transactions relating to the Operation of the Express Rail Link, paragraph B(I)(i) of the Merger-related Waiver and paragraph B(I)(iii)(a) of the Waiver; and (iv) in the case of the Non-Governmental Continuing Connected Transactions, Rule 14A.55 of the Listing Rules, the Company confirms that the Independent Non-executive Directors of the Company have reviewed and confirmed that each of the Transactions was entered into:

(1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;

(2) on normal commercial terms or better (within the meaning of the Listing Rules); and

(3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to carry out a review of the Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with (i) in the case of the Merger-related Continuing Connected Transactions, paragraph B(I)(ii) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(I)(iii)(b) of the Waiver; (iii) in the case of the Continuing Connected Transactions relating to the Operation of the Express Rail Link, paragraph B(I)(ii) of the Merger-related Waiver and paragraph B(I)(iii)(b) of the Waiver;

and (iv) in the case of the Non-Governmental Continuing Connected Transactions, Rule 14A.56 of the Listing Rules, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that any of the Transactions has not been approved by the Board;

(b) nothing has come to their attention that causes them to believe that any of the Transactions was not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

in the case of the Non-Governmental Continuing Connected Transactions, in addition, that:

(c) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that such transactions were not, in all material respects, in accordance with the pricing policies of the Group; and

(d) with respect to the aggregate amount of each of such transactions, nothing has come to their attention that causes them to believe that such transactions have exceeded the relevant annual caps as set by the Company in respect of each of such transactions.

Additional Information in respect of the Rail Merger

The Rail Merger consisted of a number of separate agreements, each of which was detailed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, and which together formed a complete package deal which was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. The information set out at paragraph A below describes the payment framework adopted in respect of the Rail Merger and paragraphs B to E below set out, summaries of the various agreements entered into by the Company in respect of the Rail Merger in addition to those agreements disclosed above under the heading "Merger-related Continuing Connected Transactions".

A Payments in connection with Merger-related Agreements

In connection with the Rail Merger, the following initial payments were made by the Company to KCRC on 2 December 2007 (being the Merger Date):

- an upfront payment of HK$4.25 billion, payable under the Service Concession Agreement (as described in paragraph B below), being the upfront fee for the right to operate the Service Concession (as defined in paragraph B below) and the consideration for the purchased rail assets; and
- an upfront payment of HK$7.79 billion payable under the Merger Framework Agreement (as described on pages 184 to 185) in consideration for the execution of the Property Package Agreements (as described on pages 185 to 187 and in paragraph E below) and the sale of the shares in the KCRC Subsidiaries (as defined on page 185) 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.

On 23 August 2018, the Company and KCRC entered into the SSCA in order for KCRC to grant a concession to the Company in respect of the Express Rail Link and to prescribe the operational and financial requirements that will apply to the Express Rail Link. Further details are set out in the section above headed "III Continuing Connected Transactions relating to the Operation of the Express Rail Link" in the section headed "Continuing Connected Transactions".

C Sale and Purchase Agreement

The Sale and Purchase Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Sale and Purchase Agreement provides the terms pursuant to which the Company acquired certain assets and contracts (the "Purchased Rail Assets") from KCRC.

The consideration for the sale of the Purchased Rail Assets (excluding the shares in the KCRC Subsidiaries) formed part of the upfront payment of HK$4.25 billion. The consideration for the sale of the shares in the KCRC Subsidiaries (which own the Category 1A Properties referred to at paragraph E below and act as property managers) formed part of the payment of HK$7.79 billion for the property package (as described in paragraph A above and in paragraph E below).

D Operating Agreement

The Operating Agreement was entered into on 9 August 2007 between the Company and the Secretary for Transport and Housing for and on behalf of Government as contemplated in the MTR Ordinance.

The Operating Agreement is based on the previous Operating Agreement which was signed on 30 June 2000. The Operating Agreement differs from the previous Operating Agreement to provide for, amongst other things, the nature of the combined MTRC railway and KCRC railway. The Operating Agreement includes terms relating to:

- the extension of the Company's franchise under the MTR Ordinance;
- the design, construction and maintenance of the railway;
- passenger services;
- a framework for the award of new projects and the operation and ownership structure of new railways;
- the adjustment mechanism to be applied to certain of the Company's fares; and
- compensation which may be payable under the MTR Ordinance to the Company in relation to a suspension, expiry or termination of the franchise.

Under the Operating Agreement, the fare adjustment mechanism is subject to review periodically. The first of such reviews was undertaken in 2013 and the second was conducted in 2017. The Company and Government agreed on 16 April 2013 to amend the fare adjustment mechanism. On 21 March 2017, the Company announced that it and Government had agreed to maintain the fare adjustment mechanism formula and direct-drive nature of such formula, save for certain consequential changes as a result of the review of the formula having been advanced by one year. In addition, the wider terms of the Operating Agreement are subject to review every five years and such a review was also undertaken in 2013. As a result of such review, the Company and Government agreed measures in enhancing communication and liaison on operational arrangements.

On 23 August 2018, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the AOA to amend and supplement the Integrated Operating Agreement dated 9 August 2007, as amended, in order to prescribe the operational requirements that would apply to the Express Rail Link. Further details are set out in the section above headed "III Continuing Connected Transactions relating to the Operation of the Express Rail Link" in the section headed "Continuing Connected Transactions".

E Additional Property Package Agreements

Category 1A Properties

The Category 1A Properties are held by the KCRC Subsidiaries. Under the terms of the Sale and Purchase Agreement, the Company acquired from KCRC the shares in the KCRC Subsidiaries (and thereby indirectly acquired the "Category 1A Properties").

Category 1B Properties

On 9 August 2007, KCRC and the Company entered into an agreement for sale and purchase under which KCRC agreed to assign certain properties (the "Category 1B Properties") to the Company on the Merger Date. The relevant assignment was executed between KCRC and the Company on 2 December 2007.

Category 4 Properties

On 9 August 2007, Government entered into an undertaking that it would, within periods to be agreed between the Company and Government, offer to the Company a private treaty grant in respect of certain development sites (the "Category 4 Properties"). The terms of each private treaty grant shall generally be determined by Government, and the premium for each private treaty grant shall be assessed on a full market value basis ignoring the presence of the railway other than the Tin Shui Wai Terminus, Light Rail, Yuen Long, New Territories.

On 9 August 2007, the Company issued a letter to KCRC confirming that, if there should be any railway premises on the Category 4 Properties, the Company would assign the railway premises to KCRC.

Metropolis Equity Sub-participation Agreement

The Metropolis Equity Sub-participation Agreement was entered into on 9 August 2007 between KCRC and the Company. KCRC is obliged to act on the Company's instructions, and pay to the Company any distributions, or proceeds of sale, relating to its shareholding in the property management company The Metropolis Management Company Limited ("Metropolis"). The issued share capital of Metropolis is 25,500 A shares (which are held by KCRC) and 24,500 B shares (which are held by Cheung Kong Property Management Limited). Metropolis' business is property management.

F Application of Merger-related Waiver

In relation to the Operating Agreement and the Service Concession Agreement, pursuant to paragraph A of the Merger-related Waiver, the Stock Exchange granted a waiver to the Company from strict compliance with all the continuing connected transaction requirements of Chapter 14A of the Listing Rules.

CAPITAL AND REVENUE EXPENDITURE

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. All project expenditures over 0.2% of the net assets of the Company and the employment of consultancy services over 0.1% of the net assets of the Company require the approval of the Board.

REPORTING AND MONITORING

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board. Monthly results of the Company's operations, businesses and projects are reported against the budget to the Board and updated forecasts for the year are prepared regularly.

TREASURY MANAGEMENT

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt portfolio with reference to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debt, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's financing requirements and the market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's exposure to interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

Major financing transactions and guidelines for derivatives transactions, including the credit risk management framework, are approved at the Board level.

COMPUTER PROCESSING

There are defined procedures, controls and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2015. Disaster recovery rehearsal on critical applications is conducted annually. For cyber security, the Company has been certified with ISO 27001:2013 on the Information Security Management System that complies with the required standard for the comprehensive scope of IT services operation. The Corporate Cyber Security Committee sets the direction, strategy, and policies related to cyber security for the Company. It steers and oversees the management and performance of all matters relating to cyber security. Various security controls have been implemented and are reviewed regularly to protect the Company from cyber-attacks.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, subject to the statutes, the Company will indemnify every Director of the Company out of its own assets against any liability incurred by him/her in the execution of his/her office in defending any civil or criminal proceedings. The relevant Article was in force during the year ended 31 December 2018 and on 7 March 2019 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 211 to 306 have been prepared on a going concern basis. The Board has reviewed the Group's budget for 2019, 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 2019

DIRECTORS OF SUBSIDIARY UNDERTAKINGS

The directors of the subsidiary undertakings of the Company during the year and up to the date of this Report (unless otherwise stated) are listed below:

Name	Director	Alternate Director
Azzi, Ron	√	
Bailie, William Paul	√	
Bourke, Chris	√	
Breslin, Malachy	√	
Butcher, Stephen Anthony*		√
Chan Chi-fai, Andrew*	√	
Chan Chi-kun	√	
Chan Wai-man, Raymond*	√	√
Chan Yuen-ping*	√	
Dr Chan Yuen Tak-fai, Dorothy	√	
Cheng Ka-lai, Lily*	√	
Cheng Wai-ching, Margaret*	√	
Cheung Man-ki*	√	
Cheung Siu-wa, Morris*	√(Resigned)	
Cheung Yiu-tong*	√	
Choi Tak-tsan*		√
Chow Chiu-wai*		√
Chow Chun-ling*	√	
Chu Fung-kuen, Margaret	√	
Collis, Charles G.	√	
Damm, Bo Fredrik	√	
Downie, Brian Francis*	√	√
Eldon, David Gordon*	√	
Espinoza Ceballos, Natalia		√
Dr Ewen, Peter Ronald	√	
Dr Fong Ching, Eddy	√	
Fu Oi-yu*	√	
Fung Wai-yee*	√	
Hamilton, Alexander Reid*	√(Resigned)	
Hayward, Darren	√	
Hellners, Karl Erik Hjalmar*	√	
Ho Ho-wai, Roger*	√	
Ho Ka-wa*	√	
Ho Sai-kei, William*	√	
Ho Yuk-wing*		√
Hor Wai-hong	√	
Houghton, Michael David	√(Resigned)	
Hui Leung-wah, Herbert*	√	
Jackson, David	√	
Jensen, Frederik Mark*	√	
Jiang Guojuan	√(Resigned)	
Jim Kwok-wah*	√	√
Johnson, Glenn H.		√(Resigned)
Jones, Niel L.		√
Dr Kam Chak-pui, Jacob*	√	
Kam Chi-sum*	√	
Kee Wing-man, Denise		√(Resigned)
Keefe, Richard Michael*	√(Resigned)	
Kennedy , Paul Michael*	√	
Kwan Mun-yee, Stella*	√(Resigned)	
Kwok Ka-keung*		√
Kwok Lai-kay, Lena*	√	√
Kwong Chung-hing*		√
Lai Ching-kai	√	
Lau Ping-cheung, Kaizer	√	
Lau Tin-shing, Adi*	√	
Lau Wai-ming*	√	
Law Sui-wah*	√(Resigned)	
Lee Kar-yun*	√	
Lee Wai-ying	√	
Lee Yuen-ling*	√	
Leong Kwok-kuen, Lincoln*	√	

Name	Director	Alternate Director
Leung Cho-tak, Joseph*		√
Leung Kwong-ho*	√	
Leung Nga-yee, Theresa*	√(Resigned)	
Leung Ping-kin	√(Resigned)	
Leung Yiu-fai, David	√	
Lezala, Andrew Peter*	√(Resigned)	
Li Sau-lin, Linda*		√
Lo Yiu-cho		√
Long, Jeremy Paul Warwick*	√	
Luk Koon-hoo*	√	
Lung Tze-ho*	√	√
Luo Jiancheng	√	
Professor Ma Si-hang, Frederick	√	
McCusker, Andrew*	√	
McKenzie, Andrew Charles*		√
Meller, Gillian Elizabeth*	√	
Meyer, Peter*	√	
Moros, Tony Antonio	√	
Mortier, Jeremy*	√	
Murphy, Stephen John	√	
Mylvaganam, Deva Rajan*	√	
Nelson, Michael John*	√	
Ng Chi-kwong*	√	
Nilsson, Per Håkan Lennart*	√	
Norris, Mark Frederick*	√	
O'Flaherty, Raymond Anthony	√	
Olsen, Scott	√	
Oscarsson, Karl Johan	√	
Pang Hoi-hing*	√	
Pira, Tomas*	√(Resigned)	
Qian Yu-hong	√	
Rooney, Aidan Gerald*	√(Resigned)	
Rubalcaba, Raquel	√	
Seabury, Gary George*		√(Resigned)
Seto Siu-wah, Lisa*	√	√
Shao Jianming	√	
Shen Linchong	√	
Suen Yiu-tat	√	
Tang Chi-fai, David*	√	√
Viinapuu, Hans Peter*	√(Resigned)	
Wan Chi-wah	√(Resigned)	
Warren, Nicholas P.	√(Resigned)	
Waymark, Leah Nicole	√	
Wennerberg, Matti Sigfrid Hasse	√	
Wong Chi-chung	√(Resigned)	
Dr Wong Chi-yun, Allan	√	
Wong Ho-leung*	√	
Wong Kin-wai*	√	
Wong Kwan-wai, Sammy*	√	
Wong Ping-sau*	√	
Wong Wing-kin	√	
Wood, Martin	√	
Xia Jing	√	
Xu Muhan*	√	
Yam Pak-nin*	√	√
Yeung Mei-chun, Jeny*	√	
Yip King-sang, Andy*	√	
Young Ka-fan, Glen		√
Yu Hon-kit, Henry	√(Resigned)	
Yuen Lai-ki*	√	
Yuen Lap-hang	√	√(Resigned)
Zhu Chunlei	√	

* *Person who serves as a director and/or an alternate director in more than one subsidiary undertaking.*

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 211 to 306, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated accounts* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of our audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Railway construction in progress under entrustment by the HKSAR Government	
Refer to note 23 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 HSR") and the Shatin to Central Link ("the SCL"). As the HKSAR Government is the owner of both the HSR 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. **HSR** Pursuant to an agreement entered into with the HKSAR Government on 30 November 2015, the Group will bear and finance project costs for the HSR (including the Group's project management fees) 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 HSR entrustment agreements, the Group's liability for such costs is currently limited to the amount of the project management fees and certain other additional fees received by the Group under the agreements. In September 2018, construction of the HSR was completed following which commercial operations commenced. However, the total project costs can only be ascertained upon finalisation of all construction contracts which may take several years to reach agreement and settlement. Management has engaged an independent expert to provide an independent assessment of management's estimate of cost to complete the HSR project. As at 31 December 2018, the Group has made a provision for project management costs as it estimated that the total costs to complete its performance obligations under the HSR entrustments are likely to exceed the project management fees from the HKSAR Government. **SCL** In December 2017, the Group completed a detailed review of the estimated costs to complete for the SCL under the entrustment agreement for the construction and commissioning of the SCL dated 29 May 2012 ("SCL Entrustment Agreement"). Following the review, the latest cost estimate has been increased from HK$70.83 billion to HK$87.33 billion and was submitted to the HKSAR Government for review. In mid-2018, allegations concerning workmanship and timely reporting of certain construction matters were made in relation to the SCL. A Commission of Inquiry ("COI") was set up by the HKSAR Government to investigate, inter-alia, certain constructions works at the Hung Hom Station extension. At the same time, the Group is in the process of carrying out verification works and assessing the overall structure integrity and safety of the Hung Hom Station extension. The above matters are ongoing and the timing of their ultimate resolution and the financial impact to the Group are highly uncertain at this stage. In the event that the Group is found to be liable under the SCL Entrustment Agreement, the Group's liability is currently limited to a cap equal to the aggregate fees received by the Group under the relevant SCL agreements. However, such cap could not be relied upon if the Group were, in accordance with general principles of law, found to be liable for any loss that had been caused by the fraudulent or other dishonest conduct of its employees or agents. 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 HSR and SCL projects, including: (a) For the HSR, the forecast total project costs, assessment of contract claims, estimate of further internal costs to be incurred and assessment of the financial implications of the project for the Group; (b) For the SCL, the costs incurred to date, remaining critical milestones and estimated costs to complete including contract claims, latest status of the COI and its findings to date and the assessment of the financial implications of the project for the Group; • assessing the design and implementation of management's key internal controls over the determination of the project costs for the HSR and SCL and the allocation of costs to each of these projects; • evaluating the qualifications, experience, expertise, independence and objectivity of the independent expert engaged by management for the HSR; • discussing with the independent expert the forecast total project costs for the HSR project and the risk of these exceeding HK$84.42 billion; • comparing, on a sample basis, the project costs for the HSR/SCL as assessed by management and, for the HSR, as assessed by the independent expert, with relevant underlying documentation; • comparing costs, on a sample basis, incurred during the current year in respect of the HSR and SCL with underlying contracts and interim or final payment certificates; • holding discussions with management and the Group's external legal advisors to assess the Company's legal obligations and financial exposure in connection with the HSR and SCL 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 HSR 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 2018 was HK$82,676 million, with a revaluation gain for the year ended 31 December 2018 recorded in the consolidated profit and loss account of HK$4,745 million. The Group's IP, which are mainly 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(ii)	
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 2018 totalled HK$129,015 million and the related depreciation and amortisation charge for the year ended 31 December 2018 amounted to HK$5,282 million. The carrying values of these assets are reviewed annually by management for potential indicators of impairment. For assets where such indicators exist, management performs detailed impairment reviews, taking into account, inter alia, the impact of revenue assumptions and technical factors which may affect the expected remaining useful lives and carrying value of the assets. We identified the potential impairment of fixed assets other than assets carried at revalued amounts as a key audit matter because the assessment can involve a significant degree of management judgement in determining the key assumptions such as expected revenue levels.	Our audit procedures to assess the potential impairment of fixed assets other than assets carried at revalued amounts included the following: • obtaining, discussing with management and evaluating the key assumptions underlying management's assessment of potential impairment of these assets; • where potential indicators of impairment were identified, evaluating management's impairment assessments and the assumptions adopted therein, including revenue assumptions, with reference to the actual revenue levels achieved in the current year, future operating plans and broader city specific developments; • assessing the discount rates adopted by management in the impairment assessments by comparison with available financial information of other similar companies taking into account regional and industry specific risk premiums; • comparing the assumptions adopted in the prior year's impairment assessments with actual results for the current year, investigating significant variances identified and considering the impact on the current year's impairment assessments; and • performing sensitivity analyses for the discount rates applied and the assumptions for revenue levels adopted and considering the information used to derive the most sensitive assumptions and whether there were any indicators of management bias in their selection.

Information other than the consolidated accounts and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated accounts and our auditor's report thereon.

Our opinion on the consolidated accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated accounts

The directors are responsible for the preparation of the consolidated accounts that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounts.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Melissa M C Wu.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
7 March 2019

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December in HK$ million	Note	2018	2017
Revenue from Hong Kong transport operations	4	**19,490**	18,201
Revenue from Hong Kong station commercial businesses	5	**6,458**	5,975
Revenue from Hong Kong property rental and management businesses	6	**5,055**	4,900
Revenue from Mainland of China and international railway, property rental and management subsidiaries	7	**20,877**	17,194
Revenue from other businesses	8	**1,990**	2,174
		53,870	48,444
Revenue from Mainland of China property development	7	**60**	6,996
		53,930	55,440
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses	9A	**(5,847)**	(5,748)
– Energy and utilities		**(1,670)**	(1,543)
– Operational rent and rates		**(117)**	(242)
– Stores and spares consumed		**(559)**	(553)
– Maintenance and related works	9B	**(1,638)**	(1,436)
– Railway support services		**(380)**	(284)
– General and administration expenses		**(769)**	(607)
– Other expenses		**(339)**	(313)
		(11,319)	(10,726)
Expenses relating to Hong Kong station commercial businesses		**(567)**	(501)
Expenses relating to Hong Kong property rental and management businesses		**(813)**	(802)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	7	**(20,001)**	(16,244)
Expenses relating to other businesses		**(2,004)**	(2,162)
Project study and business development expenses	9C	**(323)**	(332)
		(35,027)	(30,767)
Expenses relating to Mainland of China property development	7	**(35)**	(4,682)
Operating expenses before depreciation, amortisation and variable annual payment	9D, E&F	**(35,062)**	(35,449)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment			
– Arising from recurrent businesses		**18,843**	17,677
– Arising from Mainland of China property development		**25**	2,314
		18,868	19,991
Profit on Hong Kong property development	11	**2,574**	1,097
Operating profit before depreciation, amortisation and variable annual payment		**21,442**	21,088
Depreciation and amortisation	12	**(4,985)**	(4,855)
Variable annual payment		**(2,305)**	(1,933)
Operating profit before interest and finance charges		**14,152**	14,300
Interest and finance charges	13	**(1,074)**	(905)
Investment property revaluation	19	**4,745**	6,314
Share of profit or loss of associates and joint venture	27	**658**	494
Profit before taxation		**18,481**	20,203
Income tax	14A	**(2,325)**	(3,318)
Profit for the year		**16,156**	16,885
Attributable to:			
– Shareholders of the Company		**16,008**	16,829
– Non-controlling interests		**148**	56
Profit for the year		**16,156**	16,885
Profit for the year attributable to shareholders of the Company:			
– Arising from recurrent businesses		**9,020**	8,580
– Arising from property development		**2,243**	1,935
– Arising from underlying businesses		**11,263**	10,515
– Arising from investment property revaluation		**4,745**	6,314
		16,008	16,829
Earnings per share:	16		
– Basic		**HK$2.64**	HK$2.83
– Diluted		**HK$2.64**	HK$2.82

The notes on pages 216 to 306 form part of the accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December in HK$ million	Note	**2018**	2017
Profit for the year		**16,156**	16,885
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		**519**	253
– Remeasurement of net liability of defined benefit schemes		**(348)**	838
		171	1,091
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of subsidiaries, associates and joint venture outside Hong Kong		**(761)**	981
– non-controlling interests		**(22)**	16
– Cash flow hedges: net movement in hedging reserve		**(27)**	(149)
		(810)	848
		(639)	1,939
Total comprehensive income for the year		**15,517**	18,824
Attributable to:			
– Shareholders of the Company		**15,391**	18,752
– Non-controlling interests		**126**	72
Total comprehensive income for the year		**15,517**	18,824

The notes on pages 216 to 306 form part of the accounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in HK$ million	Note	**At 31 December 2018**	At 31 December 2017
Assets			
Fixed assets			
– Investment properties	19	**82,676**	77,086
– Other property, plant and equipment	20	**102,776**	102,889
– Service concession assets	21	**30,473**	29,797
		215,925	209,772
Property management rights	22	**26**	26
Goodwill		**58**	63
Property development in progress	24A	**14,840**	14,810
Deferred expenditure	25	**1,878**	710
Interests in associates and joint venture	27	**8,756**	6,838
Deferred tax assets	40B	**121**	69
Investments in securities	28	**294**	443
Properties held for sale	29	**1,369**	1,347
Derivative financial assets	30	**61**	168
Stores and spares	31	**1,673**	1,540
Debtors and other receivables	32	**9,576**	7,058
Amounts due from related parties	33	**2,088**	2,570
Cash, bank balances and deposits	34	**18,022**	18,354
		274,687	263,768
Liabilities			
Bank overdrafts	35A	**–**	4
Short-term loans	35A	**4,424**	325
Creditors and other payables	36	**25,947**	28,166
Current taxation	40A	**1,161**	1,080
Amounts due to related parties	37	**2,676**	2,226
Loans and other obligations	35A	**35,781**	41,714
Obligations under service concession	38	**10,409**	10,470
Derivative financial liabilities	30	**545**	451
Loan from holders of non-controlling interests	39	**146**	146
Deferred tax liabilities	40B	**12,979**	12,760
		94,068	97,342
Net assets		**180,619**	166,426
Capital and reserves	41		
Share capital		**57,970**	52,307
Shares held for Executive Share Incentive Scheme		**(265)**	(173)
Other reserves		**122,742**	114,170
Total equity attributable to shareholders of the Company		**180,447**	166,304
Non-controlling interests		**172**	122
Total equity		**180,619**	166,426

Approved and authorised for issue by the Members of the Board on 7 March 2019

Frederick S H Ma Chairman	Lincoln K K Leong Chief Executive Officer	Herbert L W Hui Finance Director

The notes on pages 216 to 306 form part of the accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

