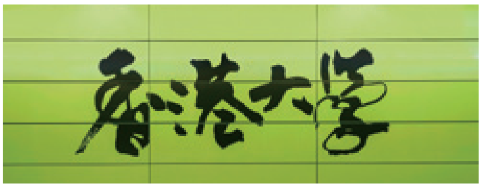
MTR

ANNUAL
REPORT
2014



Sharing Journeys Delivering Growth

Sharing Journeys Delivering Growth

For 35 years we have shared Hong Kong's journey of economic development through building one of the world's most efficient, safe, reliable and convenient rail transport services. Our rail plus property business model has in turn generated sustainable returns year after year for our shareholders. In this 2014 Annual Report, we explain how our expanding operations in Hong Kong, the Mainland of China and overseas have once again delivered growth.

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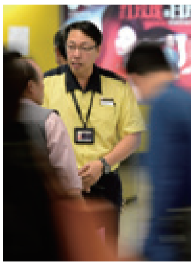


Passenger Journeys on-time 99.9%

Domestic Service Fare Revenue Per Passenger HK$7.31

Share of Franchised Public Transport Market 48.1%

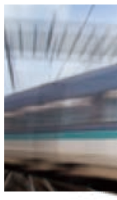
Total Route Length 220.9km

4 New Railway Projects are in progress

53km Will be added to our Hong Kong network

Consolidated Financials

Hong Kong Network Expansion



Total Revenue HK$40.2 billion

Underlying Profit HK$11.6 billion

Net Assets HK$163.5 billion

Net Debt-to-Equity Ratio 7.6%

Investment Property Portfolio in Hong Kong includes

212,500 sq.m. of Retail Properties

41,006 sq.