				Other reserves							
for the year ended 31 December in HK$ million	Note	Share capital	Shares held for Executive Share Incentive Scheme	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total equity attributable to shareholders of the Company	Non-controlling interests	Total equity
2018											
Balance as at 1 January 2018		**52,307**	**(173)**	**3,296**	**1**	**203**	**(27)**	**110,697**	**166,304**	**122**	**166,426**
Changes in equity for the year ended 31 December 2018:											
– Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**16,008**	**16,008**	**148**	**16,156**
– Other comprehensive income for the year	18	**–**	**–**	**519**	**(27)**	**–**	**(761)**	**(348)**	**(617)**	**(22)**	**(639)**
– Total comprehensive income for the year		**–**	**–**	**519**	**(27)**	**–**	**(761)**	**15,660**	**15,391**	**126**	**15,517**
– 2017 final ordinary dividend	15	**–**	**–**	**–**	**–**	**–**	**–**	**(5,224)**	**(5,224)**	**–**	**(5,224)**
– Shares issued in respect of scrip dividend of 2017 final ordinary dividend	41A	**4,175**	**(4)**	**–**	**–**	**–**	**–**	**–**	**4,171**	**–**	**4,171**
– 2018 interim ordinary dividend	15	**–**	**–**	**–**	**–**	**–**	**–**	**(1,525)**	**(1,525)**	**–**	**(1,525)**
– Shares issued in respect of scrip dividend of 2018 interim ordinary dividend	41A	**1,298**	**(1)**	**–**	**–**	**–**	**–**	**–**	**1,297**	**–**	**1,297**
– Shares purchased for Executive Share Incentive Scheme	41B	**–**	**(239)**	**–**	**–**	**–**	**–**	**–**	**(239)**	**–**	**(239)**
– Vesting and forfeiture of award shares of Executive Share Incentive Scheme	41B	**15**	**152**	**–**	**–**	**(158)**	**–**	**(9)**	**–**	**–**	**–**
– Ordinary dividends paid to holders of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(76)**	**(76)**
– Employee share-based payments		**–**	**–**	**–**	**–**	**110**	**–**	**–**	**110**	**–**	**110**
– Employee share options exercised	41A	**175**	**–**	**–**	**–**	**(13)**	**–**	**–**	**162**	**–**	**162**
Balance as at 31 December 2018		**57,970**	**(265)**	**3,815**	**(26)**	**142**	**(788)**	**119,599**	**180,447**	**172**	**180,619**
2017											
Balance as at 1 January 2017		47,929	(227)	3,043	150	182	(1,008)	99,392	149,461	95	149,556
Changes in equity for the year ended 31 December 2017:											
– Profit for the year		–	–	–	–	–	–	16,829	16,829	56	16,885
– Other comprehensive income for the year	18	–	–	253	(149)	–	981	838	1,923	16	1,939
– Total comprehensive income for the year		–	–	253	(149)	–	981	17,667	18,752	72	18,824
– Special dividend	15	–	–	–	–	–	–	(20)	(20)	–	(20)
– 2016 final ordinary dividend	15	–	–	–	–	–	–	(4,844)	(4,844)	–	(4,844)
– Shares issued in respect of scrip dividend of 2016 final ordinary dividend	41A	3,863	(4)	–	–	–	–	–	3,859	–	3,859
– 2017 interim ordinary dividend	15	–	–	–	–	–	–	(1,500)	(1,500)	–	(1,500)
– Shares issued in respect of scrip dividend of 2017 interim ordinary dividend	41A	137	(1)	–	–	–	–	–	136	–	136
– Vesting and forfeiture of award shares of Executive Share Incentive Scheme	41B	2	59	–	–	(63)	–	2	–	–	–
– Ordinary dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	(102)	(102)
– Increase in non-controlling interests arising from shares issued by a subsidiary		–	–	–	–	–	–	–	–	57	57
– Employee share-based payments		–	–	–	–	119	–	–	119	–	119
– Employee share options exercised	41A	376	–	–	–	(35)	–	–	341	–	341
Balance as at 31 December 2017		52,307	(173)	3,296	1	203	(27)	110,697	166,304	122	166,426

The notes on pages 216 to 306 form part of the accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December in HK$ million	Note	2018		2017	
Cash flows from operating activities					
Cash generated from operations	42	**12,929**		22,239	
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		**645**		588	
Purchase of tax reserve certificates		**(462)**		(1,816)	
Current tax paid					
– Hong Kong		**(1,621)**		(240)	
– Outside Hong Kong		**(541)**		(1,168)	
Net cash generated from operating activities			**10,950**		19,603
Cash flows from investing activities					
Capital expenditure					
– Purchase of assets for Hong Kong transport and related operations		**(5,441)**		(5,226)	
– Shenzhen Metro Longhua Line Project and related operations		**(70)**		(93)	
– Hong Kong railway extension projects		**(416)**		(1,342)	
– Hong Kong and Shenzhen property development		**(515)**		(1,040)	
– Investment property projects and fitting out work		**(450)**		(713)	
– Other capital projects		**(70)**		(109)	
Fixed annual payment		**(750)**		(750)	
Variable annual payment		**(1,933)**		(1,787)	
Receipts in respect of Hong Kong and Shenzhen property development		**4,235**		3,344	
(Increase)/decrease in bank deposits with more than three months to maturity when placed or pledged		**(4,746)**		8,842	
Purchase of investments in securities		**(92)**		(164)	
Proceeds from sale or redemption of investments in securities		**239**		93	
Proceeds from disposal of fixed assets		**5**		5	
Investments in associate and joint venture		**(1,840)**		(310)	
Loan to an associate		**–**		(92)	
Shares issued to and loan from holders of non-controlling interests		**14**		84	
Dividends received from associates		**165**		158	
Net cash (used in)/generated from investing activities			**(11,665)**		900
Cash flows from financing activities					
Proceeds from shares issued under share option schemes		**162**		341	
Purchase of shares for Executive Share Incentive Scheme		**(239)**		–	
Proceeds from loans and capital market instruments		**36,964**		25,424	
Repayment of loans and capital market instruments		**(38,512)**		(23,934)	
Interest and finance charges paid		**(1,147)**		(923)	
Interest received		**305**		345	
Dividends paid to shareholders of the Company		**(1,281)**		(15,358)	
Dividends paid to holders of non-controlling interests		**(76)**		(102)	
Net cash used in financing activities			**(3,824)**		(14,207)
Net (decrease)/increase in cash and cash equivalents			**(4,539)**		6,296
Cash and cash equivalents at 1 January			**13,939**		7,037
Effect of exchange rate changes			**(535)**		606
Cash and cash equivalents at 31 December	34		**8,865**		13,939

The notes on pages 216 to 306 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 2018. 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));
- investments in securities (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 51.

(iii) The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's accounts:

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

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

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

(a) HKFRS 9, *Financial Instruments*

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

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

- Classification of financial assets and financial liabilities

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

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

2 Principal Accounting Policies *(continued)*

A Basis of Preparation of the Accounts *(continued)*

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

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

- Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than the "incurred loss" accounting model in HKAS 39. The ECL model applies to the Group's financial assets measured at amortised cost and contract assets as defined in HKFRS 15 (see note 2A(iii)(b)), but not to the Group's financial assets measured at fair value. For further details on the Group's accounting policy regarding the accounting for credit losses, see note 2H(i).

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

- Hedge accounting

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

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

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

- Timing of revenue recognition

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

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

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

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

- Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2Z) before unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

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

(iv) The Group has not applied any new or revised standard or interpretation that is not yet effective for the current accounting period (note 52).

B Basis of Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint venture (note 2D) made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate.

2 Principal Accounting Policies *(continued)*

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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated profit and loss account and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (note 2D).

Investments in subsidiaries are carried in the Company's statement of financial position at cost less any impairment losses (note 2H(ii)).

D Associates and Joint Ventures

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated accounts of the Group using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets. The Group's share of the post-acquisition results of the investees for the year is recognised in the consolidated profit and loss account, whereas the Group's share of the post-acquisition items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (note 2H(ii)).

2 Principal Accounting Policies *(continued)*

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.

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 policies 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 policy 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.

2 Principal Accounting Policies *(continued)*

F Fixed Assets *(continued)*

Expenditure on repairs or maintenance of an existing fixed asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense in the profit and loss account when incurred.

Gains or losses arising from the retirement or disposal of a fixed asset or an investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed assets revaluation reserve to retained profits and is not re-classified to profit and loss account.

(vii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services, upfront payments and expenditure directly attributable to the acquisition of the service concession up to inception of the service concession are capitalised as service concession assets and amortised on a straight-line basis over the period of the service concession. Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at their present value, calculated using the incremental long term borrowing rate determined at inception as the discount rate, as service concession assets and amortised on a straight-line basis over the period of the service concession, with a corresponding liability recognised as obligations under service concession. Annual payments for the service concession which are not fixed or determinable at inception and are contingent on future revenue are charged to the profit and loss account in the period when incurred.

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenue and costs are recognised in the profit and loss account by reference to the stage of completion at the end of reporting period while the fair value of construction service is capitalised initially as service concession assets in the statement of financial position and amortised on a straight-line basis over the shorter of the assets' useful lives and the period in which the service concession assets are expected to be available for use by the Group.

Expenditure for the replacement and/or upgrade of the assets subject to service concession is capitalised and amortised on a straight-line basis at rates sufficient to write off their cost less their estimated residual value, if any, over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried on the statement of financial position as an intangible asset at cost less accumulated amortisation and impairment losses, if any (note 2H(ii)).

Income and expenditure and assets and liabilities in relation to the operation of the service concessions are accounted for in the Group's and the Company's profit and loss accounts and statements of financial position.

G Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated on the statement of financial position at cost less accumulated amortisation and impairment losses (note 2H(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

H Impairment of Assets

(i) Credit Losses from Financial Instruments, Contract Assets and Lease Receivables

- Policy applicable from 1 January 2018

  For the Group's trade receivables, contract assets and lease receivables, the Group recognises a loss allowance for expected credit losses ("ECL") which is measured at an amount equal to "lifetime ECLs" (which are the losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies). For the Group's other financial assets measured at amortised cost, the loss allowance is measured at an amount equal to "12-month ECLs" (which are losses that are expected to result from possible default events within the 12 months after the reporting date) unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to "lifetime ECLs". Financial assets measured at fair value are not subject to the ECL assessment.

- Measurement of ECLs

  ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

- Significant increases in credit risk

  In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2 Principal Accounting Policies *(continued)*

H Impairment of Assets *(continued)*

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

- Policy applicable prior to 1 January 2018

Prior to 1 January 2018, financial assets not classified as at FVPL were reviewed at the end of each reporting period to determine whether there was objective evidence of impairment. If any such evidence existed, the impairment loss was 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 was material.

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including service concession assets but other than assets carried at revalued amounts);
- property management rights;
- goodwill;
- railway construction in progress;
- property development in progress;
- deferred expenditure; and
- investments in subsidiaries, associates and joint venture.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount for goodwill is estimated annually whether or not there is any indication of impairment.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

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:

2 Principal Accounting Policies *(continued)*

I Depreciation and Amortisation *(continued)*

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	15 – 42 years
Platform screen doors	20 – 35 years
Rail track	15 – 50 years
Environmental control systems, lifts and escalators, fire protection and drainage system	20 – 45 years
Power supply systems	20 – 45 years
Aerial ropeway and cabin	10 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	9 – 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 35 years
Station architectural finishes	20 – 30 years
Fixtures and fittings	10 – 25 years
Maintenance equipment	10 – 40 years
Office furniture and equipment	5 – 15 years
Computer software licences and applications	5 – 10 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	5 – 12 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.

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.

2 Principal Accounting Policies *(continued)*

K Joint Operations *(continued)*

The arrangements entered into by the Group with developers for Hong Kong property development without establishing separate entities are considered to be joint operations in accordance with HKFRS 11, *Joint Arrangements*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. In respect of its interests in such operations, the Group accounts for the purchase consideration of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) paid net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the profit and loss account on the basis of note 2L(iii) after netting off any related balance in property development in progress at that time.

L Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs, acquisition of development rights, aggregate cost of development, borrowing costs capitalised, provisions and other direct expenses are dealt with as property development in progress.

(ii) Payments received from developers in respect of property developments are offset against the amounts in property development in progress attributable to that development. Any surplus amounts of payments received from developers in excess of the balance in property development in progress are transferred to deferred income which is included in creditors and other payables. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

(iii) Profits arising from the development of properties in Hong Kong undertaken in conjunction with property developers are recognised in the profit and loss account as follows:

- where the Group receives payments from developers, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
- where the Group receives a right to a share of the net surplus from the development, the Group's share of the profit is initially recognised once the amounts of revenue (including the fair value of any unsold properties) and costs for the development as a whole can be estimated reliably. The Group's interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2L(v) and included within properties held for sale; and
- where the Group receives a distribution of the assets of the development, profit is recognised based on the fair value of such assets at the time of receipt and after taking into account any outstanding risks and obligations retained by the Group in connection with the development.

Upon recognition of profit, the balance of deferred income or property development in progress relating to that development is credited or charged to the profit and loss account, as the case may be.

(iv) Revenue arising from sales of properties in Mainland of China is recognised when the legal assignment is completed, which is the point in time when the purchaser has the ability to direct the use of the properties and obtain substantially all of the remaining benefits of the properties. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under "Creditors and other payables".

(v) Where properties are held for sale, those properties are stated initially at their cost and subsequently carried at the lower of cost and net realisable value.

For those properties in Hong Kong, cost represents the fair value, as determined by reference to an independent open market valuation, upon the recognition of profits arising from the development as set out in note 2L(iii).

For those properties in Mainland of China, cost is determined by the apportionment of the development costs attributable to the unsold properties.

Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

When properties held for sale are sold, the carrying amount of those properties is recognised to the profit and loss account.

(vi) Where properties under construction are received from a development for investment purpose, these properties are recognised as investment properties at fair value. Further costs incurred in the construction of those assets and the related fitting out costs are capitalised in investment properties.

2 Principal Accounting Policies *(continued)*

M Investments in Securities

Investments in securities (other than investments in its subsidiaries, associates and joint venture) are classified as at fair value through profit or loss ("FVPL"). Changes in the fair value of the investments (including interest) are recognised in profit or loss.

Investments in securities are recognised/derecognised on the date the Group commits to purchase/sell the investments. 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 Contract Assets and Contract Liabilities

A contract asset is recognised when the group recognises revenue (see note 2Z) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 2H(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2Q).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2Z). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2Q).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2Z).

- Policy prior to 1 January 2018

  In the comparative period, contract balances were recorded for construction contracts at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. These net balances were presented under "Debtors and other receivables" or "Creditors and other payables" respectively on a contract-by-contract basis. Progress billings not yet paid by the customer were included under "Debtors and other receivables". Amounts received before the related work was performed were presented under "Creditors and other payables".

P Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value with a maturity at acquisition within three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Q Debtors and Other Receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2O). Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2H(i)).

R Interest-bearing Borrowings

Interest-bearing borrowings are measured 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 using effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for interest and finance charges (see note 2BB).

Subsequent to initial recognition, the carrying amount of interest-bearing borrowings subject to fair value hedges is remeasured and the change in fair value attributable to the risk being hedged is recognised in the profit and loss account to offset the effect of the gain or loss on the related hedging instrument.

S Creditors and Other Payables

Creditors and other payables are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

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 recognised at fair value and are remeasured at their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment; or (3) a hedge of a net investment: to hedge the variability in cash flows of a monetary item that is receivable from or payable to a foreign operation where the settlement for the monetary item is neither planned nor likely to occur in foreseeable future.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income which is accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the profit and loss account in the periods when the hedged item is recognised in the profit and loss account. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the profit and loss account.

(iii) Hedge of a Net Investment

The effective portion of changes in the fair value of derivatives that are designated and qualified as hedges of net investments in foreign operations is recognised in other comprehensive income which is accumulated separately in equity in the exchange reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the profit and loss account as a reclassification adjustment on the disposal or partial disposal of the foreign operation.

(iv) Derivatives That Do Not Qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

U Employee Benefits

(i) Salaries, annual leave, other allowances, contributions to defined contribution retirement schemes, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and other costs of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where these benefits are incurred for staff relating to construction projects, capital works and property developments, they are capitalised as part of the cost of the qualifying assets. In other cases, they are recognised as expenses in the profit and loss account as incurred.

(ii) The Group's net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value, and the fair value of any scheme assets is deducted. The calculation is performed by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme. Service cost and net interest expense/income on the net defined benefit liability/asset are recognised either as an expense in the profit and loss account, or capitalised as part of the cost of the relevant construction projects, capital works or property developments, as the case may be. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a scheme are changed, or when a scheme is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in the profit and loss account or capitalised at the earlier of when the scheme amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/income for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the weighted average duration of the scheme's obligations.

2 Principal Accounting Policies *(continued)*

U Employee Benefits *(continued)*

Remeasurements arising from defined benefit retirement schemes are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise of actuarial gains and losses, the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability/asset) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/asset).

(iii) Equity-settled share-based payments are measured at fair value at the date of grant.

- For share options, the fair value determined at the grant date is recognised as staff costs, unless the relevant employee expenses qualify for recognition as an asset, on a straight-line basis over the vesting period and taking into account the probability that the options will vest, with a corresponding increase in the employee share-based capital reserve within equity. Fair value is measured by use of the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

  During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit and loss account in the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based capital reserve). The equity amount is recognised in the employee share-based capital reserve until either the option is exercised which is transferred to the share capital account or the option is lapsed (on expiry of the share options)/forfeited (when the vesting conditions are not fulfilled) which is released directly to retained profits.
- For award shares under the Executive Share Incentive Scheme (formerly the "2014 Share Incentive Scheme"), the amounts to be expensed as staff costs are determined by reference to the fair value of the award shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the relevant vesting periods, with a corresponding credit to the employee share-based capital reserve under equity.

  For those award shares which are amortised over the vesting periods, the Group reviews its estimates of the number of award shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit and loss account in the year of the review, with a corresponding adjustment to the employee share-based capital reserve. Upon vesting of award shares, the related costs of the vested award shares purchased from the market (the "purchased shares") and shares received in relation to scrip dividend and shares purchased from the proceeds of cash ordinary dividends received (the "ordinary dividend shares") are credited to Shares held for Executive Share Incentive Scheme, with a corresponding decrease in employee share-based compensation reserve for the purchased shares, and decrease in retained earnings for the ordinary dividend shares.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the fair value of the shares determined at the end of each reporting period.

(iv) Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

V Retirement Schemes

The Group operates both defined contribution and defined benefit retirement schemes.

Employer's contributions to defined contribution retirement schemes including MPF Schemes are recognised in the accounts in accordance with the policy set out in note 2U(i).

Employer's contributions paid and payable in respect of employees of defined benefit retirement schemes are calculated annually by independent actuaries in accordance with the Retirement Scheme Rules and provisions of the Occupational Retirement Schemes Ordinance. The pension expenses recognised in the accounts are dealt with in accordance with note 2U(ii).

W Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2 Principal Accounting Policies *(continued)*

W Income Tax *(continued)*

Apart from certain limited exceptions, all deferred tax liabilities and deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried backward or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to the recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2F(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

X Financial Guarantee Contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment to the holder when due in accordance with the original or modified terms of a debt instrument.

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee, after netting off any consideration received or receivable at inception, is initially debited to the profit and loss account and recognised as deferred income within creditors and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in creditors and other payables in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation). To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2H(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

2 Principal Accounting Policies *(continued)*

Y Provisions, Contingent Liabilities and Onerous Contracts

(i) Provisions and Contingent Liabilities

Provisions are recognised when the 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.

(ii) Onerous Contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

Z Revenue Recognition

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. Further details of the Group's revenue and other income recognition policies are as follows:

(i) Fare revenue is recognised when the journey is provided.

(ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased assets. 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 progressively over-time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. 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 are expected to 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.

2 Principal Accounting Policies *(continued)*

DD Segment Reporting

Operating segments, and the amounts of each segment item reported in the accounts, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of businesses and operations in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services and products, the type or class of customers, the methods used to provide the services or distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

EE Related Parties

For the purposes of these accounts, a person, or a close member of that person's family, is related to the Group if that person is a member of the key management personnel of the Group.

An entity is related to the Group if (i) the entity and the Group are members of the same group; (ii) the entity is an associate of the Group; (iii) the entity is a post-employment benefit schemes for the benefit of employees of the Group or of any entity that is a related party of the Group; (iv) an individual who is a related party of the Group has control, joint control, significant influence over that entity or is a member of the key management personnel of that entity; or (v) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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 and Operating Arrangements for High Speed Rail

Rail Merger

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of Kowloon-Canton Railway Corporation ("KCRC") (the "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 MTR railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), extendable pursuant to the provisions of the MTR Ordinance (note 48C);
- 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;
- The SCA also contains clauses that for a grant of service concession by KCRC to the Company in respect of any new project, both parties shall enter into a supplemental service concession agreement for such new project; 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.

3 Rail Merger with Kowloon-Canton Railway Corporation and Operating Arrangements for High Speed Rail *(continued)*

Operating Arrangements for High Speed Rail

On 23 August 2018, the Company entered into a supplemental service concession agreement ("SSCA") with KCRC, to supplement the existing SCA in order for KCRC to grant a concession to the Company in respect of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR"). Key elements of the SSCA included the following:

- The operating period with respect to the High Speed Rail commenced on the Commercial Operation Date of the High Speed Rail (i.e., 23 September 2018) and is for an initial term of 10 years ("Concession Period (High Speed Rail)"). The operating period may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA;
- The SSCA provides for the fixed annual payments and variable annual payments structure for the additional concession payments. The additional concession payments for the High Speed Rail are in addition to, and do not replace, the payments made in respect of the existing KCRC system under the SCA;
- The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the SCA whereby the Company pays to KCRC. For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the High Speed Rail fares received or retained by the Company and revenue derived from businesses related to the High Speed Rail which may include, without limitation, advertising, telecommunications, duty free and kiosk rental;
- The fixed annual payments shall comprise payments from KCRC to the Company which, in aggregate, over the Concession Period (High Speed Rail), will be equal to HK$7,965 million;
- In respect of actual deviations from the current patronage projections for the High Speed Rail, any excess or shortfall in actual patronage greater than 15% in relation to the projected patronage for the High Speed Rail (as at the date of signing the SSCA) will be borne between the Company and KCRC in the proportions of 30% by the Company and 70% by KCRC;
- In respect of actual deviations from the projected patronage (as at the date of signing the SSCA) for the Company's existing cross-boundary services to and from Lo Wu and Lok Ma Chau, and the existing intercity service, the Company may receive two payments from KCRC (in respect of the period from and including the Commercial Operation Date up to and including 31 December 2023 and in respect of the period from and including 1 January 2024 up to and including the day falling immediately before the tenth anniversary of the Commercial Operation Date, respectively) and which will be capped at HK$500 million and HK$1,000 million, respectively;
- The Company will receive reimbursement payments from KCRC on an annual basis in respect of (i) revenue loss resulting from the Mainland Student Ticket Discount and the Mainland Disabled Military/Police Officer Discount programmes adopted by the Mainland operator; and (ii) the proportion of the service fee charged in respect of tickets sold at Hong Kong West Kowloon Station for journeys originating from and terminating at any railway station in the Mainland;
- In addition, KCRC shall reimburse the Company for the pre-operating costs that are agreed between the Company and KCRC, being costs and expenses reasonably incurred by the Company prior to the Commercial Operation Date;
- If the franchise is revoked by Government prior to 31 December 2023, KCRC is required to make a payment to the Company of an amount that is equivalent to the aggregate fixed annual payment payable by KCRC over the ten year life of the concession, reduced pro rata to take account of the time at which termination occurs, and less any amounts of the fixed annual payment already paid to the Company; and
- If the Concession Period (High Speed Rail) expires or is terminated, the Company shall, at no cost to KCRC, redeliver possession of the High Speed Rail concession property.

Under the SSCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the concession property of the High Speed Rail (with any new assets acquired being classified as "additional concession property (High Speed Rail)"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold (High Speed Rail)"), 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.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK$ million	**2018**	2017
Domestic Service	**13,232**	12,840
Cross-boundary Service	**3,472**	3,277
High Speed Rail	**600**	–
Airport Express	**1,156**	1,076
Light Rail and Bus	**723**	707
Intercity Service	**214**	218
Others	**93**	83
	19,490	18,201

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, South Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan Lines. Others include mainly by-law infringement surcharge and Octopus load agent fees.

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK$ million	2018	2017
Duty free shops and kiosks rental	**4,424**	4,143
Advertising	**1,212**	1,071
Telecommunication income	**696**	635
Other station commercial income	**126**	126
	6,458	5,975

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK$ million	2018	2017
Property rental income	**4,748**	4,608
Property management income	**307**	292
	5,055	4,900

7 Revenue and Expenses Relating to Mainland of China and International Subsidiaries

Revenue and expenses relating to Mainland of China and international subsidiaries comprise:

	2018		2017	
in HK$ million	Revenue	Expenses	Revenue	Expenses
Railway-related subsidiaries outside of Hong Kong				
– Melbourne Train	**10,994**	**10,500**	8,673	8,459
– MTR Nordic*	**4,891**	**5,050**	4,982	4,748
– London Crossrail	**1,782**	**1,723**	1,173	1,114
– Shenzhen Metro Longhua Line	**776**	**600**	673	549
– Sydney Metro Northwest	**1,752**	**1,658**	1,351	1,100
– Macau Light Rapid Transit Taipa Line	**529**	**349**	204	156
	20,724	**19,880**	17,056	16,126
Property rental and management businesses in Mainland of China	**153**	**121**	138	118
	20,877	**20,001**	17,194	16,244
Property development in Mainland of China	**60**	**35**	6,996	4,682
Total Mainland of China and international subsidiaries	**20,937**	**20,036**	24,190	20,926

* MTR Nordic comprises the Stockholm Metro, MTR Tech, MTR Express and Stockholm Commuter Rail ("Stockholms pendeltåg") operations in Sweden.

Property development in Mainland of China for the year ended 31 December 2018 included a gain on property of HK$60 million (2017: HK$nil) arising at the point of transfer from properties held for sale to investment properties.

8 Revenue from Other Businesses

Revenue from other businesses comprises incomes from:

in HK$ million	2018	2017
Ngong Ping 360	**476**	263
Consultancy business	**188**	152
Project management for HKSAR Government	**1,293**	1,725
Miscellaneous businesses	**33**	34
	1,990	2,174

9 Operating Expenses

A Total staff costs include:

in HK$ million	2018	2017
Amounts charged to profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**5,847**	5,748
– maintenance and related works for Hong Kong transport operations	**131**	111
– other expense line items for Hong Kong transport operations	**115**	88
– expenses relating to Hong Kong station commercial businesses	**97**	94
– expenses relating to Hong Kong property rental and management businesses	**137**	136
– expenses relating to Mainland of China and international subsidiaries	**8,219**	7,180
– expenses relating to other businesses	**1,797**	2,021
– project study and business development expenses	**358**	363
– profit on Hong Kong property development	**26**	23
Amounts capitalised under:		
– property development in progress	**157**	123
– assets under construction and other projects	**634**	657
– service concession assets	**387**	411
Amounts recoverable	**566**	551
Total staff costs	**18,471**	17,506

Amounts recoverable relate to property management, entrustment works and other agreements.

The following expenditures are included in total staff costs:

in HK$ million	2018	2017
Share-based payments	**110**	119
Contributions to defined contribution retirement schemes and Mandatory Provident Fund	**849**	770
Amounts recognised in respect of defined benefit retirement schemes	**431**	454
	1,390	1,343

B The costs of maintenance and related works for Hong Kong transport operations relate mainly to contracted maintenance and revenue works. Other routine repairs and maintenance works are performed by in-house operations and the costs of which are included under staff costs and related expenses as well as stores and spares consumed.

9 Operating Expenses *(continued)*

C Project study and business development expenses comprise:

in HK$ million	2018	2017
Business development expenses	**305**	303
Miscellaneous project study expenses	**18**	29
	323	332

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	2018	2017
Audit services	**18**	18
Tax services	**2**	2
Other audit related services	**6**	6
	26	26

E The following charges are included in operating expenses:

in HK$ million	2018	2017
Loss on disposal of fixed assets	**45**	44
Derivative financial instruments – transferred (to)/from hedging reserve (note 18B)	**(1)**	2
Unrealised loss on revaluation of investments in securities	**2**	2

F Operating lease expenses charged to the consolidated profit and loss account comprise:

in HK$ million	2018	2017
Shopping centre, office building, staff quarters and bus depot	**113**	103
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for subsidiaries	**1,647**	1,556
	1,760	1,659

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
2018					
Members of the Board					
– Frederick Ma Si-hang	1.7	–	–	–	1.7
– Andrew Clifford Winawer Brandler	0.5	–	–	–	0.5
– Pamela Chan Wong Shui	0.4	–	–	–	0.4
– Dorothy Chan Yuen Tak-fai	0.5	–	–	–	0.5
– Vincent Cheng Hoi-chuen	0.4	–	–	–	0.4
– Anthony Chow Wing-kin	0.5	–	–	–	0.5
– Eddy Fong Ching	0.5	–	–	–	0.5
– James Kwan Yuk-choi	0.5	–	–	–	0.5
– Kaizer Lau Ping-cheung	0.5	–	–	–	0.5
– Rose Lee Wai-mun (appointed on 16 May 2018)*	0.3	–	–	–	0.3
– Lucia Li Li Ka-lai	0.5	–	–	–	0.5
– Alasdair George Morrison (retired on 16 May 2018)**	0.2	–	–	–	0.2
– Abraham Shek Lai-him	0.5	–	–	–	0.5
– Benjamin Tang Kwok-bun	0.4	–	–	–	0.4
– Allan Wong Chi-yun	0.5	–	–	–	0.5
– Johannes Zhou Yuan	0.5	–	–	–	0.5
– James Henry Lau Jr	0.4	–	–	–	0.4
– Secretary for Transport and Housing	0.4	–	–	–	0.4
– Permanent Secretary for Development (Works)	0.4	–	–	–	0.4
– Commissioner for Transport	0.4	–	–	–	0.4
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen	–	9.6	1.5	0.7	11.8
– Jacob Kam Chak-pui	–	6.9	1.1	3.4	11.4
– Margaret Cheng Wai-ching	–	4.8	0.7	2.3	7.8
– Morris Cheung Siu-wa (retired with effect from 17 July 2018)***	–	3.1	0.1	1.1	4.3
– Peter Ronald Ewen	–	4.1	0.6	1.9	6.6
– Herbert Hui Leung-wah	–	4.8	0.7	2.1	7.6
– Adi Lau Tin-shing	–	4.9	–^	2.3	7.2
– Gillian Elizabeth Meller	–	4.3	0.6	2.1	7.0
– Linda So Ka-pik	–	4.0	0.5	2.1	6.6
– David Tang Chi-fai	–	4.9	0.7	2.4	8.0
– Philco Wong Nai-keung (resigned with effect from 7 August 2018)***	–	5.3	0.5	0.4	6.2
– Jeny Yeung Mei-chun	–	4.7	0.7	2.3	7.7
	10.0	61.4	7.7	23.1	102.2

* Rose W M Lee was appointed as a Member of the Board on the date shown in the above table. The amount of her emolument shown in the above table covers the period from the date of her appointment to 31 December 2018.

** Alasdair G Morrison retired as a Member of the Board on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2018 to his retirement date.

*** Morris S W Cheung retired and Philco N K Wong resigned 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 1 January 2018 to the respective dates of retirement or resignation.

^ The total contributions paid by the Company attributable to the financial year ended 31 December 2018 for Adi T S Lau, who participated in MTR Retirement Scheme, was HK$58,901.77.

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
2017					
Members of the Board					
– Frederick Ma Si-hang	1.7	–	–	–	1.7
– Andrew Clifford Winawer Brandler (appointed on 17 May 2017)#	0.3	–	–	–	0.3
– Pamela Chan Wong Shui	0.4	–	–	–	0.4
– Dorothy Chan Yuen Tak-fai	0.5	–	–	–	0.5
– Vincent Cheng Hoi-chuen	0.4	–	–	–	0.4
– Anthony Chow Wing-kin	0.5	–	–	–	0.5
– Eddy Fong Ching	0.5	–	–	–	0.5
– James Kwan Yuk-choi	0.5	–	–	–	0.5
– Kaizer Lau Ping-cheung	0.5	–	–	–	0.5
– Lucia Li Li Ka-lai	0.5	–	–	–	0.5
– Alasdair George Morrison	0.5	–	–	–	0.5
– Ng Leung-sing (retired on 17 May 2017)##	0.2	–	–	–	0.2
– Abraham Shek Lai-him	0.5	–	–	–	0.5
– Benjamin Tang Kwok-bun	0.4	–	–	–	0.4
– Allan Wong Chi-yun	0.5	–	–	–	0.5
– Johannes Zhou Yuan (appointed on 17 May 2017)#	0.3	–	–	–	0.3
– Ceajer Chan Ka-keung (resigned on 4 July 2017)	0.2	–	–	–	0.2
– James Henry Lau Jr (appointed on 4 July 2017)	0.2	–	–	–	0.2
– Secretary for Transport and Housing	0.4	–	–	–	0.4
– Permanent Secretary for Development (Works)	0.4	–	–	–	0.4
– Commissioner for Transport	0.4	–	–	–	0.4
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen	–	9.3	1.4	4.5	15.2
– Jacob Kam Chak-pui	–	6.6	1.0	2.2	9.8
– Margaret Cheng Wai-ching	–	4.6	0.6	1.3	6.5
– Morris Cheung Siu-wa	–	4.6	1.5	1.2	7.3
– Peter Ronald Ewen	–	4.0	0.5	1.1	5.6
– Herbert Hui Leung-wah	–	4.7	0.6	1.1	6.4
– Adi Lau Tin-shing	–	4.7	2.8	1.3	8.8
– Gillian Elizabeth Meller	–	4.2	0.6	1.3	6.1
– Linda So Ka-pik	–	3.7	0.5	1.1	5.3
– David Tang Chi-fai	–	4.5	0.7	1.4	6.6
– Philco Wong Nai-keung	–	5.6	0.8	1.6	8.0
– Jeny Yeung Mei-chun	–	4.5	0.7	1.4	6.6
	9.8	61.0	11.7	19.5	102.0

Andrew C W Brandler and Johannes Y Zhou were appointed as Members of the Board on the date shown in the above table. The amounts of their emoluments shown in the above table cover the period from the date of their appointment to 31 December 2017.

L S Ng retired as a Member of the Board on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2017 to his retirement date.

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

The above emoluments do not include the fair value of share options granted under 2007 Share Option Scheme as well as Award Shares granted under the Executive Share Incentive Scheme.

The director's fees in respect of the office of the Secretary for Transport and Housing (Frank Chan Fan), the office of the Permanent Secretary for Development (Works) (Hon Chi-keung for the period from 1 January 2018 to 12 October 2018 and Lam Sai-hung for the period from 13 October 2018 to 31 December 2018) and the office of the Commissioner for Transport (Mable Chan), 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 James Henry Lau Jr, being the Secretary for Financial Services and the Treasury of the HKSAR Government, was received by the HKSAR Government rather than by the individual personally.

Alternate Directors were not entitled to director's fees.

(ii) Share options were granted to Members of the Executive Directorate under the Company's 2007 Share Option Scheme, which were offered to them on 10 December 2007, 8 December 2008, 12 June 2009, 8 December 2009, 28 June 2010, 16 December 2010, 23 March 2012, 26 April 2013 and 25 October 2013. The entitlements of each of the Members are as follows:

- Lincoln K K Leong was granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010, 201,000 shares on 30 March 2012 and 256,000 shares on 6 May 2013, of which no options were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$nil (2017: HK$nil);
- Jacob C P Kam was granted options in respect of 75,000 shares on 13 December 2007, 65,000 shares each on 8 December 2008 and 14 December 2009, 50,000 shares on 21 July 2010, 170,000 shares on 17 December 2010, 172,000 shares on 30 March 2012 and 202,500 shares on 6 May 2013, of which no options were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$nil (2017: HK$nil);
- Morris S W Cheung was granted options in respect of 65,000 shares each on 12 December 2007, 10 December 2008 and 11 December 2009, 35,000 shares on 21 July 2010, 65,000 shares on 20 December 2010, 122,000 shares on 30 March 2012 and 180,500 shares on 6 May 2013, of which no options were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$nil (2017: HK$nil);
- 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 no options were vested in 2018 (2017: 26,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$nil (2017: HK$7,108);
- Gillian E Meller was granted options in respect of 55,000 shares on 12 December 2007, 70,000 shares on 11 December 2008, 65,000 shares on 10 December 2009, 90,000 shares on 17 December 2010, 158,500 shares on 30 March 2012 and 184,000 shares on 6 May 2013, of which no options were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$nil (2017: HK$nil);
- David C F Tang was granted options in respect of 65,000 shares each on 13 December 2007, 12 December 2008, 15 December 2009 and 17 December 2010, 163,500 shares on 30 March 2012 and 182,500 shares on 6 May 2013, of which no options were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$nil (2017: HK$nil);
- Philco N K Wong was granted options in respect of 70,500 shares on 30 March 2012, 81,000 shares on 6 May 2013 and 83,000 shares on 30 May 2014, of which no options were vested in 2018 (2017: 27,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$nil (2017: HK$7,381), 55,000 options were lapsed/forfeited in 2018 (2017: nil); and
- Jeny M C Yeung was granted options in respect of 75,000 shares on 12 December 2007 and 65,000 shares each on 10 December 2008, 10 December 2009 and 17 December 2010, 161,000 shares on 30 March 2012 and 187,000 shares on 6 May 2013, of which no options were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$nil (2017: HK$nil).

Restricted Shares and Performance Shares were granted to Members of the Executive Directorate under the Company's Executive Share Incentive Scheme on 27 April 2015, 8 April 2016, 19 August 2016, 10 April 2017 and 10 April 2018. Performance Shares offered to Members of the Executive Directorate under such grants, in general, covered a period of three years from the date of grant. The entitlements of each of the Members are as follows:

- Lincoln K K Leong was granted 60,200 Restricted Shares and 255,000 Performance Shares on 27 April 2015, 64,850 Restricted Shares on 8 April 2016, 63,900 Restricted Shares on 10 April 2017 and 73,300 Restricted Shares and 239,950 Performance Shares on 10 April 2018, of which a total of 62,984 Restricted Shares and 232,735 Performance Shares were vested in 2018 (2017: 41,682 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$5.6 million (2017: HK$5.8 million), 22,265 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Jacob C P Kam was granted 22,050 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 21,550 Restricted Shares on 8 April 2016, 22,050 Restricted Shares on 10 April 2017 and 25,550 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 21,883 Restricted Shares and 52,570 Performance Shares were vested in 2018 (2017: 14,533 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$1.6 million (2017: HK$1.6 million), 5,030 Performance Shares were lapsed/forfeited in 2018 (2017: 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)*

- Margaret W C Cheng was granted 71,428 Restricted Shares on 19 August 2016 and 16,950 Restricted Shares, 30,400 Performance Shares on 10 April 2017 and 17,600 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 29,459 Restricted Shares and 27,745 Performance Shares were vested in 2018 (2017: 23,809 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$2.1 million (2017: HK$2.8 million), 2,655 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Morris S W Cheung was granted 28,800 Performance Shares on 27 April 2015, 14,950 Restricted Shares on 8 April 2016, 13,950 Restricted Shares on 10 April 2017 and 8,850 Restricted Shares on 10 April 2018, of which a total of 32,767 Restricted Shares and 26,285 Performance Shares were vested in 2018 (2017: 4,983 Restricted Shares), and the respective fair value of the share-based payments (together with the cash dividend relating to the vested award shares) recognised for the year ended 31 December 2018 was HK$0.8 million (2017: HK$0.9 million), 2,515 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Peter Ronald Ewen was granted 35,700 Performance Shares on 8 April 2016, 15,050 Restricted Shares on 10 April 2017 and 12,250 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which 5,016 Restricted Shares and 32,583 Performance Shares were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$1.1 million (2017: HK$1.0 million), 3,117 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Herbert L W Hui was granted 15,200 Restricted Shares and 30,400 Performance Shares on 10 April 2017 and 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which 5,066 Restricted Shares and 27,745 Performance Shares were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$1.3 million (2017: HK$1.3 million), 2,655 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Adi T S Lau was granted 8,600 Restricted Shares and 12,550 Performance Shares on 27 April 2015, 8,400 Restricted Shares on 8 April 2016, 17,700 Restricted Shares and 25,050 Performance Shares on 10 April 2017 and 16,450 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 11,568 Restricted Shares and 34,316 Performance Shares were vested in 2018 (2017: 5,666 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$1.4 million (2017: HK$1.5 million), 3,284 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Gillian E Meller was granted 16,950 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 17,300 Restricted Shares on 8 April 2016, 16,200 Restricted Shares on 10 April 2017 and 16,050 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 16,816 Restricted Shares and 52,570 Performance Shares were vested in 2018 (2017: 11,416 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$1.3 million (2017: HK$1.4 million), 5,030 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Linda K P So was granted 16,400 Restricted Shares and 44,050 Performance Shares on 8 April 2016, 15,300 Restricted Shares on 10 April 2017 and 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 10,566 Restricted Shares and 40,203 Performance Shares were vested in 2018 (2017: 5,466 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$1.3 million (2017: HK$1.4 million), 3,847 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- David C F Tang was granted 18,450 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 17,950 Restricted Shares on 8 April 2016, 17,250 Restricted Shares on 10 April 2017 and 16,850 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 17,883 Restricted Shares and 52,570 Performance Shares were vested in 2018 (2017: 12,133 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$1.3 million (2017: HK$1.4 million), 5,030 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Philco N K Wong was granted 21,700 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 21,200 Restricted Shares on 8 April 2016, 19,900 Restricted Shares on 10 April 2017 and 21,500 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 20,933 Restricted Shares and 52,570 Performance Shares were vested in 2018 (2017: 14,299 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$0.2 million (2017: HK$1.6 million), 41,835 Restricted Shares and 55,480 Performance Shares were lapsed/forfeited in 2018 (2017: nil); and
- Jeny M C Yeung was granted 19,350 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 18,850 Restricted Shares on 8 April 2016, 17,700 Restricted Shares on 10 April 2017 and 17,350 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 18,633 Restricted Shares and 52,570 Performance Shares were vested in 2018 (2017: 12,733 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK$1.3 million (2017: HK$1.5 million), 5,030 Performance Shares were lapsed/forfeited in 2018 (2017: nil).

None of the Performance Shares awarded to the Members of the Executive Directorate were vested in 2017.

The details of Board Members' and Executive Directorate's interest in the Company's shares are disclosed in the Report of the Members of the Board and note 44.

(iii) For the year ended 31 December 2018, four (2017: 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	**2018**	2017
Base pay, allowances and benefits in kind	**31.1**	29.7
Variable remuneration related to performance	**11.6**	16.6
Retirement scheme contributions	**4.0**	5.4
	46.7	51.7

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

The emoluments of the top 5 highest paid individuals for the year are within the following bands:

	2018	2017
HK$7,500,001 – HK$8,000,000	**3**	–
HK$8,000,001 – HK$8,500,000	**–**	1
HK$8,500,001 – HK$9,000,000	**–**	1
HK$9,500,001 – HK$10,000,000	**–**	2
HK$11,000,001 – HK$11,500,000	**1**	–
HK$11,500,001 – HK$12,000,000	**1**	–
HK$14,500,001 – HK$15,500,000	**–**	1
	5	5

(iv) The aggregate emoluments and share-based payments of Members of the Board and the Executive Directorate for the year was HK$121.5 million (2017: HK$124.2 million).

(v) The Company has a service contract with each of the independent non-executive Directors ("INED")/non-executive Directors ("NED") (including Professor Frederick Ma Si-hang (appointed as non-executive Chairman for 3 years commencing on 1 January 2016) and Mr James Henry Lau Jr. 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 the Company's Articles of Association when applicable. On 19 November 2018, the HKSAR government re-appointed Professor Frederick Ma Si-hang as the non-executive Chairman of the Board of Directors of the Company for six months, with effect from 1 January 2019 to 30 June 2019.

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2018 are set out in the Report of the Members of the Board.

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 44(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 2018 are set out in the Report of the Members of the Board.

Under the Executive Share Incentive Scheme as described in note 44(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 over a pre-determined performance period, 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.

An award of Restricted Shares will vest ratably 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	**2018**	2017
Share of surplus from property development	**2,480**	609
Agency fee and other income from West Rail property development (note 24C)	**139**	535
Overheads and miscellaneous studies	**(45)**	(47)
	2,574	1,097

12 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2018	2017
Depreciation charge on assets relating to:		
– Hong Kong transport operations	**3,673**	3,617
– Hong Kong station commercial businesses	**132**	125
– Hong Kong property rental and management businesses	**12**	11
– Mainland of China and international subsidiaries	**142**	117
– Other businesses	**67**	65
	4,026	3,935
Amortisation charge on:		
– Service concession assets relating to:		
– Rail Merger with KCRC and High Speed Rail	**947**	900
– Mainland of China and international subsidiaries	**445**	447
– Property management rights	**–**	1
	1,392	1,348
– Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(433)**	(428)
	959	920
	4,985	4,855

13 Interest and Finance Charges

in HK$ million	2018		2017	
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments	**1,067**		986	
– Obligations under service concession	**704**		707	
– Other obligations (note 20F)	**22**		21	
Finance charges	**71**		61	
Exchange (gain)/loss	**(159)**		191	
		1,705		1,966
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(96)**		(126)
Derivative financial instruments:				
– Fair value hedges	**27**		(6)	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**18**		4	
– transferred from hedging reserve to offset exchange gain/(loss)	**211**		(235)	
– Hedge of net investments:				
– ineffective portion	**(1)**		1	
		255		(236)
Interest expenses capitalised		**(407)**		(373)
		1,457		1,231
Interest income in respect of:				
– Deposits with banks	**(381)**		(326)	
– Others	**(2)**		–	
		(383)		(326)
		1,074		905

During the year ended 31 December 2018, 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 2.4% to 3.2% per annum (2017: 2.2% to 2.5% per annum).

During the year ended 31 December 2018, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line were HK$96 million (2017: HK$126 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2018, the loss resulting from fair value changes of the underlying financial assets and liabilities being hedged was HK$11 million (2017: HK$103 million) while the loss resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$16 million (2017: HK$109 million of gain), thus resulting in a net loss of HK$27 million (2017: HK$6 million of net gain).

14 Income Tax

A Income tax in the consolidated profit and loss account represents:

in HK$ million	2018	2017
Current tax		
– Hong Kong	**1,933**	1,305
– Outside Hong Kong	**325**	1,650
	2,258	2,955
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(69)**	(47)
	2,189	2,908
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**(102)**	4
– depreciation allowances in excess of related depreciation	**228**	361
– provisions and others	**10**	45
	136	410
	2,325	3,318

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

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant Mainland of China tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions. During the year ended 31 December 2018, Land Appreciation Tax of HK$30 million (2017: HK$735 million) was charged to profit or loss.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2017: 16.5%), while that arising outside Hong Kong is calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The Company purchased tax reserve certificates during the year. Please refer to note 32 to the consolidated accounts for details.

B Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018		2017	
	HK$ million	%	HK$ million	%
Profit before taxation	**18,481**		20,203	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**3,153**	**17.1**	3,615	17.9
Land Appreciation Tax (net of tax effect on deduction of Enterprise Income Tax)	**30**	**0.2**	551	2.7
Tax effect of non-deductible expenses	**464**	**2.5**	685	3.4
Tax effect of non-taxable revenue	**(1,253)**	**(6.8)**	(1,441)	(7.1)
Tax effect of unused tax losses not recognised	**–**	**–**	(45)	(0.2)
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(69)**	**(0.4)**	(47)	(0.2)
Actual tax expenses	**2,325**	**12.6**	3,318	16.5

15 Dividends

During the year, ordinary dividends paid and proposed to shareholders of the Company comprise:

in HK$ million	2018	2017
Ordinary dividends payable attributable to the year		
– Interim ordinary dividend declared HK$0.25 (2017: HK$0.25) per share	**1,526**	1,501
– Final ordinary dividend proposed after the end of reporting period of HK$0.95 (2017: HK$0.87) per share	**5,833**	5,227
	7,359	6,728
Ordinary dividends paid attributable to the previous year		
– Final ordinary dividend of HK$0.87 (2017: HK$0.82 per share attributable to year 2016) per share approved and payable/paid during the year	**5,228**	4,848

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 2018 final ordinary dividend, a scrip dividend option will be offered to all shareholders except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions.

Pursuant to the agreement entered into between the HKSAR Government and the Company dated 30 November 2015 (the "HSR 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 HSR 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 HSR Entrustment Agreement is commenced prior to that date).

Given the Company's independent shareholders gave their approval at the General Meeting held on 1 February 2016 and the approval from HKSAR Legislative Council in respect of the HKSAR Government's additional funding obligations was obtained on 11 March 2016, the Conditions have been satisfied. The first tranche of special dividend was paid on 13 July 2016 and the second tranche was paid on 12 July 2017. There was no scrip alternative for the special dividend. Details are set out in note 23A.

Details of ordinary dividends and special dividend paid to the Financial Secretary Incorporated are disclosed in note 48O.

16 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to shareholders of HK$16,008 million (2017: HK$16,829 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

	2018	2017
Issued ordinary shares at 1 January	**6,007,777,302**	5,905,290,065
Effect of scrip dividend issued	**51,890,075**	42,276,913
Effect of share options exercised	**2,253,653**	6,517,718
Less: Shares held for Executive Share Incentive Scheme	**(5,330,351)**	(4,968,141)
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 31 December	**6,056,590,679**	5,949,116,555

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16 Earnings Per Share *(continued)*

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to shareholders of HK$16,008 million (2017: HK$16,829 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme, which is calculated as follows:

	2018	2017
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 31 December	**6,056,590,679**	5,949,116,555
Effect of dilutive potential shares under the share option scheme	**3,490,644**	6,358,526
Effect of shares awarded under Executive Share Incentive Scheme	**5,820,496**	5,836,521
Weighted average number of shares (diluted) at 31 December	**6,065,901,819**	5,961,311,602

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

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, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section) ("High Speed Rail"), light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of China.

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

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

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

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

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

(vii) Other businesses: Businesses not directly relating to transport operations or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business and the provision of project management services to the 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
2018									
Revenue from contracts with customers within the scope of HKFRS 15	19,490	1,909	307	–	20,652	–	1,974	–	44,332
Revenue from other sources	–	4,549	4,748	–	225	60	16	–	9,598
Total revenue	19,490	6,458	5,055	–	20,877	60	1,990	–	53,930
Operating expenses	(11,319)	(567)	(813)	–	(20,001)	(35)	(2,004)	–	(34,739)
Project study and business development expenses	–	–	–	–	–	–	–	(323)	(323)
Operating profit/(loss) before Hong Kong property development, depreciation, amortisation and variable annual payment	8,171	5,891	4,242	–	876	25	(14)	(323)	18,868
Profit on Hong Kong property development	–	–	–	2,574	–	–	–	–	2,574
Operating profit/(loss) before depreciation, amortisation and variable annual payment	8,171	5,891	4,242	2,574	876	25	(14)	(323)	21,442
Depreciation and amortisation	(4,578)	(174)	(12)	–	(154)	–	(67)	–	(4,985)
Variable annual payment	(1,608)	(692)	(5)	–	–	–	–	–	(2,305)
Operating profit/(loss) before interest and finance charges	1,985	5,025	4,225	2,574	722	25	(81)	(323)	14,152
Interest and finance charges	–	–	–	–	2	134	–	(1,210)	(1,074)
Investment property revaluation	–	–	4,745	–	–	–	–	–	4,745
Share of profit or loss of associates and joint venture	–	–	–	–	437	–	221	–	658
Income tax	–	–	–	(421)	(190)	(69)	–	(1,645)	(2,325)
Profit/(loss) for the year ended 31 December 2018	1,985	5,025	8,970	2,153	971	90	140	(3,178)	16,156
Assets									
Fixed assets	123,185	2,361	82,349	1	7,300	63	666	–	215,925
Other segment assets*	2,572	271	428	1,985	6,810	4,543	1,617	13,194	31,420
Property management rights	–	–	26	–	–	–	–	–	26
Goodwill	–	–	–	–	58	–	–	–	58
Property development in progress	–	–	–	14,840	–	–	–	–	14,840
Deferred expenditure	77	–	41	–	–	–	1,760	–	1,878
Deferred tax assets	–	2	–	–	117	2	–	–	121
Investments in securities	–	–	–	–	–	–	294	–	294
Properties held for sale	–	–	–	1,156	–	213	–	–	1,369
Interests in associates and joint venture	–	–	–	–	7,779	–	977	–	8,756
Total assets	125,834	2,634	82,844	17,982	22,064	4,821	5,314	13,194	274,687
Liabilities									
Segment liabilities	11,132	2,270	2,278	5,498	7,645	920	2,117	51,799	83,659
Obligations under service concession	10,236	–	–	–	173	–	–	–	10,409
Total liabilities	21,368	2,270	2,278	5,498	7,818	920	2,117	51,799	94,068
Other Information									
Capital expenditure on:									
Fixed assets	5,302	379	462	–	139	–	15	–	6,297
Property development in progress	–	–	–	1,121	–	–	–	–	1,121
Non-cash expenses other than depreciation and amortisation	40	2	–	–	1	–	1	–	44

* Other segment assets mainly include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

17 Segmental Information *(continued)*

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligation under the Group's existing contracts is HK$13,053 million. This amount represents revenue expected to be recognised in the future mainly from the fixed annual payments in relation to High Speed Rail under the SSCA, as well as the construction, consultancy and project management contracts entered into with the Group's customers. The Group will recognise the expected revenue in future when or as the work is completed which is expected to occur over the next one to ten years.

The Group has applied the practical expedients in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from certain contracts with customers in existence at the reporting date that are billed based on the performance completed to date or have an original expected duration of one year or less.

					Mainland of China and international affiliates				
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 railway, property rental and management businesses	Mainland of China property development	Other businesses	Un-allocated amount	Total
2017									
Total Revenue	18,201	5,975	4,900	–	17,194	6,996	2,174	–	55,440
Operating expenses	(10,726)	(501)	(802)	–	(16,244)	(4,682)	(2,162)	–	(35,117)
Project study and business development expenses	–	–	–	–	–	–	–	(332)	(332)
Operating profit/(loss) before Hong Kong property development, depreciation, amortisation and variable annual payment	7,475	5,474	4,098	–	950	2,314	12	(332)	19,991
Profit on Hong Kong property development	–	–	–	1,097	–	–	–	–	1,097
Operating profit/(loss) before depreciation, amortisation and variable annual payment	7,475	5,474	4,098	1,097	950	2,314	12	(332)	21,088
Depreciation and amortisation	(4,479)	(163)	(12)	–	(136)	–	(65)	–	(4,855)
Variable annual payment	(1,340)	(589)	(4)	–	–	–	–	–	(1,933)
Operating profit/(loss) before interest and finance charges	1,656	4,722	4,082	1,097	814	2,314	(53)	(332)	14,300
Interest and finance charges	–	–	–	–	(13)	146	–	(1,038)	(905)
Investment property revaluation	–	–	6,314	–	–	–	–	–	6,314
Share of profit or loss of associates and joint venture	–	–	–	–	321	–	173	–	494
Income tax	–	–	–	(181)	(149)	(1,441)	–	(1,547)	(3,318)
Profit/(loss) for the year ended 31 December 2017	1,656	4,722	10,396	916	973	1,019	120	(2,917)	16,885
Assets									
Fixed assets	121,904	2,171	77,148	1	7,760	70	718	–	209,772
Other segment assets*	2,256	239	343	716	5,517	5,380	1,898	13,341	29,690
Property management rights	–	–	26	–	–	–	–	–	26
Goodwill	–	–	–	–	63	–	–	–	63
Property development in progress	–	–	–	14,810	–	–	–	–	14,810
Deferred expenditure	58	–	19	–	–	–	633	–	710
Deferred tax assets	–	2	–	–	64	–	3	–	69
Investments in securities	–	–	–	–	–	–	443	–	443
Properties held for sale	–	–	–	876	–	471	–	–	1,347
Interests in associates and joint venture	–	–	–	–	5,926	–	912	–	6,838
Total assets	124,218	2,412	77,536	16,403	19,330	5,921	4,607	13,341	263,768
Liabilities									
Segment liabilities	9,419	3,242	2,091	8,433	7,675	1,217	2,201	52,594	86,872
Obligations under service concession	10,292	–	–	–	178	–	–	–	10,470
Total liabilities	19,711	3,242	2,091	8,433	7,853	1,217	2,201	52,594	97,342
Other Information									
Capital expenditure on:									
Fixed assets	4,708	315	726	1	190	70	98	–	6,108
Property development in progress	–	–	–	483	–	272	–	–	755
Non-cash expenses other than depreciation and amortisation	38	3	–	–	1	–	2	–	44

* Other segment assets mainly include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

17 Segmental Information *(continued)*

Unallocated assets and liabilities mainly comprise cash, bank balances and deposits, tax reserve certificates, derivative financial assets and liabilities, interest-bearing loans and borrowings, current taxation as well as deferred tax liabilities.

For the year ended 31 December 2018, revenue from one (2017: one) customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue. Approximately 13.76% (2017: 12.22%) of the Group's total revenue was attributable to this customer.

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, property management rights, goodwill, property development in progress, deferred expenditure and interests in associates and joint venture ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment and property development in progress, the location of the proposed capital project in the case of deferred expenditure, the location of the operation to which they are related in the case of service concession assets, property management rights and goodwill, and the location of operation in the case of interests in associates and joint venture.

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

18 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below:

	2018			2017		
in HK$ million	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries, associates and joint venture	**(761)**	**–**	**(761)**	981	–	981
– Non-controlling interests	**(22)**	**–**	**(22)**	16	–	16
	(783)	**–**	**(783)**	997	–	997
Surplus on revaluation of self-occupied land and buildings	**622**	**(103)**	**519**	302	(49)	253
Remeasurement of net liability of defined benefit schemes	**(422)**	**74**	**(348)**	1,004	(166)	838
Cash flow hedges: net movement in hedging reserve (note 18B)	**(32)**	**5**	**(27)**	(181)	32	(149)
Other comprehensive income	**(615)**	**(24)**	**(639)**	2,122	(183)	1,939

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	**2018**	2017
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(260)**	50
Amounts transferred to initial carrying amount of hedged items	**–**	(2)
Amounts transferred (from)/to profit or loss:		
– Interest and finance charges (note 13)	**229**	(231)
– Other expenses (note 9E)	**(1)**	2
	(32)	(181)
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the year	**43**	(7)
– Amounts transferred to profit or loss	**(38)**	39
	(27)	(149)

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 Mainland of China and carried at fair value, are as follows:

	The Group		The Company	
in HK$ million	**2018**	2017	**2018**	2017
At 1 January	**77,086**	70,060	**75,352**	68,517
Additions	**450**	712	**431**	699
Transfer from property held for sale	**395**	–	**–**	–
Change in fair value	**4,745**	6,314	**4,613**	6,136
At 31 December	**82,676**	77,086	**80,396**	75,352
Long leases	**16**	17	**16**	17
Medium-term leases	**82,660**	77,069	**80,380**	75,335
	82,676	77,086	**80,396**	75,352

All investment properties of the Group were revalued at 31 December 2018 and 2017. Details of the fair value measurement are disclosed in note 43. The net increase in fair value of HK$4,745 million (2017: HK$6,314 million) arising from the revaluation has been credited to the consolidated profit and loss account. Investment properties in Hong Kong and Mainland of China are revalued semi-annually by Jones Lang LaSalle Limited and Cushman & Wakefield Limited respectively. Future market condition changes may result in further gains or losses to be recognised through profit and loss account in subsequent periods.

Included in the Group's investment properties as at 31 December 2018, there was HK$395 million (2017: HK$nil) relating to a property in Mainland of China.

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
2018						
Cost or Valuation						
At 1 January 2018	**1,757**	**3,748**	**61,981**	**85,717**	**3,786**	**156,989**
Additions	**–**	**–**	**–**	**229**	**3,201**	**3,430**
Disposals/write-offs	**–**	**–**	**(5)**	**(572)**	**(3)**	**(580)**
Surplus on revaluation	**–**	**486**	**–**	**–**	**–**	**486**
Reclassification within other property, plant and equipment	**–**	**–**	**2**	**(2)**	**–**	**–**
Transfer to additional concession property (note 21)	**–**	**–**	**–**	**(2)**	**(12)**	**(14)**
Other assets commissioned	**–**	**–**	**407**	**1,449**	**(1,856)**	**–**
Exchange differences	**–**	**–**	**–**	**(123)**	**(1)**	**(124)**
At 31 December 2018	**1,757**	**4,234**	**62,385**	**86,696**	**5,115**	**160,187**
At Cost	**1,757**	**–**	**62,385**	**86,696**	**5,115**	**155,953**
At 31 December 2018 Valuation	**–**	**4,234**	**–**	**–**	**–**	**4,234**
Aggregate depreciation						
At 1 January 2018	**306**	**–**	**8,346**	**45,448**	**–**	**54,100**
Charge for the year	**34**	**136**	**520**	**3,336**	**–**	**4,026**
Written back on disposals	**–**	**–**	**(1)**	**(529)**	**–**	**(530)**
Written back on revaluation	**–**	**(136)**	**–**	**–**	**–**	**(136)**
Exchange differences	**–**	**–**	**–**	**(49)**	**–**	**(49)**
At 31 December 2018	**340**	**–**	**8,865**	**48,206**	**–**	**57,411**
Net book value at 31 December 2018	**1,417**	**4,234**	**53,520**	**38,490**	**5,115**	**102,776**
2017						
Cost or Valuation						
At 1 January 2017	1,757	3,566	61,508	84,146	3,297	154,274
Additions	–	–	–	244	2,630	2,874
Disposals/write-offs	–	–	(4)	(461)	(11)	(476)
Surplus on revaluation	–	182	–	–	–	182
Reclassification within other property, plant and equipment	–	–	350	(348)	(2)	–
Transfer to additional concession property (note 21)	–	–	–	(6)	5	(1)
Other assets commissioned	–	–	127	2,010	(2,137)	–
Exchange differences	–	–	–	132	4	136
At 31 December 2017	1,757	3,748	61,981	85,717	3,786	156,989
At Cost	1,757	–	61,981	85,717	3,786	153,241
At 31 December 2017 Valuation	–	3,748	–	–	–	3,748
Aggregate depreciation						
At 1 January 2017	272	–	7,824	42,565	–	50,661
Charge for the year	34	120	526	3,255	–	3,935
Written back on disposals	–	–	(4)	(418)	–	(422)
Written back on revaluation	–	(120)	–	–	–	(120)
Exchange differences	–	–	–	46	–	46
At 31 December 2017	306	–	8,346	45,448	–	54,100
Net book value at 31 December 2017	1,451	3,748	53,635	40,269	3,786	102,889

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
2018						
Cost or Valuation						
At 1 January 2018	**1,757**	**3,748**	**61,981**	**83,029**	**3,698**	**154,213**
Additions	**–**	**–**	**–**	**175**	**3,016**	**3,191**
Disposals/write-offs	**–**	**–**	**(5)**	**(563)**	**(3)**	**(571)**
Surplus on revaluation	**–**	**486**	**–**	**–**	**–**	**486**
Reclassification within other property, plant and equipment	**–**	**–**	**2**	**(2)**	**–**	**–**
Transfer to additional concession property (note 21)	**–**	**–**	**–**	**(2)**	**(12)**	**(14)**
Other assets commissioned	**–**	**–**	**407**	**1,291**	**(1,698)**	**–**
At 31 December 2018	**1,757**	**4,234**	**62,385**	**83,928**	**5,001**	**157,305**
At Cost	**1,757**	**–**	**62,385**	**83,928**	**5,001**	**153,071**
At 31 December 2018 Valuation	**–**	**4,234**	**–**	**–**	**–**	**4,234**
Aggregate depreciation						
At 1 January 2018	**306**	**–**	**8,346**	**44,156**	**–**	**52,808**
Charge for the year	**34**	**136**	**520**	**3,149**	**–**	**3,839**
Written back on disposals	**–**	**–**	**(1)**	**(524)**	**–**	**(525)**
Written back on revaluation	**–**	**(136)**	**–**	**–**	**–**	**(136)**
At 31 December 2018	**340**	**–**	**8,865**	**46,781**	**–**	**55,986**
Net book value at 31 December 2018	**1,417**	**4,234**	**53,520**	**37,147**	**5,001**	**101,319**
2017						
Cost or Valuation						
At 1 January 2017	1,757	3,566	61,508	81,848	3,218	151,897
Additions	–	–	–	64	2,543	2,607
Disposals/write-offs	–	–	(4)	(457)	(11)	(472)
Surplus on revaluation	–	182	–	–	–	182
Reclassification within other property, plant and equipment	–	–	350	(350)	–	–
Transfer to additional concession property (note 21)	–	–	–	(6)	5	(1)
Other assets commissioned	–	–	127	1,930	(2,057)	–
At 31 December 2017	1,757	3,748	61,981	83,029	3,698	154,213
At Cost	1,757	–	61,981	83,029	3,698	150,465
At 31 December 2017 Valuation	–	3,748	–	–	–	3,748
Aggregate depreciation						
At 1 January 2017	272	–	7,824	41,473	–	49,569
Charge for the year	34	120	526	3,098	–	3,778
Written back on disposals	–	–	(4)	(415)	–	(419)
Written back on revaluation	–	(120)	–	–	–	(120)
At 31 December 2017	306	–	8,346	44,156	–	52,808
Net book value at 31 December 2017	1,451	3,748	53,635	38,873	3,698	101,405

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	2018	2017
At net book value		
– long leases	**122**	125
– medium-term leases	**1,295**	1,326
	1,417	1,451

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 48A, 48B and 48C).

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 43. The revaluation surplus of HK$622 million (2017: HK$302 million) and the related deferred tax expenses of HK$103 million (2017: HK$49 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 41F). The carrying amount of the self-occupied land and buildings at 31 December 2018 would have been HK$718 million (2017: HK$744 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$82,676 million (2017: HK$77,086 million) and HK$80,396 million (2017: HK$75,352 million) respectively. The costs of station kiosks of the Group and the Company held for use in operating leases were HK$751 million (2017: HK$733 million) and the related accumulated depreciation charges were HK$452 million (2017: HK$415 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
in HK$ million	2018	2017	2018	2017
Within 1 year	**8,388**	7,852	**7,937**	7,393
After 1 year but within 5 years	**14,627**	15,663	**13,611**	14,566
Later than 5 years	**477**	648	**40**	124
	23,492	24,163	**21,588**	22,083

20 Other Property, Plant and Equipment *(continued)*

E In addition to the leasehold land classified as being held under a finance lease in note 20A above, the Group leases plant and equipment under finance leases expiring in 2024. At the end of the lease term the Group has the option to purchase the leased equipment at a price deemed to be a bargain purchase option. The lease does not include contingent rental.

At the end of the reporting period, the net book value of plant and equipment under finance lease of the Group was HK$410 million (2017: HK$484 million).

F In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars ("Lease Transaction") involving a total original cost of HK$2,562 million and a total net book value of HK$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors based on terms ranging from 21 to 29 years with an obligation to pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at the expiry of the lease term for fixed amounts. Part of the rental prepayments received from the Investors has been invested in debt securities to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. The Group has an obligation to replace these debt securities with other debt securities in the event those securities do not meet certain credit ratings requirements. In addition, the Group has provided standby letters of credit to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms.

The Group retains legal title to the assets and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, an amount of approximately HK$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value of approximately HK$3,533 million in March 2003. This resulted in the Group having received in 2003 an amount of HK$141 million net of costs. As the Group is not able to control the investment account in pursuit of its own objectives and its obligations to pay the lease payments are funded by the proceeds of the above investments, those obligations and investments in the Defeasance Securities were not recognised in March 2003 as liabilities and assets of the Group. The net amount of cash received was accounted for as deferred income by the Group and amortised to the consolidated profit and loss account over the lease period until 2008, when credit ratings of some of these Defeasance Securities were downgraded and subsequently replaced by standby letters of credit, the charge on which had fully offset the remaining balance of the deferred income.

21 Service Concession Assets

Movements and analysis of the Group and the Company's service concession assets are as follows:

The Group

in HK$ million	KCRC Rail Merger: Initial concession property	KCRC Rail Merger: Additional concession property	Additional concession property (High Speed Rail)	Shenzhen Metro Longhua Line	MTR Nordic	London Crossrail	Total
2018							
Cost							
At 1 January 2018	**15,226**	**13,114**	**–**	**9,000**	**84**	**59**	**37,483**
Net additions during the year	**–**	**2,353**	**1**	**63**	**–**	**–**	**2,417**
Disposals	**–**	**(84)**	**–**	**(19)**	**–**	**–**	**(103)**
Transfer from other property, plant and equipment (note 20)	**–**	**14**	**–**	**–**	**–**	**–**	**14**
Exchange differences	**–**	**–**	**–**	**(457)**	**–**	**(3)**	**(460)**
At 31 December 2018	**15,226**	**15,397**	**1**	**8,587**	**84**	**56**	**39,351**
Accumulated amortisation							
At 1 January 2018	**3,070**	**2,242**	**–**	**2,290**	**62**	**22**	**7,686**
Charge for the year	**305**	**641**	**–**	**435**	**3**	**8**	**1,392**
Written-off on disposals	**–**	**(58)**	**–**	**(6)**	**–**	**–**	**(64)**
Exchange differences	**–**	**–**	**–**	**(135)**	**–**	**(1)**	**(136)**
At 31 December 2018	**3,375**	**2,825**	**–**	**2,584**	**65**	**29**	**8,878**
Net book value at 31 December 2018	**11,851**	**12,572**	**1**	**6,003**	**19**	**27**	**30,473**
2017							
Cost							
At 1 January 2017	15,226	10,747	–	8,430	65	53	34,521
Net additions during the year	–	2,440	–	52	18	–	2,510
Disposals	–	(74)	–	(34)	–	–	(108)
Transfer from other property, plant and equipment (note 20)	–	1	–	–	–	–	1
Capitalisation adjustments	–	–	–	(90)	–	–	(90)
Exchange differences	–	–	–	642	1	6	649
At 31 December 2017	15,226	13,114	–	9,000	84	59	37,483
Accumulated amortisation							
At 1 January 2017	2,766	1,697	–	1,723	54	12	6,252
Charge for the year	304	596	–	431	8	8	1,347
Written-off on disposals	–	(51)	–	(12)	–	–	(63)
Exchange differences	–	–	–	148	–	2	150
At 31 December 2017	3,070	2,242	–	2,290	62	22	7,686
Net book value at 31 December 2017	12,156	10,872	–	6,710	22	37	29,797

Shenzhen Metro Longhua Line ("SZL4") forms part of the Shenzhen Metro, which is operated by a wholly-owned subsidiary, MTR Corporation (Shenzhen) Limited ("MTRSZ"). There has been no increase in fare since MTRSZ started operating the line in 2010. However, the Company understands that the Shenzhen Municipal Government is planning for a fare adjustment in the Shenzhen Metro Network and is undergoing the statutory approval process. Based on progress of the fare adjustment made to date, no impairment loss is recognised at 31 December 2018. If appropriate fare adjustments are not implemented, the long-term financial viability of SZL4 is expected to be impacted.

21 Service Concession Assets *(continued)*

The Company

	KCRC Rail Merger			
in HK$ million	Initial concession property	Additional concession property	Additional concession property (High Speed Rail)	Total
2018				
Cost				
At 1 January 2018	**15,226**	**13,082**	**–**	**28,308**
Net additions during the year	**–**	**2,353**	**1**	**2,354**
Disposals	**–**	**(84)**	**–**	**(84)**
Transfer from other property, plant and equipment (note 20)	**–**	**14**	**–**	**14**
At 31 December 2018	**15,226**	**15,365**	**1**	**30,592**
Accumulated amortisation				
At 1 January 2018	**3,070**	**2,242**	**–**	**5,312**
Charge for the year	**305**	**641**	**–**	**946**
Written-off on disposals	**–**	**(58)**	**–**	**(58)**
At 31 December 2018	**3,375**	**2,825**	**–**	**6,200**
Net book value at 31 December 2018	**11,851**	**12,540**	**1**	**24,392**
2017				
Cost				
At 1 January 2017	15,226	10,715	–	25,941
Net additions during the year	–	2,440	–	2,440
Disposals	–	(74)	–	(74)
Transfer from other property, plant and equipment (note 20)	–	1	–	1
At 31 December 2017	15,226	13,082	–	28,308
Accumulated amortisation				
At 1 January 2017	2,766	1,697	–	4,463
Charge for the year	304	596	–	900
Written-off on disposals	–	(51)	–	(51)
At 31 December 2017	3,070	2,242	–	5,312
Net book value at 31 December 2017	12,156	10,840	–	22,996

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. Additional concession property (High Speed Rail) relates to the expenditures for the replacement and/or upgrade of the concession property of High Speed Rail.

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	**2018**	2017
Cost at 1 January and 31 December	**40**	40
Accumulated amortisation		
At 1 January	**14**	13
Charge for the year	**–**	1
At 31 December	**14**	14
Net book value at 31 December	**26**	26

23 Railway Construction Projects under Entrustment by the HKSAR Government

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project

(a) HSR Preliminary Entrustment Agreement: On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the HSR (the "HSR Preliminary Entrustment Agreement"). Pursuant to the HSR Preliminary Entrustment Agreement, the HKSAR Government is obligated to pay the Company the Company's in-house design costs and certain on-costs, preliminary costs and staff costs.

(b) HSR Entrustment Agreement: In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the HSR on the understanding that the Company would subsequently be invited to undertake the operation of the HSR under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the HSR (the "HSR Entrustment Agreement"). Pursuant to the HSR Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the HSR and the HKSAR Government, as owner of HSR, is responsible for bearing and financing the full amount of the total cost of such activities (the "Entrustment Cost") and for paying to the Company a fee in accordance with an agreed payment schedule (the "Project Management Fee") (subsequent amendments to these arrangements are described below). As at 31 December 2018 and up to the date of this annual report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

The HKSAR Government has the right to claim against the Company if the Company breaches the HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the Project Management Fee and any other fees that the Company receives under the HSR Entrustment Agreement and certain fees received by the Company under the HSR Preliminary Entrustment Agreement (the "Liability Cap"). In accordance with general principles of law, such Liability Cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has reserved the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement (as more particularly described in note 23A(c)(iv) below), 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 HSR project needed to be extended, with the target opening of the line for passenger service revised to the end of 2017.

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

- the HSR being completed in the third quarter of 2018 (including programme contingency of six months) (the "HSR Revised Programme"); and
- the total project cost of HK$85.3 billion (including contingency), based on the HSR Revised Programme.

As a result of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "Revised Cost Estimate"). Further particulars relating to the Revised Cost Estimate are set out in notes 23A(c) and (e) below.

(c) HSR Agreement: On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "HSR Agreement") relating to the further funding and completion of the HSR. The HSR Agreement contains an integrated package of terms (subject to conditions as set out in note 23A(c)(vi) below) and provides that:

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

(ii) The Company will, if the project exceeds HK$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "Further Cost Overrun") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the HSR Agreement);

(iii) The Company will pay a Special Dividend in cash of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share in cash in each tranche). The first tranche was paid on 13 July 2016 and the second tranche was paid on 12 July 2017;

(iv) The HKSAR Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement ("Entrustment Agreements") (including any question the HKSAR Government may have regarding the validity of the Liability Cap). The Entrustment Agreements contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under the HSR Entrustment Agreement, the Liability Cap is equal to the Project Management Cost and any other fees that the Company receives under HSR Entrustment Agreement and certain fees received by the Company under the Preliminary Entrustment Agreement. Accordingly, the Liability Cap increases from up to HK$4.94 billion to up to HK$6.69 billion as the Project Management Cost is increased in accordance with the HSR Agreement (as it will be equal to the increased Project Management Cost under the HSR Entrustment Agreement of HK$6.34 billion plus the additional fees referred to above). If the arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:

23 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project *(continued)*

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
- seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;

(v) Certain amendments are made to the HSR Entrustment Agreement to reflect the arrangements contained in the HSR Agreement, including an increase in Project Management Fee payable to the Company under HSR Entrustment Agreement to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations under HSR Entrustment Agreement in relation to HSR project) and to reflect the HSR Revised Programme;

(vi) The arrangements under the HSR Agreement (including the payment of the Special Dividend) were conditional on:

- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and
- HKSAR Legislative Council approval in respect of the HKSAR Government's additional funding obligations.

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

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

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

Having considered the number of contracts yet to be finalised and the contingency allowance currently available, there can be no absolute assurance that the final project cost will not exceed HK$84.42 billion, particularly if unforeseen difficulties arise in the resolution of commercial issues during the process of negotiating the final accounts. In such case, under the terms of the HSR Agreement, the Company will be required to bear and finance the portion of the project cost that exceeds HK$84.42 billion (if any) except for certain agreed excluded costs (as more particularly described in note 23A(c)(ii) above).

(f) The Company has not made any provision in its accounts in respect of:

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe based on information available to date there is any need to revise further the Revised Cost Estimate of HK$84.42 billion. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach agreement and settlement;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in note 23A(c)(iv) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the HSR Agreement, cannot take place until after commencement of commercial operations on the HSR) (as of 31 December 2018 and up to the date of this annual report); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders;

and, where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).

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

23 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project

(a) SCL Preliminary Entrustment Agreement: On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the SCL ("SCL Preliminary Entrustment Agreement"). Pursuant to the SCL Preliminary Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible to fund directly the total cost of such activities.

(b) SCL Advance Works Entrustment Agreement: On 17 May 2011, the Company entered into another entrustment agreement with the HKSAR Government for the financing, construction, procurement of services and equipment and other matters associated with certain enabling works in relation to the SCL ("SCL Advance Works Entrustment Agreement"). Pursuant to the SCL Advance Works Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the agreed works while the HKSAR Government is responsible to bear and pay to the Company all the work costs ("SCL Advance Works Costs").

In August 2015, the Company notified the HKSAR Government that the Company estimated that the cost for the works carried out under the SCL Advance Works Entrustment Agreement will exceed the original estimate of HK$7,350 million. In February 2016, the Company notified the HKSAR Government that the estimated exceedance would be HK$1,267 million (including contingency). In December 2016, the Company completed its review for the project cost estimate of the works under the SCL Advance Works Entrustment Agreement and notified the HKSAR Government of the Company's revised estimate for the entrustment cost for such works of HK$8,617.1 million. In January 2017, the HKSAR Government submitted to the Legislative Council Public Works Subcommittee the application for additional funding needed in excess of amounts retained by the HKSAR Government from the original funding. Such additional funding was approved by Legislative Council Finance Committee in June 2017.

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

The sum entrusted to the Company by the HKSAR Government for the main construction works under the SCL Entrustment Agreement is HK$70,827 million. The Company has previously announced that, due to the continuing challenges posed by external factors, the SCL Cost to Complete ("CTC") would need to be revised upwards significantly.

The Company completed a detailed review of the estimated CTC for the main construction works under the SCL Entrustment Agreement and the latest estimate was submitted to the HKSAR Government for review on 5 December 2017. Taking into account a number of factors, including issues such as archaeological finds, the HKSAR Government's requests for additional scope and late or incomplete handover of construction sites, the Company has increased the latest estimate by HK$16,501 million from HK$70,827 million to HK$87,328 million including an increase in the project management cost payable to the Company, which is subject to agreement and approval processes. Since submission of this latest estimate to the HKSAR Government, the Company has been liaising with the HKSAR Government to facilitate their review and verification process. The Company intends to carry out a further review and revalidation of the CTC (including, without limitation, to take account of the outcome of the verification and assurance works and the associated delays referred to below) within 2019.

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

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

23 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the relevant SCL Agreement or any breach thereof by the Company. Under the SCL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. In accordance with general principles of law, such cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the COI as stated above, up to the date of this annual report, no claim has been received from the HKSAR Government.

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

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

(d) Given:

(i) the SCL Agreements provide that the HKSAR Government shall bear and finance the full amount of the relevant costs to the extent described above;

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

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

where applicable, the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any) arising from the matters described above in light of the significant uncertainties involved, no provision has been made in the Company's accounts in respect of SCL.

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

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

24 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 2018, the outstanding Hong Kong Property Development Projects of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung Kwan O Area 86 (LOHAS Park) and at the ventilation building in Yau Tong, South Island Line Property Project at sites in Wong Chuk Hang, Kwun Tong Line Extension Property Project at sites in Ho Man Tin and the East Rail Line/Light Rail Property Projects at sites along the related railway lines.

In 2011, the Company's two wholly owned subsidiaries, MTR Corporation (Shenzhen) Limited and MTR Property (Shenzhen) Company Limited, won the bid for Lot 1 of the Shenzhen Metro Longhua Line Depot Site. On 3 May 2012, the two subsidiaries established a project company in the Mainland of China, MTR Property Development (Shenzhen) Company Limited, to undertake residential and commercial development of the site ("Shenzhen Property Development Project"). Part of the net profits generated from this property development are shared with the Shenzhen Municipal Government. In 2017, this property development had been completed and the related amount in property development in progress had been transferred out to properties held for sale or to profit or loss.

24 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
2018							
Hong Kong Property Development Projects	**14,810**	**1,121**	**(912)**	**–**	**(179)**	**–**	**14,840**
2017							
Hong Kong Property Development Projects	14,479	483	(152)	–	–	–	14,810
Shenzhen Property Development Project	3,005	272	–	(178)	(3,194)	95	–
	17,484	755	(152)	(178)	(3,194)	95	14,810

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
2018					
Hong Kong Property Development Projects	**14,810**	**1,121**	**(912)**	**(179)**	**14,840**
2017					
Hong Kong Property Development Projects	14,479	483	(152)	–	14,810

Leasehold land in Hong Kong included under property development in progress are held under medium-term leases.

B Stakeholding Funds

Being the stakeholder under certain Airport Railway, Tseung Kwan O Extension and East Rail Line/Kowloon Southern Link Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, are to be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the HKSAR Government Consent Schemes and development agreements. Any balance remaining is to be released for distribution only after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the Group's and the Company's statements of financial position. As at 31 December 2018, the balance of the stakeholding funds was HK$12,075 million (2017: HK$3,950 million).

C West Rail Property Development

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company can receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company can receive 10% of the net profits accrued under the development agreement. The Company can also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During the year ended 31 December 2018, HK$139 million (2017: HK$535 million) agency fee and other income in respect of West Rail property development was recognised (note 11). During the year ended 31 December 2018, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$94 million (2017: HK$102 million).

25 Deferred Expenditure

The Group and The Company

in HK$ million	**2018**	2017
Balance at 1 January	**710**	463
Expenditure during the year	**1,168**	247
Balance at 31 December	**1,878**	710

26 Investments in Subsidiaries

The Company

in HK$ million	**2018**	2017
Unlisted shares or registered capital, at cost	**1,784**	1,455

The following list contains details of subsidiaries as at 31 December 2018 which have been consolidated into the Group's accounts.

		Proportion of ownership interest				
Name of company	Issued and paid up ordinary share capital/ registered capital	Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Subsidiaries held throughout 2018						
Glory Goal Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
Hanford Garden Property Management Company Limited	HK$10,000	100%	100%	–	Hong Kong	Property investment and management
MTR (Estates Management) Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding and property management
MTR Academy Investment Holdings (HK) Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Academy (HK) Company Limited	HK$10,000	100%	–	100%	Hong Kong	Administering the operation of MTR Academy
MTR Australia Investment Holdings (Hong Kong) Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Beijing Line 4 Investment Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Building Works Company Limited	HK$2	100%	100%	–	Hong Kong	General building, maintenance and engineering works
MTR China Commercial Management No. 1 Holdings Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR China Consultancy Company Limited	HK$1,000	100%	100%	–	Hong Kong	Railway consultancy services
MTR China Property Holdings Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR China Property Limited	HK$1,000	100%	100%	–	Hong Kong	Consultancy services in connection with property management
MTR China Services Holding (Hong Kong) Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
MTR Hangzhou Line 1 Investment Company Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Hangzhou Line 5 Investment Holdings (Hong Kong) Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Information Solutions Company Limited	HK$1,000	100%	100%	–	Hong Kong	License MTR software to MTR's subsidiaries and associates
MTR Macau Investment Holdings (Hong Kong) Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR MDP Company Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR MDP Management Company Limited	HK$1,000	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

26 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 Consultancy (Hong Kong) Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Property (Beijing) No. 1 Company Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Property (Shenzhen) Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Property (Tianjin) No. 1 Company Limited	HK$1	100%	–	100%	Hong Kong	Investment holding
MTR Shenzhen Investment Holding Limited	HK$400,000	100%	100%	–	Hong Kong	Investment holding
MTR Shenzhen Line 6 Investment Holding (Hong Kong) Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services
MTR Travel Limited	HK$2,500,000	100%	100%	–	Hong Kong	Tourist services
Ngong Ping 360 Limited	HK$2	100%	100%	–	Hong Kong	Operate the Tung Chung to Ngong Ping cable car system and Theme Village in Ngong Ping
Pierhead Garden Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property investment
Royal Ascot Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
Sun Tuen Mun Centre Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property investment and management
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network and related services
V-Connect Limited	HK$1,000	100%	100%	–	Hong Kong	Mobile telecommunication services
360 Holidays Limited	HK$500,000	100%	–	100%	Hong Kong	Guided tour services
Metro Trains Australia Pty Ltd*	AUD23,750,005	60% on ordinary shares; 30% on Class A shares	–	60% on ordinary shares; 30% on Class A shares	Australia	Investment holding
Metro Trains Melbourne Pty. Ltd.*	AUD39,999,900	60% on ordinary shares; 30% on Class A shares	–	100% on ordinary shares; 100% on Class A shares	Australia	Railway operations and maintenance
Metro Trains Sydney Pty Ltd*	AUD100	60%	–	60%	Australia	Pre-operation mobilisation activities, including design approvals and transition planning for the operation and maintenance of the Sydney Metro Northwest
MTR Corporation (Australia) Pty Limited*	AUD2	100%	100%	–	Australia	Railway related consultancies and business

26 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 (Sydney) NRT Pty Limited	AUD2	100%	–	100%	Australia	Design and delivery of railway related systems
MTR Corporation (Sydney) SMCSW Pty Limited	AUD1	100%	–	100%	Australia	Consultancy services for the Sydney Metro City & Southwest Project
Fasttrack Insurance Ltd.	HK$77,500,000	100%	100%	–	Bermuda	Insurance business
Candiman Limited*	US$1	100%	100%	–	British Virgin Islands	Investment holding
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Financing
MTR Finance Lease (001) Limited	US$1	100%	100%	–	Cayman Islands/ Hong Kong	Financing
MTR Consultadoria (Macau) Sociedade Unipessoal Lda.	MOP25,000	100%	–	100%	Macau	Railway consultancy services
MTR Operações Ferroviárias (Macau) Sociedade Unipessoal Lda. (also known as MTR Railway Operations (Macau) Company Limited)*	MOP25,000	100%	–	100%	Macau	Railway operations, management and technical support services
MTR Express (Sweden) AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management
MTR Nordic AB	SEK40,050,000	100%	–	100%	Sweden	Railway operations and maintenance through one or more subsidiaries, property investment and management
MTR Pendeltågen AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations, maintenance and station management
MTR Tech AB	SEK30,000,000	100%	–	100%	Sweden	Railway maintenance
MTR Tunnelbanan AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance services
MTR Zeta AB	SEK50,000	100%	–	100%	Sweden	Project bidding
MTR (Beijing) Commercial Facilities Management Co., Ltd.	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR (Beijing) Property Services Company Limited*	RMB3,000,000	100%	100%	–	The People's Republic of China	Property management
MTR Commercial Consultancy (Beijing) Company Limited*	RMB8,000,000	100%	–	100%	The People's Republic of China	Commercial consultancy
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

26 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 (Shenzhen) Training Centre*	RMB2,000,000	100%	–	100%	The People's Republic of China	Provision of rail transport training
MTR Enterprise Management (Shenzhen) Corporation Limited^	RMB32,000,000	100%	–	100%	The People's Republic of China	Provision of operation support services
MTR Property Development (Shenzhen) Company Limited	HK$2,180,000,000	100%	–	100%	The People's Republic of China	Property development, operation, leasing, management and consultancy services
MTR Corporation (Crossrail) Limited	GBP1,000,000	100%	–	100%	United Kingdom	Railway operations and maintenance
MTR West Coast Partnership (UK) Limited (formerly known as MTR Corporation (London Overground) Limited)#	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Silverlink) Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
MTR Corporation (Cymru) Limited#	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (UK) Limited	GBP29	100%	100%	–	United Kingdom	Provision of railway support services
MTR Corporation (UK) NRT Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
Subsidiaries established during 2018						
Bay Area Railway Investment (Hong Kong) No. 1 Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
Bay Area Railway Investment (Hong Kong) No. 2 Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Zhejiang Investment Holdings (Hong Kong) Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
Bay Area Railway Property (Foshan) Company Limited*	RMB1,000,000	100%	–	100%	The People's Republic of China	Property development (excluding golf course and villa construction), property consultancy, commercial management and consultancy
South China Bay Area Railway and Property Development (Shenzhen) Company Limited*	RMB500,000	100%	–	100%	The People's Republic of China	Railway and property development consultancy, property management, economic and business information consultancy, enterprise management consultancy
MTR UK Investment Holdings Limited*#	GBP1	100%	100%	–	United Kingdom	Investment holding
MTR West Coast Partnership Limited	GBP100	75%	–	75%	United Kingdom	Project bidding

* Subsidiaries not audited by KPMG
^ Liquidation in progress
# Striking off in progress

MTR Qatar Transit (Hong Kong) Company Limited and MTR Engineering Services Limited were deregistered in April 2018 and June 2018 respectively.

27 Interests in Associates and Joint Venture

	The Group		The Company	
in HK$ million	**2018**	2017	**2018**	2017
Unlisted shares or registered capital, at cost	**–**	–	**24**	24
Share of net assets	**8,756**	6,838	**–**	–
	8,756	6,838	**24**	24

The Group and the Company had interests in the following major associates and joint venture as at 31 December 2018:

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
Associates held throughout 2018						
Octopus Holdings Limited	HK$42,000,000	57.4%	57.4%	–	Hong Kong	Investment holding
NRT Holdings 2 Pty Ltd*	AUD10	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
NRT Holdings Pty Ltd*	AUD10	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
NRT Pty Ltd*	AUD10	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
Emtrain AB	SEK1,000,000	50%	–	50%	Sweden	Railway maintenance
Beijing MTR Corporation Limited	RMB6,380,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Beijing MTR L16 Corporation Limited	RMB5,000,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction and operations
Hangzhou MTR Corporation Limited*	RMB4,540,000,000	49%	–	49%	The People's Republic of China	Railway operations and management
First MTR South Western Trains Limited*	GBP100	30%	–	30%	United Kingdom	Railway operations and management
London Overground Rail Operations Ltd*	GBP2	50%	–	50%	United Kingdom	Railway operations and management
Joint venture held throughout 2018						
Hangzhou MTR Line 5 Corporation Limited	RMB4,360,000,000	60%	–	60%	The People's Republic of China	Railway electrical and mechanical construction, operations and management

* Companies not audited by KPMG

All the associates and joint venture are accounted for using the equity method in the consolidated accounts and considered to be not individually material.

27 Interests in Associates and Joint Venture *(continued)*

The summary financial information of the Group's effective interests in associates and joint venture is as follows:

in HK$ million	**2018**	2017
Assets	**26,061**	22,749
Liabilities	**(17,305)**	(15,911)
Net assets	**8,756**	6,838
Income	**9,340**	6,691
Expenses and others	**(8,412)**	(5,983)
Profit before taxation	**928**	708
Income tax	**(270)**	(214)
Net profit	**658**	494
Other comprehensive income	**(393)**	394
Total comprehensive income	**265**	888

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. Up to the end of December 2018, the Group has contributed equity of RMB1,031 million to Beijing MTR in respect of Beijing Metro Line 14. The first three phases of Beijing Metro Line 14 opened in May 2013, December 2014 and December 2015 respectively. In accordance with the Operation & Maintenance Service Agreement, Beijing MTR is assigned the rights to operate Beijing Metro Line 14 from May 2013 to 30 December 2015. As part of the concession agreement, Beijing MTR would also undertake the operations and maintenance of Beijing Metro Line 14 for a term of 30 years effective 31 December 2015.

In July 2015, Beijing MTR 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 tentative full line operation is targeted in 2021.

On 23 March 2017, MTR Property (Tianjin) No.1 Company Limited ("MTR TJ No.1") entered into a Framework Agreement comprising, inter alia, a Share Transfer Agreement, with Tianjin Xingtai Jihong Real Estate Co., Ltd. ("TJXJRE"), a wholly-owned subsidiary of Beijing Capital Land Ltd., for the disposal of MTR TJ No.1's 49% equity interest in Tianjin TJ – Metro MTR Construction Company Limited ("Tianjin TJ – Metro MTR") at a consideration of RMB1.3 billion; and MTR TJ No.1's conditional future acquisition of a shopping centre to be developed on the same site at a consideration of RMB1.3 billion subject to the agreement of Tianjin TJ – Metro MTR. The disposal was completed on 10 July 2017 and consequently a prepayment is recognised on the consolidated statement of financial position. A performance bond in the amount of RMB1.6 billion issued by a Hong Kong licensed bank has been provided by TJXJRE to MTR TJ No.1 to guarantee its obligations under the Framework Agreement.

In September 2014, NRT Pty. Limited entered into a contract with New South Wales Government in Australia for the Operations, Trains and Systems ("OTS") contract of the Sydney Metro Northwest. The OTS contract is a PPP project covering major parts of the design, construction and financing of the Sydney Metro Northwest as well as the operations and maintenance of the new line for a period of 15 years. NRT Pty. Limited sub-contracted the design and delivery of electrical and mechanical systems and rolling stock to a joint operation in which MTR Corporation (Sydney) NRT Pty. Limited, a wholly owned subsidiary of the Group, has 60% interest. In addition, NRT Pty. Limited sub-contracted the operations and maintenance of the Sydney Metro Northwest to Metro Trains Sydney Pty. Limited, a 60%-owned subsidiary of the Group. The Group's share of investment in NRT Holdings 2 Pty Ltd is expected to represent equity contribution of approximately AUD27.8 million and loans to NRT Holdings 2 Pty Ltd of approximately AUD34.8 million. The Group contributed equity of AUD3.6 million and loans of AUD22.3 million to NRT Holdings 2 Pty Ltd in 2018.

In November 2015, a 5.7-kilometre 3-station extension of Hangzhou Metro Line 1 ("HZL1") commenced passenger service. After the opening of HZL1 extension, HZL1 now has 34 stations covering 54 km. Hangzhou MTR Corporation Limited ("Hangzhou MTR") was granted the operation and maintenance concession of HZL1 for a period of 25 years.

In March 2017, First MTR South Western Trains Limited was awarded a franchise to operate and maintain the South Western rail ("SWR") from 20 August 2017 for a seven-year franchise period by the United Kingdom's Department for Transport. The franchise includes an option for an 11-month extension at discretion of the Department for Transport.

In 2018, the financial performance of SWR was impacted by factors including an industry-wide slowdown in growth in passenger numbers, industrial action, the delayed introduction of timetable changes and incidents involving infrastructure under the control of a third party.

If the abovementioned factors continue to adversely impact SWR, and are not appropriately ameliorated under the Franchise Agreement or by the relevant third party, the long-term financial viability of SWR is expected to be impacted.

27 Interests in Associates and Joint Venture *(continued)*

In October 2017, Hangzhou MTR Line 5 Corporation Limited ("Hangzhou L5 Ltd.") signed a concession agreement with the Hangzhou Municipal Government and Hangzhou Metro Group for the PPP project for the investment, construction and operations of Hangzhou Metro Line 5 ("HZL5"). The construction portion of the project is divided into Parts A and B. Part A is for the line's civil construction and the work is being undertaken by Hangzhou Metro Group. Under the PPP arrangement, Hangzhou L5 Ltd. will take part in the investment and construction for Part B which covers electrical and mechanical systems as well as the operations and maintenance of the HZL5 for 25 years after commencement of passenger services. The new line is expected to go into operation by the end of 2019. The Group is responsible to contribute equity injection of up to RMB2,616 million. Up to the end of December 2018, the Group has contributed equity of RMB1,674 million into Hangzhou L5 Ltd.

During the year ended 31 December 2018, the Group provided staff secondment and other support services to Beijing MTR at a total amount of HK$0.2 million (2017: HK$20 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 AUD275 million (HK$1,608 million) (2017: AUD220 million or HK$1,307 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 AUD25 million (HK$144 million) (2017: AUD7 million or HK$44 million). London Overground Rail Operations Ltd ("LOROL") distributed GBP1 million (HK$10 million) (2017: GBP2.5 million or HK$26 million) of dividends to the Group. The Group provided management services to LOROL at a total amount of HK$8 million in 2017.

During the year ended 31 December 2018, the Group incurred HK$156 million (2017: HK$150 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$52.6 million (2017: HK$43.4 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$155 million (2017: HK$132 million) of dividends to the Group.

28 Investments in Securities

Investments in securities represented debt securities held by the overseas insurance underwriting subsidiary measured at FVPL. As at 31 December 2018, all debt securities were expected to mature within one year except for HK$240 million (2017: HK$361 million) which were expected to mature after one year.

29 Properties Held for Sale

The Group

in HK$ million	2018	2017
Properties held for sale		
– at cost	**1,179**	1,099
– at net realisable value	**190**	248
	1,369	1,347
Representing:		
Hong Kong property development	**1,156**	876
Mainland of China property development	**213**	471
	1,369	1,347

The Company

in HK$ million	2018	2017
Properties held for sale		
– at cost	**966**	628
– at net realisable value	**190**	248
	1,156	876

Properties held for sale of the Group at 31 December 2018 comprise properties from property developments in Hong Kong and Mainland of China.

For Hong Kong property development, they comprise mainly residential units and/or car parking spaces at Wings at Sea and Wings at Sea II at LOHAS Park Station, Lake Silver at Wu Kai Sha Station and The Palazzo at Ho Tung Lau. They represent either the Group's interest in unsold properties or properties received by the Group as sharing in kind (notes 2L(iii) and (v)). The net realisable values as at 31 December 2018 and 2017 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors.

For Mainland of China property development, they relate to properties at the Shenzhen Longhua Line Depot property development.

Properties held for sale at net realisable value of the Group and the Company are stated net of provision of HK$18 million (2017: HK$38 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.

30 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
2018							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	137	1					
– inflow			20	19	99	–	138
– outflow			(19)	(19)	(99)	–	(137)
– not qualified for hedge accounting:	73	–					
– inflow			37	36	–	–	73
– outflow			(37)	(36)	–	–	(73)
Cross currency swaps							
– cash flow hedges:	277	25					
– inflow			12	12	36	332	392
– outflow			(8)	(8)	(22)	(329)	(367)
Net settled:							
Interest rate swaps							
– fair value hedges	961	5	5	7	(1)	–	11
– cash flow hedges	1,350	30	11	12	7	2	32
	2,798	61	21	23	20	5	69
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	1,169	13					
– inflow			546	520	87	3	1,156
– outflow			(554)	(524)	(88)	(3)	(1,169)
– hedges of net investments:	2,039	14					
– inflow			2,022	–	–	–	2,022
– outflow			(2,036)	–	–	–	(2,036)
– not qualified for hedge accounting:	202	6					
– inflow			196	–	–	–	196
– outflow			(202)	–	–	–	(202)
Cross currency swaps							
– fair value hedges:	698	9					
– inflow			1	1	5	675	682
– outflow			–	–	–	(698)	(698)
– cash flow hedges:	10,935	469					
– inflow			311	310	1,203	11,534	13,358
– outflow			(312)	(312)	(1,278)	(11,948)	(13,850)
– hedges of net investments:	64	3					
– inflow			3	67	–	–	70
– outflow			(2)	(71)	–	–	(73)
Net settled:							
Interest rate swaps							
– fair value hedges	1,550	31	(6)	(8)	(16)	(2)	(32)
	16,657	545	(33)	(17)	(87)	(439)	(576)
Total	19,455						

30 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group and The Company

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in				
			Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2017							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	225	13					
– inflow			119	58	61	–	238
– outflow			(112)	(57)	(56)	–	(225)
– not qualified for hedge accounting:	209	7					
– inflow			178	–	39	–	217
– outflow			(173)	–	(36)	–	(209)
Cross currency swaps							
– fair value hedges:	775	3					
– inflow			469	1	2	307	779
– outflow			(465)	–	–	(310)	(775)
– cash flow hedges:	2,612	98					
– inflow			93	93	276	3,251	3,713
– outflow			(72)	(72)	(217)	(3,215)	(3,576)
Net settled:							
Interest rate swaps							
– fair value hedges	600	10	24	–	–	–	24
– cash flow hedges	1,350	37	3	12	23	1	39
	5,771	168	64	35	92	34	225
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	1,107	4					
– inflow			1,093	3	5	5	1,106
– outflow			(1,096)	(3)	(6)	(5)	(1,110)
– hedges of net investments:	2,140	22					
– inflow			2,082	–	–	–	2,082
– outflow			(2,104)	–	–	–	(2,104)
– not qualified for hedge accounting:	1,520	15					
– inflow			1,520	–	–	–	1,520
– outflow			(1,535)	–	–	–	(1,535)
Cross currency swaps							
– fair value hedges:	388	3					
– inflow			1	1	2	381	385
– outflow			–	–	–	(388)	(388)
– cash flow hedges:	8,601	367					
– inflow			238	240	718	9,487	10,683
– outflow			(247)	(247)	(740)	(9,725)	(10,959)
– hedges of net investments:	64	9					
– inflow			3	3	67	–	73
– outflow			(2)	(2)	(79)	–	(83)
Net settled:							
Interest rate swaps							
– fair value hedges	1,550	28	5	(5)	(24)	(3)	(27)
– cash flow hedges	600	3	(8)	–	–	–	(8)
	15,970	451	(50)	(10)	(57)	(248)	(365)
Total	21,741						

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 2018 and 2017 were used to discount the cash flows of financial instruments. Interest rates used ranged from 2.110% to 2.485% (2017: 1.191% to 2.470%) for Hong Kong dollars, 2.411% to 3.005% (2017: 1.480% to 2.490%) for US dollars, 1.868% to 2.735% (2017: 1.710% to 3.003%) for Australian dollars and 0.008% to 0.380% (2017: -0.034% to 0.475%) 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 43.

30 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") for the Company is an integral part of its risk management policies. The Model specifies, amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Company's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management policies and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Company are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient cash balance and/or undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 12 to 24 months of projected cash requirements at the parent company level as specified in the Model. The Company also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

The following table details the remaining contractual maturities at the end of reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

	2018				2017			
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	**25,830**	**1,225**	**610**	**27,665**	26,902	1,495	1,053	29,450
Amounts repayable within a period of between 2 and 5 years	**4,470**	**6,583**	**529**	**11,582**	5,136	4,440	162	9,738
Amounts repayable within a period of between 1 and 2 years	**2,310**	**371**	**46**	**2,727**	971	11,475	49	12,495
Amounts repayable within 1 year	**1,199**	**8,345**	**29**	**9,573**	1,946	950	49	2,945
	33,809	**16,524**	**1,214**	**51,547**	34,955	18,360	1,313	54,628

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30 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Company

in HK$ million	2018 Capital market instruments	2018 Bank loans and overdrafts	2018 Others	2018 Total	2017 Capital market instruments	2017 Bank loans and overdrafts	2017 Others	2017 Total
Loans and other obligations								
Amounts repayable beyond 5 years	**5,253**	**–**	**610**	**5,863**	5,985	–	610	6,595
Amounts repayable within a period of between 2 and 5 years	**322**	**5,862**	**–**	**6,184**	323	3,710	–	4,033
Amounts repayable within a period of between 1 and 2 years	**108**	**126**	**–**	**234**	108	11,223	–	11,331
Amounts repayable within 1 year	**108**	**8,062**	**–**	**8,170**	613	600	3	1,216
	5,791	**14,050**	**610**	**20,451**	7,029	15,533	613	23,175

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 45% and 75% (2017: 40% and 70%) of total debt outstanding as specified by the Model. Should the actual fixed rate debt level deviate substantially from the Model, derivative financial instruments such as interest rate swaps would be procured to align the fixed and floating mix with the Model. As at 31 December 2018, 61% (2017: 61%) of the Company's (including financing vehicles) total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps. Interest rate risk at subsidiary, associate and joint venture companies are managed separately based on their own borrowing requirement, circumstances and market practice.

As at 31 December 2018, 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$117 million/HK$109 million. Other components of consolidated equity would increase/decrease by approximately HK$89 million/HK$97 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 2017, 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$113 million/HK$98 million. Other components of consolidated equity would increase/decrease by approximately HK$43 million/HK$42 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.

30 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 32.

31 Stores and Spares

	The Group		The Company	
in HK$ million	**2018**	2017	**2018**	2017
Stores and spares expected to be consumed:				
– within 1 year	**1,134**	1,039	**729**	708
– after 1 year	**553**	511	**451**	421
	1,687	1,550	**1,180**	1,129
Less: Provision for obsolete stock	**(14)**	(10)	**(14)**	(10)
	1,673	1,540	**1,166**	1,119

Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

32 Debtors and Other Receivables

The Group's credit policies in respect of receivables arising from its principal activities are as follows:

(i) The majority of fare revenue from Hong Kong transport operation (except for that from the High Speed Rail as described in note 32(ii) below) 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) In respect of the High Speed Rail, tickets are sold by the Company and other mainland train operators. The clearance centre of China Railway Corporation administers the revenue allocation and settlement system of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and allocates the revenue of the High Speed Rail to the Company under a "section-based" approach with settlement in the following month.

(iii) 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.

(iv) 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.

32 Debtors and Other Receivables *(continued)*

(v) 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.

(vi) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.

(vii) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.

(viii) 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.

(ix) 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	**2018**	2017	**2018**	2017
Amounts not yet due	**2,807**	2,322	**1,069**	784
Overdue by 30 days	**275**	359	**151**	237
Overdue by 60 days	**34**	47	**6**	11
Overdue by 90 days	**10**	62	**2**	45
Overdue by more than 90 days	**91**	16	**63**	3
Total debtors	**3,217**	2,806	**1,291**	1,080
Other receivables	**6,334**	4,252	**4,452**	2,380
Contract assets	**25**	–	**–**	–
	9,576	7,058	**5,743**	3,460

Upon the adoption of HKFRS 15, opening adjustments were made as at 1 January 2018 to reclassify the total debtors of HK$18 million to contract assets. Comparative information has not been restated.

Included in other receivables as at 31 December 2018 was HK$1,959 million (2017: HK$381 million) in respect of property development profit in Hong Kong distributable from stakeholding funds based on the terms of the development agreements and sales and purchase agreements.

During the years ended 31 December 2017 and 2018, the Inland Revenue Department of Hong Kong ("IRD") issued notices of assessment/additional assessment for the years of assessment 2010/2011 to 2017/2018 following queries in connection with the tax deductibility of certain payments relating to the Rail Merger.

Based on the strength of advice from external senior counsel and tax advisor, the directors of the Company have determined to strongly contest the assessments raised by the IRD. The Company has lodged objections against these tax assessments and has applied to hold over the additional tax demanded. The IRD has agreed to the holdover of the additional tax demanded subject to the purchases of tax reserve certificates ("TRCs") amounting to HK$1,816 million and HK$462 million in 2017 and 2018 respectively. The purchases of TRCs do not prejudice the Company's tax position and the purchased TRCs were included in debtors and other receivables in the Group's consolidated statement of financial position. No additional tax provision has been made during the years ended 31 December 2017 and 2018 in respect of the above notices of assessment/additional assessment.

The Group's exposure to credit risk on debtors and other receivables mainly relates to debtors relating to rental receivables in Hong Kong and franchise fee/project fee receivables outside of Hong Kong. Given the Group's policy is to receive rental deposits from tenants in Hong Kong and the debtors in relation to the franchise fee/project fee receivables outside of Hong Kong are government related entities, the Group considers the credit risk is low and the expected credit loss is immaterial.

As at 31 December 2018, all debtors and other receivables were expected to be recovered within one year except for amounts relating to deposits and other receivables of HK$2,429 million (2017: HK$1,978 million) in the Group 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.

32 Debtors and Other Receivables *(continued)*

Included in debtors and other receivables 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	**2018**	2017	**2018**	2017
Australian dollars	**8**	7	**8**	7
Macau pataca	**63**	208	**63**	208
United States dollars	**8**	8	**8**	8

33 Amounts Due from Related Parties

	The Group		The Company	
in HK$ million	**2018**	2017	**2018**	2017
Amounts due from:				
– HKSAR Government	**1,713**	2,378	**1,713**	2,378
– KCRC	**215**	6	**215**	6
– associates	**160**	186	**129**	149
– subsidiaries (net of impairment losses)	**–**	–	**14,179**	12,612
	2,088	2,570	**16,236**	15,145

As at 31 December 2018, the amount due from the HKSAR Government mainly related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the South Island Line and Kwun Tong Line Extension projects, reimbursement of the fare revenue difference in relation to the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, agency fee receivables and reimbursable costs in respect of West Rail property development (note 24C), as well as receivables and retention for other entrustment and maintenance works.

The amount due from KCRC mainly related to the recoverable cost for certain capital works in accordance with the agreements in relation to the Rail Merger, as well as amounts in relation to the High Speed Rail.

The amounts due from associates as at 31 December 2018 included the outstanding balance of loan to First MTR South Western Trains Limited amounting to GBP9 million (HK$90 million) (2017: GBP9 million (HK$95 million)) which bears an interest rate of 5.5% per annum with repayment due by 31 March 2023.

Given the amounts due from related parties mainly related to HKSAR Government and government related entity, the Group considers the credit risk is low and the expected credit loss is immaterial.

As at 31 December 2018, all amounts due from related parties were expected to be recovered within one year except for HK$333 million (2017: HK$125 million) which were expected to be recovered after more than one year. The carrying amounts of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

34 Cash, Bank Balances and Deposits

	The Group		The Company	
in HK$ million	**2018**	2017	**2018**	2017
Deposits with banks and other financial institutions	**11,229**	12,095	**10,337**	10,897
Cash at banks and on hand	**6,793**	6,259	**420**	402
Cash, bank balances and deposits	**18,022**	18,354	**10,757**	11,299
Less: Bank deposits with more than three months to maturity when placed or pledged (note 35E)	**(9,157)**	(4,411)	**(9,022)**	(3,625)
Less: Bank overdrafts (note 35A)	**–**	(4)	**–**	(4)
Cash and cash equivalents in the cash flow statement	**8,865**	13,939	**1,735**	7,670

34 Cash, Bank Balances and Deposits *(continued)*

Included in cash, bank balance and deposits in the statement of financial position are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
in million	**2018**	2017	**2018**	2017
Australian dollars	**49**	68	**45**	68
Euros	**11**	100	**10**	99
Pound sterling	**6**	56	**6**	56
Renminbi	**160**	1	**160**	–
Swiss franc	**1**	23	**1**	23
United States dollars	**3**	145	**1**	139

35 Loans and Other Obligations

A By Type

The Group

	2018			2017		
in HK$ million	Carrying amount	Fair value	Repayable amount	Carrying amount	Fair value	Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2026 to 2047 (2017: due during 2026 to 2047)	**8,738**	**9,367**	**8,853**	8,769	9,649	8,853
Unlisted:						
Debt issuance programme notes due during 2019 to 2055 (2017: due during 2018 to 2055)	**14,803**	**16,269**	**15,293**	14,682	16,232	15,017
Total capital market instruments	**23,541**	**25,636**	**24,146**	23,451	25,881	23,870
Bank loans	**11,312**	**11,312**	**11,331**	17,313	17,313	17,376
Finance leases	**450**	**553**	**450**	492	635	492
Others	**478**	**540**	**478**	458	537	458
Loans and other obligations	**35,781**	**38,041**	**36,405**	41,714	44,366	42,196
Bank overdrafts	**–**	**–**	**–**	4	4	4
Short-term loans	**4,424**	**4,424**	**4,424**	325	325	325
Total	**40,205**	**42,465**	**40,829**	42,043	44,695	42,525

35 Loans and Other Obligations *(continued)*

A By Type *(continued)*

The Company

in HK$ million	2018 Carrying amount	2018 Fair value	2018 Repayable amount	2017 Carrying amount	2017 Fair value	2017 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2043 to 2047 (2017: due during 2043 to 2047)	**2,996**	**3,447**	**3,062**	2,996	3,593	3,062
Unlisted:						
Debt issuance programme notes due during 2028 (2017: due during 2018 to 2028)	**355**	**400**	**391**	812	906	857
Total capital market instruments	**3,351**	**3,847**	**3,453**	3,808	4,499	3,919
Bank loans	**8,981**	**8,981**	**9,000**	14,537	14,537	14,600
Others	**478**	**540**	**478**	458	537	458
Loans and other obligations	**12,810**	**13,368**	**12,931**	18,803	19,573	18,977
Bank overdrafts	**–**	**–**	**–**	4	4	4
Short-term loans	**4,395**	**4,395**	**4,395**	325	325	325
Total	**17,205**	**17,763**	**17,326**	19,132	19,902	19,306

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 43.

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 2018	Before hedging activities 2017	After hedging activities 2018	After hedging activities 2017
Australian dollars	**431**	431	**–**	–
Japanese yen	**15,000**	15,000	**–**	–
United States dollars	**1,030**	1,090	**–**	–

The Company

in million	Before hedging activities 2018	Before hedging activities 2017	After hedging activities 2018	After hedging activities 2017
Japanese yen	**5,000**	5,000	**–**	–
United States dollars	**350**	410	**–**	–

35 Loans and Other Obligations *(continued)*

B By Repayment Terms

The Group

in HK$ million	2018 Capital market instruments	2018 Bank loans and overdrafts	2018 Finance leases	2018 Others	2018 Total	2017 Capital market instruments	2017 Bank loans and overdrafts	2017 Finance leases	2017 Others	2017 Total
Loans and other obligations										
Amounts repayable beyond 5 years	**19,238**	**1,218**	**–**	**478**	**20,934**	19,055	1,517	344	455	21,371
Amounts repayable within a period of between 2 and 5 years	**2,760**	**6,164**	**404**	**–**	**9,328**	3,300	4,300	81	–	7,681
Amounts repayable within a period of between 1 and 2 years	**1,648**	**221**	**46**	**–**	**1,915**	300	11,234	46	–	11,580
Amounts repayable within 1 year	**500**	**3,728**	**–**	**–**	**4,228**	1,215	325	21	3	1,564
	24,146	**11,331**	**450**	**478**	**36,405**	23,870	17,376	492	458	42,196
Bank overdrafts	**–**	**–**	**–**	**–**	**–**	–	4	–	–	4
Short-term loans	**–**	**4,424**	**–**	**–**	**4,424**	–	325	–	–	325
	24,146	**15,755**	**450**	**478**	**40,829**	23,870	17,705	492	458	42,525
Less: Unamortised discount/premium/finance charges outstanding	**(155)**	**(19)**	**–**	**–**	**(174)**	(160)	(63)	–	–	(223)
Adjustment due to fair value change of financial instruments	**(450)**	**–**	**–**	**–**	**(450)**	(259)	–	–	–	(259)
Total carrying amount of debt	**23,541**	**15,736**	**450**	**478**	**40,205**	23,451	17,642	492	458	42,043

The Company

in HK$ million	2018 Capital market instruments	2018 Bank loans and overdrafts	2018 Others	2018 Total	2017 Capital market instruments	2017 Bank loans and overdrafts	2017 Others	2017 Total
Loans and other obligations								
Amounts repayable beyond 5 years	**3,453**	**–**	**478**	**3,931**	3,454	–	455	3,909
Amounts repayable within a period of between 2 and 5 years	**–**	**5,500**	**–**	**5,500**	–	3,600	–	3,600
Amounts repayable within a period of between 1 and 2 years	**–**	**–**	**–**	**–**	–	11,000	–	11,000
Amounts repayable within 1 year	**–**	**3,500**	**–**	**3,500**	465	–	3	468
	3,453	**9,000**	**478**	**12,931**	3,919	14,600	458	18,977
Bank overdrafts	**–**	**–**	**–**	**–**	–	4	–	4
Short-term loans	**–**	**4,395**	**–**	**4,395**	–	325	–	325
	3,453	**13,395**	**478**	**17,326**	3,919	14,929	458	19,306
Less: Unamortised discount/premium/finance charges outstanding	**(52)**	**(19)**	**–**	**(71)**	(54)	(63)	–	(117)
Adjustment due to fair value change of financial instruments	**(50)**	**–**	**–**	**(50)**	(57)	–	–	(57)
Total carrying amount of debt	**3,351**	**13,376**	**478**	**17,205**	3,808	14,866	458	19,132

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.

35 Loans and Other Obligations *(continued)*

C Bonds and Notes Issued and Redeemed

Notes issued during the years ended 31 December 2018 and 2017 comprise:

The Group

	2018		2017	
in HK$ million	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	**1,491**	**1,488**	7,655	7,600

During the year ended 31 December 2018, notes of HK$1,491 million (2017: HK$4,637 million and AUD201 million (or HK$1,198 million)) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited, while the Company did not issued any of its notes (2017: HK$338 million and USD190 million (or HK$1,482 million)). The notes issued by the subsidiary are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the year ended 31 December 2018, the Group redeemed HK$750 million and USD60 million (or HK$465 million) of its unlisted debt securities (2017: HK$500 million and AUD50 million (or HK$417 million)) and did not redeem any of its listed debt securities (2017: USD550 million (or HK$4,268 million)).

D Obligations Under Finance Leases

At 31 December 2018 and 2017, the Group had obligations under finance leases repayable as follows:

	2018		2017	
in HK$ million	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	**–**	**22**	21	48
After 1 year but within 2 years	**46**	**89**	46	96
After 2 years but within 5 years	**404**	**451**	81	155
After 5 years	**–**	**–**	344	350
	450	**540**	471	601
	450	**562**	492	649
Less: Total future interest expenses		**(112)**		(157)
Present value of lease obligations		**450**		492

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 2018 and 2017.

(ii) As at 31 December 2018, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB2,041 million (2017: RMB2,236 million) bank loan facility granted to it.

(iii) As at 31 December 2018, MTR Corporation (Sydney) NRT Pty Limited, an indirect wholly owned subsidiary of the Company in Australia, has pledged a bank deposit of AUD7.2 million (2017: AUD1.2 million) as a collateral for a bank guarantee of AUD7.2 million (2017: AUD1.2 million).

Save as disclosed above and those disclosed elsewhere in the accounts, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2018.

36 Creditors and Other Payables

	The Group		The Company	
in HK$ million	**2018**	2017	**2018**	2017
Creditors and accrued charges	**18,525**	24,687	**14,114**	19,726
Other payables	**5,306**	3,479	**4,680**	2,625
Contract liabilities	**2,116**	–	**982**	–
	25,947	28,166	**19,776**	22,351

Upon the adoption of HKFRS 15, opening adjustments were made as at 1 January 2018 to reclassify the creditors and accrued charges of HK$2,525 million to contract liabilities. Comparative information has not been restated.

A Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

	The Group		The Company	
in HK$ million	**2018**	2017	**2018**	2017
Due within 30 days or on demand	**6,152**	11,274	**3,457**	8,747
Due after 30 days but within 60 days	**1,142**	1,290	**1,052**	1,216
Due after 60 days but within 90 days	**911**	1,332	**520**	546
Due after 90 days	**4,398**	4,766	**3,538**	3,539
	12,603	18,662	**8,567**	14,048
Rental and other refundable deposits	**3,209**	3,946	**3,076**	3,866
Accrued employee benefits	**2,713**	2,079	**2,471**	1,812
	18,525	24,687	**14,114**	19,726

The Group's general payment terms are one to two months from the invoice date.

Movements in contract liabilities of the Group during the year ended 31 December 2018 are as follows:

in HK$ million	**2018**
Balance as at 1 January	**2,525**
Increase in contract liabilities as a result of billing in advance	**1,582**
Decrease in contract liabilities as a result of recognising revenue recognised during the year that was included in the contract liabilities at the beginning of the period	**(1,943)**
Exchange differences	**(48)**
Balance as at 31 December	**2,116**

Contract liabilities mainly arise from construction contracts and other project arrangements, when the Group receives a deposit before the activity commences and until the revenue recognised on the project exceeds the amount of the deposit received. The payment terms are negotiated on a case by case basis with customers.

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	**2018**	2017	**2018**	2017
Australian dollars	**11**	10	**3**	3
Euros	**14**	10	**14**	10
Pound sterling	**3**	5	**3**	5
Renminbi	**140**	2	**140**	2
Swiss franc	**3**	3	**3**	3
United States dollars	**17**	18	**4**	5

36 Creditors and Other Payables *(continued)*

B Other Payables

Other payables comprised contract retentions and deferred income. Deferred income related to the surplus amounts of payments received from property developers in excess of the balance in property development in progress, the residual balance of deferred income on transfer of assets from customers, as well as the unutilised government subsidy for Shenzhen Metro Longhua Line operation.

As at 31 December 2018, all of the creditors and other payables were expected to be settled or recognised as income within one year except for HK$11,381 million (2017: HK$8,327 million), including contract liabilities of HK$502 million (1 January 2018: HK$423 million), of the Group which were expected to be settled or recognised as income after one year. The amounts due after one year for the Group as at 31 December 2018 mainly relate to rental deposits received from investment property and station kiosk tenants and advance income received, majority of which are due to be repaid within three years. The Group considers the effect of discounting would be immaterial.

37 Amounts Due to Related Parties

	The Group		The Company	
in HK$ million	**2018**	2017	**2018**	2017
Amounts due to:				
– HKSAR Government	**70**	78	**70**	78
– KCRC	**2,475**	1,997	**2,475**	1,997
– associates	**131**	151	**–**	–
– subsidiaries	**–**	–	**20,723**	20,252
	2,676	2,226	**23,268**	22,327

The amount due to the HKSAR Government as at 31 December 2018 relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2018 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$20,317 million (2017: HK$19,778 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 35C). 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 2018, HK$19,819 million (2017: HK$19,041 million) is expected to be settled after one year.

38 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	**2018**	2017	**2018**	2017
Balance as at 1 January	**10,470**	10,507	**10,292**	10,343
Add: Net increase in interest payable	**3**	3	**–**	–
Less: Amount repaid during the year	**(56)**	(51)	**(56)**	(51)
Exchange differences	**(8)**	11	**–**	–
Balance as at 31 December	**10,409**	10,470	**10,236**	10,292

38 Obligations under Service Concession *(continued)*

The outstanding balances as at 31 December 2018 and 2017 are repayable as follows:

The Group

in HK$ million	**2018** Present value of payment obligations	**2018** Interest expense relating to future periods	**2018** Total payment obligations	2017 Present value of payment obligations	2017 Interest expense relating to future periods	2017 Total payment obligations
Amounts repayable beyond 5 years	**10,064**	**15,637**	**25,701**	10,154	16,323	26,477
Amounts repayable within a period of between 2 and 5 years	**223**	**2,061**	**2,284**	202	2,084	2,286
Amounts repayable within a period of between 1 and 2 years	**63**	**698**	**761**	59	697	756
Amounts repayable within 1 year	**59**	**697**	**756**	55	701	756
	10,409	**19,093**	**29,502**	10,470	19,805	30,275

The Company

in HK$ million	**2018** Present value of payment obligations	**2018** Interest expense relating to future periods	**2018** Total payment obligations	2017 Present value of payment obligations	2017 Interest expense relating to future periods	2017 Total payment obligations
Amounts repayable beyond 5 years	**9,898**	**15,539**	**25,437**	9,976	16,212	26,188
Amounts repayable within a period of between 2 and 5 years	**216**	**2,034**	**2,250**	202	2,048	2,250
Amounts repayable within a period of between 1 and 2 years	**63**	**687**	**750**	59	691	750
Amounts repayable within 1 year	**59**	**691**	**750**	55	695	750
	10,236	**18,951**	**29,187**	10,292	19,646	29,938

39 Loan from Holders of Non-controlling Interests

Loan from holders of non-controlling interests as at 31 December 2018 mainly represents the portion of total shareholder loan of AUD60 million (HK$332 million) granted to Metro Trains Australia Pty. Ltd. ("MTA") by the holders of its non-controlling interests. The loan carries an interest rate of 6.2% per annum and is repayable at the discretion of MTA or on 1 December 2024, whichever is earlier.

40 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 2018, chargeable at Hong Kong Profits Tax Rate at 16.5% (2017: 16.5%) and after netting off provisional tax paid, and tax outside Hong Kong chargeable at the appropriate current rates of taxation ruling in the relevant countries.

in HK$ million	**The Group 2018**	The Group 2017	**The Company 2018**	The Company 2017
Provision for Hong Kong Profits Tax for the year (note 14)	**1,933**	1,305	**1,876**	1,256
Hong Kong Provisional Profits Tax paid	**(912)**	(596)	**(871)**	(563)
	1,021	709	**1,005**	693
Balance relating to tax outside Hong Kong	**140**	371	**1**	2
	1,161	1,080	**1,006**	695
Representing:				
Current Taxation	**1,161**	1,080	**1,006**	695

40 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

in HK$ million	Deferred tax arising from: Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2018						
Balance as at 1 January 2018	**12,158**	**648**	**(107)**	**–**	**(8)**	**12,691**
Charged/(credited) to consolidated profit and loss account	**228**	**–**	**10**	**–**	**(102)**	**136**
Charged/(credited) to reserves	**–**	**103**	**(74)**	**(5)**	**–**	**24**
Exchange differences	**(1)**	**–**	**1**	**–**	**7**	**7**
Balance as at 31 December 2018	**12,385**	**751**	**(170)**	**(5)**	**(103)**	**12,858**
2017						
Balance as at 1 January 2017	11,795	599	(314)	32	(12)	12,100
Charged to consolidated profit and loss account	361	–	45	–	4	410
Charged/(credited) to reserves	–	49	166	(32)	–	183
Exchange differences	2	–	(4)	–	–	(2)
Balance as at 31 December 2017	12,158	648	(107)	–	(8)	12,691

The Company

in HK$ million	Deferred tax arising from: Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Total
2018					
Balance as at 1 January 2018	**12,097**	**648**	**(96)**	**–**	**12,649**
Charged/(credited) to profit and loss account	**221**	**–**	**(91)**	**–**	**130**
Charged/(credited) to reserves	**–**	**103**	**(74)**	**(5)**	**24**
Balance as at 31 December 2018	**12,318**	**751**	**(261)**	**(5)**	**12,803**
2017					
Balance as at 1 January 2017	11,730	599	(316)	32	12,045
Charged to profit and loss account	367	–	57	–	424
Charged/(credited) to reserves	–	49	163	(32)	180
Balance as at 31 December 2017	12,097	648	(96)	–	12,649

in HK$ million	The Group **2018**	The Group 2017	The Company **2018**	The Company 2017
Net deferred tax assets	**(121)**	(69)	**–**	–
Net deferred tax liabilities	**12,979**	12,760	**12,803**	12,649
	12,858	12,691	**12,803**	12,649

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$158 million (2017: HK$113 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.

41 Share Capital, Shares Held for Executive Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management

A Share Capital

	2018		2017	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**6,007,777,302**	**52,307**	5,905,290,065	47,929
Shares issued in respect of scrip dividend of 2017/2016 final ordinary dividend	**93,790,912**	**4,175**	87,794,562	3,863
Shares issued in respect of scrip dividend of 2018/2017 interim ordinary dividend	**32,348,875**	**1,298**	3,032,675	137
Vesting of shares of Executive Share Incentive Scheme	**–**	**15**	–	2
Shares issued under the share option scheme	**5,568,500**	**175**	11,660,000	376
At 31 December	**6,139,485,589**	**57,970**	6,007,777,302	52,307

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 Executive Share Incentive Scheme

During the year ended 31 December 2018, the Company awarded Performance Shares and Restricted Shares under the Company's Executive Share Incentive Scheme to certain eligible employees of the Company (note 44(ii)). In this regard, a total of 1,772,900 Performance Shares (2017: 112,200 Performance Shares) and 2,208,950 Restricted Shares (2017: 2,245,200 Restricted Shares) were awarded and accepted by the grantees on 10 April 2018 (2017: 10 April 2017). The fair values of these Award Shares were HK$42.80 per share in 2018 (2017: HK$44.45 per share).

During the year ended 31 December 2018, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 5,351,600 Ordinary Shares (2017: nil) of the Company for a total consideration of approximately HK$239 million (2017: HK$nil). During the year ended 31 December 2018, 102,904 Ordinary Shares of the Company (2017: 110,053 Ordinary Shares) were issued to the Executive Share Incentive Scheme in relation to scrip dividend issued amounting to HK$5 million (2017: HK$5 million).

During the year ended 31 December 2018, 3,866,255 shares (2017: 1,570,047 shares) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$152 million (2017: HK$59 million). During the year ended 31 December 2018, HK$15 million (2017: HK$2 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 2018, 579,488 award shares (2017: 169,764 award shares) were lapsed/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	**5,568,500**	**29.094**

An analysis of the Company's outstanding share options as at 31 December 2018 is disclosed in note 44.

41 Share Capital, Shares Held for Executive 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$59,551 million (2017: HK$54,938 million) included in retained profits are non-distributable as they do not constitute realised profits. As at 31 December 2018, the Company considers that the total amount of reserves available for distribution to shareholders amounted to HK$53,726 million (2017: HK$50,378 million).

Included in the Group's retained profits as at 31 December 2018 is an amount of HK$2,029 million (2017: HK$1,536 million), being the retained profits attributable to the associates and joint venture.

E Capital Management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide an adequate return to its shareholders.

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of the HKSAR Government is the majority shareholder of the Company holding 4,634,173,932 shares as at 31 December 2018, representing 75.48% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt-to-equity ratio, which is calculated on net borrowings as a percentage of the total equity, where net borrowings are represented by the aggregate of loans and other obligations, bank overdrafts, obligations under service concession and loan from holders of non-controlling interests net of cash and cash equivalents and bank medium term notes. The Group's net debt-to-equity ratios over the past years had been trending downward since the Rail Merger from 46.5% at 31 December 2007 to 20.6% at 31 December 2017 and 18.1% at 31 December 2018.

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 2018, 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.

41 Share Capital, Shares Held for Executive Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management

(continued)

F Company-level Movements in Components of Equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

				Other reserves				
in HK$ million	Note	Share capital	Shares held for Executive Share Incentive Scheme	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	Total equity
2018								
Balance as at 1 January 2018	50	**52,307**	**(173)**	**3,296**	**(143)**	**203**	**105,458**	**160,948**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**15,052**	**15,052**
Other comprehensive income for the year		**–**	**–**	**519**	**44**	**–**	**(376)**	**187**
Total comprehensive income for the year		**–**	**–**	**519**	**44**	**–**	**14,676**	**15,239**
2017 final ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(5,224)**	**(5,224)**
Shares issued in respect of scrip dividend of 2017 final ordinary dividend		**4,175**	**(4)**	**–**	**–**	**–**	**–**	**4,171**
2018 interim ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(1,525)**	**(1,525)**
Shares issued in respect of scrip dividend of 2018 interim ordinary dividend		**1,298**	**(1)**	**–**	**–**	**–**	**–**	**1,297**
Shares purchased for Executive Share Incentive Scheme		**–**	**(239)**	**–**	**–**	**–**	**–**	**(239)**
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		**15**	**152**	**–**	**–**	**(158)**	**(9)**	**–**
Employee share-based payments		**–**	**–**	**–**	**–**	**110**	**–**	**110**
Employee share options exercised		**175**	**–**	**–**	**–**	**(13)**	**–**	**162**
Balance as at 31 December 2018	50	**57,970**	**(265)**	**3,815**	**(99)**	**142**	**113,376**	**174,939**
2017								
Balance as at 1 January 2017		47,929	(227)	3,043	150	182	96,101	147,178
Profit for the year		–	–	–	–	–	14,892	14,892
Other comprehensive income for the year		–	–	253	(293)	–	827	787
Total comprehensive income for the year		–	–	253	(293)	–	15,719	15,679
Special Dividend		–	–	–	–	–	(20)	(20)
2016 final ordinary dividend		–	–	–	–	–	(4,844)	(4,844)
Shares issued in respect of scrip dividend of 2016 final ordinary dividend		3,863	(4)	–	–	–	–	3,859
2017 interim ordinary dividend		–	–	–	–	–	(1,500)	(1,500)
Shares issued in respect of scrip dividend of 2017 interim ordinary dividend		137	(1)	–	–	–	–	136
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		2	59	–	–	(63)	2	–
Employee share-based payments		–	–	–	–	119	–	119
Employee share options exercised		376	–	–	–	(35)	–	341
Balance as at 31 December 2017	50	52,307	(173)	3,296	(143)	203	105,458	160,948

42 Other Cash Flow Information

A Reconciliation of the Group's operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses to cash generated from operations is as follows:

in HK$ million	2018	2017
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses	**18,843**	17,677
Adjustments for:		
– Loss on disposal of fixed assets	**45**	44
– Amortisation of deferred income from transfers of assets from customers	**(24)**	(21)
– (Increase)/decrease in fair value of derivative instruments	**(27)**	46
– Unrealised loss on revaluation of investment in securities	**2**	2
– Employee share-based payment expenses	**110**	119
– Exchange (gain)/loss	**(4)**	25
Operating profit before working capital changes	**18,945**	17,892
Increase in debtors and other receivables	**(1,183)**	(767)
Increase in stores and spares	**(169)**	(31)
(Decrease)/increase in creditors and other payables	**(4,664)**	5,145
Cash generated from operations	**12,929**	22,239

B Reconciliation of the Group's liabilities arising from financing activities is as follows:

	Loans and other obligations						
in HK$ million	Capital market instruments	Bank loans	Finance leases	Others	Short-term loans	Interest and finance charges payables	Total
2018							
At 1 January 2018	**23,451**	**17,313**	**492**	**458**	**325**	**123**	**42,162**
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	**1,488**	**31,377**	**–**	**–**	**4,099**	**–**	**36,964**
– Repayment of loans and capital market instruments	**(1,215)**	**(37,292)**	**(5)**	**–**	**–**	**–**	**(38,512)**
– Interest and finance charges	**–**	**–**	**–**	**–**	**–**	**(1,147)**	**(1,147)**
	273	**(5,915)**	**(5)**	**–**	**4,099**	**(1,147)**	**(2,695)**
Exchange differences	**–**	**(128)**	**(37)**	**2**	**–**	**2**	**(161)**
Other changes:							
– Unamortised discount/premium/ finance charges outstanding	**4**	**42**	**–**	**–**	**–**	**–**	**46**
– Adjustment due to fair value change of financial instruments	**(190)**	**–**	**–**	**–**	**–**	**–**	**(190)**
– Interest and finance charges	**–**	**–**	**–**	**18**	**–**	**1,138**	**1,156**
– Discount on issurance of capital market instruments	**3**	**–**	**–**	**–**	**–**	**(3)**	**–**
	(183)	**42**	**–**	**18**	**–**	**1,135**	**1,012**
At 31 December 2018	**23,541**	**11,312**	**450**	**478**	**4,424**	**113**	**40,318**

42 Other Cash Flow Information *(continued)*

	Loans and other obligations						
in HK$ million	Capital market instruments	Bank loans	Finance leases	Others	Short-term loans	Interest and finance charges payables	Total
2017							
At 1 January 2017	20,677	17,018	460	434	1,350	101	40,040
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	7,601	17,823	–	–	–	–	25,424
– Repayment of loans and capital market instruments	(5,185)	(17,705)	(19)	–	(1,025)	–	(23,934)
– Interest and finance charges	–	–	–	–	–	(923)	(923)
	2,416	118	(19)	–	(1,025)	(923)	567
Exchange differences	1	207	51	3	–	(48)	214
Other changes:							
– Unamortised discount/premium/ finance charges outstanding	(35)	(30)	–	–	–	–	(65)
– Adjustment due to fair value change of financial instruments	338	–	–	–	–	–	338
– Interest and finance charges	–	–	–	21	–	1,047	1,068
– Discount on issurance of capital market instruments	54	–	–	–	–	(54)	–
	357	(30)	–	21	–	993	1,341
At 31 December 2017	23,451	17,313	492	458	325	123	42,162

43 Fair Value Measurement

In accordance with HKFRS 13, *Fair Value Measurement*, the level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3: Fair value measured using significant unobservable inputs

A Fair Value Measurements of Fixed Assets

All of the Group's investment properties and self-occupied land and buildings measured at fair value on a recurring basis are categorised as Level 3 of the fair value hierarchy.

During the year ended 31 December 2018, 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 2018 and 2017 by independent qualified 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.

43 Fair Value Measurement *(continued)*

A Fair Value Measurements of Fixed Assets *(continued)*

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 2018 was 3.50% – 5.75% (2017: 3.50% – 6.00%) with a weighted average of 4.8% (2017: 4.9%). The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2018 are shown in note 19. All the fair value adjustment related to investment properties held as at 31 December 2018 and was recognised under investment property revaluation in the consolidated profit and loss account.

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 2018**	**Fair value measurements as at 31 December 2018**	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**1**	**–**	**1**
– Cross currency swaps	**25**	**–**	**25**
– Interest rate swaps	**35**	**–**	**35**
	61	**–**	**61**
Investments in securities	**294**	**294**	**–**
	355	**294**	**61**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**33**	**–**	**33**
– Cross currency swaps	**481**	**–**	**481**
– Interest rate swaps	**31**	**–**	**31**
	545	**–**	**545**

in HK$ million	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	20	–	20
– Cross currency swaps	101	–	101
– Interest rate swaps	47	–	47
	168	–	168
Investments in securities	443	443	–
	611	443	168
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	41	–	41
– Cross currency swaps	379	–	379
– Interest rate swaps	31	–	31
	451	–	451

43 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

The Company

in HK$ million	Fair value at 31 December 2018	Fair value measurements as at 31 December 2018	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**1**	**–**	**1**
– Cross currency swaps	**25**	**–**	**25**
– Interest rate swaps	**35**	**–**	**35**
	61	**–**	**61**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**33**	**–**	**33**
– Cross currency swaps	**481**	**–**	**481**
– Interest rate swaps	**31**	**–**	**31**
	545	**–**	**545**

in HK$ million	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	20	–	20
– Cross currency swaps	101	–	101
– Interest rate swaps	47	–	47
	168	–	168
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	41	–	41
– Cross currency swaps	379	–	379
– Interest rate swaps	31	–	31
	451	–	451

There are no Level 3 measurements of financial instruments. During the years ended 31 December 2018 and 2017, 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.

43 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 2018 and 2017 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

The Group

	At 31 December 2018		At 31 December 2017	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**23,541**	**25,636**	23,451	25,881
Other obligations	**928**	**1,093**	950	1,172

The Company

	At 31 December 2018		At 31 December 2017	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**3,351**	**3,847**	3,808	4,499
Other obligations	**478**	**540**	458	537

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.

44 Share-based Payments

Equity-settled Share-based Payments

The Group granted share options under share option scheme and share awards under Executive Share Incentive Scheme to its Members of the Executive Directorate and certain employees. As at 31 December 2018, the Company maintained the 2007 Share Option Scheme and the Executive 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.

44 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

As at 31 December 2018, 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 2018 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2012 Award 30 March 2012	840,000	27.48	on or prior to 23 March 2019
2013 Award 6 May 2013	2,709,000	31.40	on or prior to 26 April 2020
2014 Award 30 May 2014	4,621,500	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:

	2018		2017	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**13,794,000**	**29.298**	25,605,000	29.284
Exercised during the year	**(5,568,500)**	**29.094**	(11,660,000)	29.267
Forfeited during the year	**(55,000)**	**28.650**	(151,000)	29.219
Lapsed during the year	**–**	**–**	–	–
Outstanding at 31 December	**8,170,500**	**29.441**	13,794,000	29.298
Exercisable at 31 December	**8,170,500**	**29.441**	13,794,000	29.298

The weighted average closing price in respect of the share options exercised during the year was HK$41.700 (2017: HK$45.264).

Share options outstanding at 31 December 2018 had the following exercise prices and remaining contractual lives:

	2018		2017	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$27.48	**840,000**	**–**	1,793,500	1
HK$31.40	**2,709,000**	**1**	4,014,500	2
HK$28.65	**4,621,500**	**2**	7,986,000	3
	8,170,500		13,794,000	

During the year ended 31 December 2018, no expense was recognised for the equity-settled share-based payments relating to the 2007 Share Option Scheme (2017: HK$2 million).

44 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

(ii) Executive Share Incentive Scheme

On 15 August 2014, the Board of the Company approved the adoption of the Executive Share Incentive Scheme, following the expiry of the 2007 Option Scheme on 6 June 2014. The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company. The Executive Share Incentive Scheme took effect on 1 January 2015 for a term of 10 years, under which an award holder may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded to selective eligible employees. Performance Shares are awarded to eligible employees which vest subject to the performance of the Company over a pre-determined performance period, 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.

Subject to the Scheme Rules, the Remuneration Committee shall determine the vesting criteria and conditions or periods for the Award Shares to be vested, subject to review from time to time. An award of Restricted Shares will vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved. The Executive Share Incentive Scheme will be administered by the Company in accordance with the Scheme Rules and the Company has entered into a Trust Deed with the Trustee for the purpose of implementing the Scheme. The number of Award Shares will be acquired in the market at the cost of the Company by the Trustee. Award Shares will be held on trust by the Trustee until the end of each vesting period.

As at 31 December 2018, the following awards of shares were offered to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme:

Restricted Shares

Date of award	Number of Award Shares granted	Average fair value per share HK$	Vesting period
27 April 2015	2,348,150	38.60	20 April 2015 to 20 April 2018
8 April 2016	2,401,150	38.65	1 April 2016 to 1 April 2019
19 August 2016	71,428	42.50	15 August 2016 to 15 August 2019
10 April 2017	2,245,200	44.45	3 April 2017 to 3 April 2020
10 April 2018	**2,208,950**	**42.80**	**3 April 2018 to 3 April 2021**

Performance Shares

Date of award	Number of Award Shares granted	Average fair value per share HK$	Vesting period
27 April 2015	1,681,050	38.60	20 April 2015 to 20 April 2018
8 April 2016	187,200	38.65	1 April 2016 to 20 April 2018
10 April 2017	112,200	44.45	3 April 2017 to 20 April 2018
10 April 2018	**1,772,900**	**42.80**	**3 April 2018 to 3 April 2021**

Movement in the number of Award Shares outstanding was as follows:

	2018	2017
	Number of Award Shares	Number of Award Shares
Outstanding at 1 January	**6,142,188**	5,524,599
Awarded during the year	**3,981,850**	2,357,400
Vested during the year	**(3,866,255)**	(1,570,047)
Forfeited during the year	**(579,488)**	(169,764)
Outstanding at 31 December	**5,678,295**	6,142,188

44 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

Award Shares outstanding at 31 December 2018 had the following remaining vesting periods:

Award Shares	Remaining vesting period years	Number of Award Shares
Restricted Shares		
8 April 2016	0.25	644,774
19 August 2016	0.62	23,810
10 April 2017	1.26	1,307,461
10 April 2018	**2.26**	**2,063,800**
Performance Shares		
10 April 2018	**2.26**	**1,638,450**

The details of the Executive Share Incentive Scheme are also disclosed in the Remuneration Report.

During the year ended 31 December 2018, the equity-settled share-based payments relating to the Executive Share Incentive Scheme recognised as an expense amounted to HK$110 million (2017: HK$117 million).

45 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 2018, 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 Certificate by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and 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 2018, the total number of member was 3,600 (2017: 3,858). In 2018, members contributed HK$72 million (2017: HK$74 million) and the Company contributed HK$183 million (2017: HK$662 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 2018 was HK$8,662 million (2017: HK$9,903 million).

The actuarial valuations as at 31 December 2017 and 2018 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 46.

The actuarial valuations as at 31 December 2017 and 2018 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 2018 included a long-term rate of investment return net of salary increases of 1.17% (2017: 1.00%) 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 2018:

(a) the MTR Retirement Scheme was insolvent, covering 98.6% of the aggregate vested liability had all members left service with their leaving service benefits secured, resulting in a solvency deficit of HK$122 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 2018, 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.

45 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted an MPF Exemption Certificate by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

As at 31 December 2018, the total number of employees participating in the MTR Provident Fund Scheme was 10,177 (2017: 9,662). In 2018, total members' contributions were HK$138 million (2017: HK$125 million) and total contributions from the Company were HK$335 million (2017: HK$312 million). The net asset value as at 31 December 2018 was HK$5,992 million (2017: HK$6,247 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 2018, the total number of employees participating in the MTR MPF Scheme was 5,809 (2017: 6,109). In 2018, total members' contributions were HK$50 million (2017: HK$53 million) and total contribution from the Company were HK$55 million (2017: HK$58 million).

(iv) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF Scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPFSO.

As at 31 December 2018, the total number of employees participating in the KCRC MPF Scheme was 429 (2017: 515). In 2018, total members' contributions were HK$5 million (2017: HK$6 million) and total contribution from the Company were HK$5 million (2017: HK$6 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 2018, total number of the Group's employees participating in this scheme was 575 (2017: 611). In 2018, total members' contributions were HK$26 million (2017: HK$25 million) and total contribution from the Group was HK$54 million (2017: HK$46 million).

Certain employees of the Group's Swedish subsidiary are entitled to receive retirement benefits from the ITP 2 Retirement Scheme operated in Sweden. The benefit amounts are calculated based on the member's years of service and annual salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2018, total number of the Group's employees participating in this scheme was 607 (2017: 670). In 2018, total contribution from the Group was HK$23 million (2017: HK$20 million).

Certain employees of the Group's MTR Crossrail subsidiary are entitled to join the MTR Corporation (Crossrail) section of the Railway Pension Scheme in the United Kingdom. The scheme is a shared cost arrangement whereby the Group is only responsible for a share of the cost. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any net defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation for any deficit in the value of the scheme. Its only obligation is to pay contributions as they fall due. As at 31 December 2018, total number of the Group's employees participating in this scheme was 535 (2017: 394). In 2018, total members' contributions were HK$17 million (2017: HK$10 million) and total contribution from the Group was HK$26 million (2017: HK$15 million). Pension expense of HK$53 million (2017: HK$29 million) was recognised in profit and loss and actuarial gain of HK$28 million (2017: HK$11 million) was recognised in the statement of other comprehensive income.

Except for the retirement schemes described above, all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland of China or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPFSO in Hong Kong. For the Mainland of China or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2018, the total number of employees of the Group participating in these schemes was 12,875 (2017: 11,655). In 2018, total members' contributions were HK$95 million (2017: HK$99 million) and total contribution from the Group was HK$454 million (2017: HK$394 million).

46 Defined Benefit Retirement Scheme

During the year ended 31 December 2018, 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 45). 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	2018	2017
Present value of defined benefit obligations	**(10,022)**	(10,672)
Fair value of scheme assets	**8,662**	9,903
Net liabilities	**(1,360)**	(769)

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$356 million in contribution to the MTR Retirement Scheme in 2019.

B Scheme assets consist of the following:

The Group and The Company

in HK$ million	2018	2017
Equity securities		
– Financial institutions	**638**	901
– Non-financial institutions	**3,697**	4,778
	4,335	5,679
Bonds		
– Government	**2,229**	1,821
– Non-government	**1,851**	2,212
	4,080	4,033
Cash	**415**	366
	8,830	10,078
Voluntary units	**(168)**	(175)
	8,662	9,903

The scheme assets include no amount invested in the ordinary shares of the Company as at 31 December 2018 (2017: HK$nil). Also, there were no investment in other shares and debt securities of the Company as at 31 December 2018 and 2017. 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 2018 (2017: 52.5% in equities and 47.5% in bonds and cash).

46 Defined Benefit Retirement Scheme *(continued)*

C Movements in the Present Value of the Defined Benefit Obligations

The Group and The Company

in HK$ million	2018	2017
At 1 January	**10,672**	10,455
Remeasurements:		
– Actuarial (gains)/losses arising from changes in liability experience	**(97)**	232
– Actuarial losses arising from changes in demographic assumptions	**13**	1
– Actuarial (gains)/losses arising from changes in financial assumptions	**(172)**	168
	(256)	401
Members' contributions paid to the scheme	**72**	74
Benefits paid by the scheme	**(1,002)**	(853)
Current service cost	**303**	328
Interest cost	**233**	267
At 31 December	**10,022**	10,672

The weighted average duration of the present value of the defined benefit obligations is 6.3 years (2017: 6.6 years).

D Movements in Scheme Assets

The Group and The Company

in HK$ million	2018	2017
At 1 January	**9,903**	8,413
Company's contributions paid to the scheme	**183**	662
Members' contributions paid to the scheme	**72**	74
Benefits paid by the scheme	**(1,002)**	(853)
Administrative expenses paid from scheme assets	**(6)**	(6)
Interest income	**218**	222
Return on scheme assets, excluding interest income	**(706)**	1,391
At 31 December	**8,662**	9,903

46 Defined Benefit Retirement Scheme *(continued)*

E Expenses recognised in the profit and loss and other comprehensive income are as follows:

in HK$ million	2018	2017
Current service cost	**303**	328
Net interest on net defined benefit liability	**15**	45
Administrative expenses paid from scheme assets	**6**	6
	324	379
Less: Amount capitalised	**(40)**	(47)
Net amount recognised in profit or loss	**284**	332
Actuarial (gains)/losses	**(256)**	401
Return on scheme assets, excluding interest income	**706**	(1,391)
Amount recognised in other comprehensive income	**450**	(990)

The retirement scheme expense is recognised under staff costs and related expenses in the consolidated profit and loss account.

F The significant actuarial assumptions (expressed as weighted average) and sensitivity analysis are as follows:

	2018	2017
Discount rate	**2.65%**	2.29%
Future salary increases	**4.08%**	4.00%
Unit value increase	**5.25%**	5.00%

The below analysis shows how the present value of the defined benefit obligations as at 31 December 2018 would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2018		2017	
	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	**(153)**	**157**	(171)	176
Future salary increases	**131**	**(124)**	129	(121)
Unit value increase	**22**	**(18)**	48	(42)

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.

47 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 2018:

Location/Development package	Land use	Total gross floor area (sq.m.)	Actual or expected date of completion of construction works*
Hong Kong Station	Office/Retail/Hotel	415,894	Completed by phases from 1998 – 2005
Kowloon Station			
Package Three	Residential/Cross Border Bus Terminus	105,113	Completed in 2005
Package Four	Residential	128,845	Completed in 2003
Package Five, Six and Seven	Residential/Office/Retail/Hotel/ Service Apartment/Kindergarten	504,345	Completed by phases from 2006 – 2010
Olympic Station			
Package One	Residential/Office/Retail/ Indoor Sports Hall	309,069	Completed in 2000
Package Two	Residential/Retail/Market	268,650	Completed in 2001
Package Three	Residential/Kindergarten	104,452	Completed in 2006
Tsing Yi Station	Residential/Retail/Kindergarten	292,795	Completed in 1999
Tung Chung Station			
Package One	Residential/Office/Retail/Hotel/ Kindergarten	361,531	Completed by phases from 1999 – 2005
Package Two	Residential/Retail/Kindergarten	255,949	Completed by phases from 2002 – 2008
Package Three	Residential/Retail/Wet Market/ Kindergarten	413,154	Completed by phases from 2002 – 2008
Hang Hau Station	Residential/Retail	142,152	Completed in 2004
Tiu Keng Leng Station	Residential/Retail	253,765	Completed by phases from 2006 – 2007
Tseung Kwan O Station			
Area 55b	Residential/Retail	96,797	Completed in 2006
Area 56	Residential/Hotel/Retail/Office	163,130	Completed by phases from 2011 – 2012
Tseung Kwan O Area 86 (LOHAS Park)			
Package One	Residential/Retail/Residential Care Home for the Elderly	139,840	Completed in 2008
Package Two	Residential/Kindergarten	310,496	Completed by phases from 2010 – 2012
Package Three	Residential/Kindergarten	129,544	Completed in 2014
Package Four	Residential	122,302	2018
Package Five	Residential	102,336	2019
Package Six	Residential	136,970	2020
Package Seven	Residential/Retail/Kindergarten	115,920	2022
Package Eight	Residential	97,000	2021
Package Nine	Residential/Kindergarten	104,920	2022
Package Ten	Residential	75,400	2022
Choi Hung Park-and-Ride	Residential/Retail	21,574	Completed in 2005
Che Kung Temple Station	Residential/Retail/Kindergarten	90,655	Completed in 2012
Austin Station			
Sites C & D	Residential	119,116	Completed in 2014
Tai Wai Station	Residential/Retail/Bicycle Park	252,480	2022
Tin Wing Stop	Residential/Retail	91,256	2021
Ho Man Tin Station			
Package One	Residential	69,000	2022
Package Two	Residential	59,400	2024
Wong Chuk Hang Station			
Package One	Residential	53,600	2022
Package Two	Residential	45,800	2023
Package Three	Residential/Retail	139,900	2024
Yau Tong Ventilation Building	Residential	30,225	2025

* Completion based on issuance of occupation permit

47 Interests in Joint Operations in Respect of Hong Kong Property Development *(continued)*

The Group's assets held in relation to these joint operations include various site foundation works and related staff and overhead costs, land costs, acquisition cost of development rights and interest expense. These are set off against any payments received from developers in relation to that development package, and the balance is shown on the statement of financial position either as property development in progress or deferred income included in creditors and other payables as the case may be.

During the year ended 31 December 2018, profits attributable to joint operations of HK$2,480 million (2017: HK$609 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.

48 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 75.48% 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 which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. With the Rail Merger, the operating agreement was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 48C 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 ("OA"), which is based on the then existing operating agreement referred to in note 48A 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 OA detailed the design, construction, maintenance and operation of the railways under the expanded franchise. Pursuant to the terms of the 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 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 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.

48 Material Related Party Transactions *(continued)*

D Other than the OA described in note 48C 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 49E.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" of the Report of the Members of the Board.

E The Company entered into the following principal agreements with KCRC and the HKSAR Government in connection with the operation of the High Speed Rail:

(i) Amendment Operating Agreement, which was entered into with the HKSAR Government on 23 August 2018, to amend and supplement the OA, in order to prescribe the operational requirements that would apply to the High Speed Rail.

(ii) Supplemental Service Concession Agreement, which was entered into with KCRC on 23 August 2018, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. During the year ended 31 December 2018, net revenue received or receivable from KCRC in respect of High Speed Rail amounted to HK$104 million (2017: HK$nil).

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.

F The Company entered into project agreements with the HKSAR Government for the design, construction, financing and operation of new railway extensions and, where applicable, the granting of land for commercial and residential property developments along these railway extensions. Project agreements on railway extensions that are still under construction or the property developments in respect of which have not been completed in the current year include:

(i) TKE Project Agreement in respect of the Tseung Kwan O Extension, which was signed on 4 November 1998 and includes the granting of property development rights at four sites along the extension;

(ii) Preliminary Project Agreement, which was signed on 6 February 2008, and Project Agreement, which was signed on 13 July 2009 in respect of the Island Line Extension to the Western District. Pursuant to the agreements, the Company has received from the HKSAR Government a total of HK$12,652 million of government grant as funding support subject to a repayment mechanism. The timeframe for the repayment mechanism was extended to no later than 30 June 2018 by a supplemental agreement between the Company and the HKSAR Government dated 23 December 2016, and further extended for a period ending on or before 31 March 2019 by a second supplemental agreement between the Company and the HKSAR Government dated 29 June 2018. During the year ended 31 December 2018, no payment has been made by the Company to the HKSAR Government under the repayment mechanism (2017: HK$nil). 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 Project 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 South Island Line, which was signed on 17 May 2011 and includes the granting of property development rights at a site in Wong Chuk Hang. 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

48 Material Related Party Transactions *(continued)*

(iv) Project Agreement in respect of the Kwun Tong Line Extension, which was signed on 17 May 2011 and includes the granting of property development rights at a site in Ho Man Tin. 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).

G 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 during the year ended 31 December 2018 include:

(i) The HSR Preliminary Entrustment Agreement, which was signed on 24 November 2008, and the HSR Entrustment Agreement, which was signed on 26 January 2010, in respect of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR"). The two agreements together entrust the Company with the project management of activities leading to the completion of HSR. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2018 are provided in note 23A; 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 2018 are provided in note 23B.

On 30 November 2015, the HKSAR Government and the Company entered into the deed of agreement relating to the further funding and completion of HSR project. Detailed description of the agreement is provided in note 23A.

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.

H 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.

I 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 2018 are provided in notes 33 and 37 respectively.

J In connection with certain property developments along the railway system, the Company has been granted land lots by the HKSAR Government in respect of the following sites during the year:

Property development site	Land grant/ land premium offer acceptance date	Total land premium in HK$ million	Land premium settlement date
Yau Tong Ventilation Building	**18 May 2018**	**151**	**18 May 2018**
		1,364	**3 August 2018**
		1,515	
Site C of Aberdeen Inland Lot No. 467	**17 August 2018**	**12,971**	**24 September 2018**
Site B of Kowloon Inland Lot No. 11264	**1 November 2018**	**7,487**	**13 December 2018**

K On 16 November 2011, the Company and KCRC entered into an Outsourcing Agreement pursuant to which the Company will provide certain administrative and financial activities to KCRC. The Agreement has no specific term but can be terminated by either party giving notice period specified in the Agreement. The fee payable pursuant to the Agreement and the scope of services are to be reviewed on an annual basis and amended upon the mutual agreement of the parties.

L On 5 July 2013, the Company renewed the maintenance agreement with the Hong Kong Airport Authority ("HKAA") in respect of the automatic people mover system ("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$97 million was recognised as consultancy income during the year ended 31 December 2018 (2017: HK$70 million).

48 Material Related Party Transactions *(continued)*

On 18 May 2018, the Company provided a sub-contractor warranty to the HKAA as a result of obtaining a subcontract from a third party for the modification works of the existing System for a seven year period, effective from 25 September 2017 (the "Subcontract"). The Subcontract contains provisions covering the provision and modification of the power distribution, communication and control subsystems in respect of the System.

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.

M Other than those stated in notes 48A to 48L, 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 27, 33 and 37.

N The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 10A. In addition, Members of the Executive Directorate were granted share options under the Company's 2007 Share Option Scheme. Details of the terms of these options are disclosed in note 10B and the Report of the Members of the Board. Their gross remuneration charged to the profit and loss account is summarised as follows:

in HK$ million	**2018**	2017
Short-term employee benefits	**94.5**	90.3
Post-employment benefits	**7.7**	11.7
Equity compensation benefits	**19.3**	22.2
	121.5	124.2

The above remuneration is included in staff costs and related expenses disclosed in note 9A.

O During the year, the following dividends were paid to the Financial Secretary Incorporated of the HKSAR Government:

in HK$ million	**2018**	2017
Ordinary dividends		
– Cash dividends paid	**–**	1,129
– Shares allotted in respect of scrip dividends	**5,081**	3,636
	5,081	4,765
Special dividend paid in cash	**–**	9,756
	5,081	14,521

49 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2018 not provided for in the accounts were as follows:

The Group

in HK$ million	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas operations	Total
At 31 December 2018					
Authorised but not yet contracted for	**8,444**	**–**	**2,560**	**19**	**11,023**
Authorised and contracted for	**14,109**	**194**	**4,756**	**16**	**19,075**
	22,553	**194**	**7,316**	**35**	**30,098**
At 31 December 2017					
Authorised but not yet contracted for	6,246	–	1,868	22	8,136
Authorised and contracted for	13,758	298	5,497	30	19,583
	20,004	298	7,365	52	27,719

In addition to the above, the Group has certain capital commitments in respect of its investments in associates and joint venture. Please refer to note 27 for details.

49 Commitments *(continued)*

A Capital Commitments *(continued)*

The Company

in HK$ million	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Total
At 31 December 2018				
Authorised but not yet contracted for	**8,388**	**–**	**2,522**	**10,910**
Authorised and contracted for	**14,109**	**194**	**4,743**	**19,046**
	22,497	**194**	**7,265**	**29,956**
At 31 December 2017				
Authorised but not yet contracted for	6,214	–	1,821	8,035
Authorised and contracted for	13,758	298	5,482	19,538
	19,972	298	7,303	27,573

(ii) The commitments under Hong Kong transport, station commercial and other businesses comprise the following:

The Group

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 31 December 2018				
Authorised but not yet contracted for	**4,577**	**573**	**3,294**	**8,444**
Authorised and contracted for	**10,113**	**250**	**3,746**	**14,109**
	14,690	**823**	**7,040**	**22,553**
At 31 December 2017				
Authorised but not yet contracted for	3,081	614	2,551	6,246
Authorised and contracted for	9,767	79	3,912	13,758
	12,848	693	6,463	20,004

The Company

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 31 December 2018				
Authorised but not yet contracted for	**4,521**	**573**	**3,294**	**8,388**
Authorised and contracted for	**10,113**	**250**	**3,746**	**14,109**
	14,634	**823**	**7,040**	**22,497**
At 31 December 2017				
Authorised but not yet contracted for	3,049	614	2,551	6,214
Authorised and contracted for	9,767	79	3,912	13,758
	12,816	693	6,463	19,972

49 Commitments *(continued)*

B Operating Lease Commitments

The Group had operating leases on office buildings, staff quarters, bus depot as well as a shopping centre in Beijing as at 31 December 2018. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
in HK$million	**2018**	2017	**2018**	2017
Payable within one year	**132**	148	**14**	24
Payable after one but within five years	**5**	13	**1**	8
	137	161	**15**	32

In addition to the above, the Group has future operating lease commitments of HK$8,698 million (2017: HK$10,557 million) in respect of railway-related subsidiaries outside of Hong Kong over the respective franchise periods, of which HK$1,534 million (2017: HK$1,615 million) is payable within one year, HK$5,518 million (2017: HK$5,949 million) is payable after one but within five years and HK$1,646 million (2017: HK$2,993 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 2018, the Group had total outstanding liabilities and contractual commitments of HK$2,767 million (2017: HK$2,565 million) in respect of these works and services. Cash funds totalling HK$2,496 million (2017: HK$2,232 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 35C), the Company has provided guarantees to the investors of approximately HK$24,146 million (in notional amount) as at 31 December 2018. 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$97.2 million (HK$761 million) as at 31 December 2018. 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$56.0 million (HK$439 million) as at 31 December 2018.

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$60 million) in respect of the quarterly rental payments to the landlord.

In respect of the Shenzhen Metro Longhua Line concession, the Group has provided to the Shenzhen Municipal Government a parent company guarantee in respect of MTR Corporation (Shenzhen) Limited's performance and other obligations under the concession agreement, which can be called if the performance and other obligations are not met. The Group also issued a performance guarantee of RMB15.3 million (HK$17 million) to the Shenzhen Municipal Government in respect of a consultancy agreement.

In respect of the lease for premises in Sydney, the Group provided a rental guarantee of AUD0.1 million (HK$0.5 million) to the landlord.

In respect of the Melbourne train system franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), have provided to the Public Transport Victoria a joint and several parent company guarantee of AUD147.3 million (HK$815 million) and a performance bond of AUD56.3 million (HK$312 million) for MTM's performance and other obligations under the franchise agreement, with each shareholder bearing its share of liability based on its shareholdings in MTM. In respect of the operating lease on the office premises, MTM has provided bank guarantees of AUD4.4 million (HK$24 million) for the monthly rental payments to the landlords.

In respect of the Stockholm metro franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$875 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.

49 Commitments *(continued)*

D Material Financial and Performance Guarantees *(continued)*

In respect of the Stockholms pendeltåg franchise, the Group has provided to the Stockholm transport authorities a guarantee of SEK1,000 million (HK$875 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 Crossrail Franchise, the Group has provided to the Rail for London Limited a parent company guarantee of GBP80 million (HK$799 million) and a performance bond of GBP25 million (HK$250 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 with a liability cap totalling AUD1,558 million (HK$8,622 million) for the design and construction contract as well as the mobilisation phase of the operations and maintenance contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts). The Group has also provided a performance bond of AUD53.5 million (HK$296 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 AUD25.5 million (HK$141 million) as at 31 December 2018 to cover the equity and preferred equity to be invested in the Sydney Metro Northwest project.

As at 31 December 2018, the Group has also provided two parent company guarantees to local government authority as part of the overall Sydney Metro City & Southwest bidding process. One of parent company guarantees is capped at AUD52.0 million (HK$288 million) (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions) while the other provides support in relation to an underlying bid process document which does not attract any express financial liability to the Company and is intended to only provide the corporate commitment by the Group to the bid process. These parent company guarantees will expire upon the financial close of the bid which is expected later in 2019.

In respect of the South Western Trains Franchise, the Group has provided to the Secretary of State for Transport several parent company guarantees of GBP26.2 million (HK$262 million), a performance bond of GBP4.5 million (HK$45 million) and a season ticket bond amounting to GBP23.5 million (HK$235 million) as at 31 December 2018 for the performance and other obligations under the franchise agreement.

In respect of the Macau Light Rapid Transit Taipa Line, the Group has provided to the Macau transport authorities a number of bank guarantees amounting to MOP259.2 million (HK$252 million) as at 31 December 2018 for the performance and other obligations under the project.

In respect of the Hangzhou Metro Line 1 and Line 5 concessions, the Group is required to provide handover bank bonds to the Hangzhou Municipal Government before the end of the concessions for a period of three years to cover any non-compliance of handover requirements under the concession agreements.

As at 31 December 2018, no provision was recognised in respect of the above financial and performance guarantees.

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.

50 Company-level Statement of Financial Position

in HK$ million	Note	**At 31 December 2018**	At 31 December 2017
Assets			
Fixed assets			
– Investment properties	19	**80,396**	75,352
– Other property, plant and equipment	20	**101,319**	101,405
– Service concession assets	21	**24,392**	22,996
		206,107	199,753
Property management rights	22	**26**	26
Property development in progress	24A	**14,840**	14,810
Deferred expenditure	25	**1,878**	710
Investments in subsidiaries	26	**1,784**	1,455
Interests in associates	27	**24**	24
Properties held for sale	29	**1,156**	876
Derivative financial assets	30	**61**	168
Stores and spares	31	**1,166**	1,119
Debtors and other receivables	32	**5,743**	3,460
Amounts due from related parties	33	**16,236**	15,145
Cash, bank balances and deposits	34	**10,757**	11,299
		259,778	248,845
Liabilities			
Bank overdrafts	35A	**–**	4
Short-term loans	35A	**4,395**	325
Creditors and other payables	36	**19,776**	22,351
Current taxation	40A	**1,006**	695
Amounts due to related parties	37	**23,268**	22,327
Loans and other obligations	35A	**12,810**	18,803
Obligations under service concession	38	**10,236**	10,292
Derivative financial liabilities	30	**545**	451
Deferred tax liabilities	40B	**12,803**	12,649
		84,839	87,897
Net assets		**174,939**	160,948
Capital and reserves	41		
Share capital		**57,970**	52,307
Shares held for Executive Share Incentive Scheme		**(265)**	(173)
Other reserves		**117,234**	108,814
Total equity		**174,939**	160,948

Approved and authorised for issue by the Members of the Board on 7 March 2019

Frederick S H Ma
Chairman

Lincoln K K Leong
Chief Executive Officer

Herbert L W Hui
Finance Director

51 Accounting Estimates and Judgements

A Key sources of accounting estimates and estimation uncertainty include the following:

(i) Estimated Useful Life and Depreciation and Amortisation of Property, Plant and Equipment and Service Concession Assets

The Group estimates the useful lives of the various categories of property, plant and equipment and service concession assets on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives (note 2I).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at the end of each reporting period according to accounting policies set out in note 2H(ii). Long-lived assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount of an asset is the greater of the fair value less costs to sell and value in use. In estimating the value in use, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the MTR Retirement Scheme. The determination of the Group's obligation and expense for the defined benefit element of the scheme is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 45A(i) and 46F.

(iv) Profit Recognition on Hong Kong Property Development

Recognition of Hong Kong property development profits requires management's estimation of the final project costs upon completion, assessment of outstanding transactions and market values of unsold units and, in the case of sharing-in-kind properties, the properties' fair value upon recognition. The Group takes into account independent qualified surveyors' reports, past experience on sales and marketing costs when estimating final project costs on completion and makes reference to professionally qualified valuers' reports in determining the estimated fair value of sharing-in-kind properties.

(v) Properties Held for Sale

The Group values unsold properties at the lower of their costs and net realisable values (note 29) 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 48C, 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.

51 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following: *(continued)*

(viii) Income Tax

Certain treatments adopted by the Group in its Hong Kong Profits Tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the 2018 accounts, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

As detailed in note 32, there are tax queries from the IRD with the Company on tax deductibility of certain expenses and payments for which the ultimate tax determination is uncertain up to the date of this annual report. The Group recognises tax provision for these tax matters based on estimates of whether additional taxes will eventually be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax expenses in the period when such determination is made.

(ix) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(x) Deferred Expenditure

As disclosed in note 2J(i), the Group capitalises proposed railway and property development project costs in deferred expenditure when the projects are at a detailed study stage and having been agreed based on a feasible financial plan. Such decision involves the Board's judgement on the outcome of the proposed project.

(xi) Fair Value of Derivatives and Other Financial Instruments

In determining the fair value of financial instruments, the Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For financial instruments that are not traded in active markets, the fair values were derived using the discounted cash flows method which discounts the future contractual cash flows at the current market interest or foreign exchange rates, as applicable, for similar financial instruments that were available to the Group at the time.

(xii) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

B Critical accounting judgements in applying the Group's accounting policies include the following:

Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event (including in relation to those under entrustment arrangements), and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. Other than set out in note 23, as at 31 December 2018, 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.

52 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2018

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 2018 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
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over Income Tax Treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term Interest in Associates and Joint Ventures*	1 January 2019

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*.

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. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for other property, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit and loss account over the period of the lease.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 49B, at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$8,835 million, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted accordingly after taking account the effects of discounting, as at 1 January 2019. Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material.

The above assessment is based on the information currently available to the Group and the actual impact upon the initial adoption of this standard may differ from the assessment completed to date and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

53 Approval of Consolidated Accounts

The consolidated accounts were approved by the Board on 7 March 2019.

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 , a company which was incorporated in Hong Kong under the Companies Ordinance on 26 April 2000
Companies Ordinance	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong or the predecessor Companies Ordinance Chapter 32 of the Laws of Hong Kong (as the case may be))
Computershare	Computershare Hong Kong Investor Services Limited, the share registrar of the Company
Cross-boundary Service or Cross-boundary	Journeys with the destination to/commencing from Lo Wu and Lok Ma Chau stations
Customer Service Pledge	Annually published performance targets in accordance with the Operating Agreement
Director or Member of the Board	A member of the Board
Domestic Service	Collective name for Kwun Tong, Tsuen Wan, Island, South Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines
Express Rail Link or High Speed Rail or HSR	Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, also known as Guangzhou-Shenzhen-Hong Kong High Speed Rail (Hong Kong Section) after the commencement of passenger service on 23 September 2018
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 Service or Intercity	Intercity passenger services operated between Hong Kong and major cities in the Mainland of China such as Beijing, Shanghai and Guangzhou
Interest Cover	Operating profit before depreciation, amortisation and variable annual payment divided by gross interest and finance charges before capitalisation, utilisation of government subsidy for Shenzhen Metro Longhua Line operation and accreted interest on loan to a property developer

GLOSSARY

KCRC	Kowloon-Canton Railway Corporation
Kowloon Southern Link	Project for extension of the West Rail Line from Nam Cheong Station to East Tsim Sha Tsui Station via Austin Station, providing direct access between the East Rail Line and West Rail Line after the completion of the project
Light Rail	Light rail system serving North West New Territories
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MTR Ordinance	The Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)
Net Debt-to-equity Ratio	Loans and other obligations, bank overdrafts, short-term loans, obligations under service concession and loan from holders of non-controlling interests net of cash, bank balances and deposits, and investment in bank medium term notes in the consolidated statement of financial position as a percentage of the total equity
Operating Agreement	The agreement entered into by the Company and the Government on 30 June 2000 for the operation of our rail services before the Rail Merger and a new agreement entered on 9 August 2007 for the operation of all of our rail and bus passenger services after the Rail Merger
Operating Margin	Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment as a percentage of total revenue
Ordinary Shares	Ordinary shares in the capital of the Company
Rail Merger or Merger	The merger of the rail operations of MTR Corporation and KCRC and the acquisition of certain property interests by MTR Corporation from KCRC, full details of which are set out in the Rail Merger Circular. The Rail Merger was completed on 2 December 2007
Rail Merger Ordinance	The Rail Merger Ordinance (Ordinance No.11 of 2007)
Return on Average Equity Attributable to Shareholders of the Company	Profit attributable to shareholders of the Company as a percentage of the average of the beginning and closing total equity attributable to shareholders of the Company of the period
Service Concession	A contract to provide services for a particular period which is awarded by a public sector entity to an operator; in the context of concession projects in Hong Kong, service concession refers to the concession granted or to be granted by KCRC and/or Government to the Company to operate, maintain and renew certain railway lines under the Service Concession Agreement or a Supplemental Service Concession Agreement, as more particularly described in the 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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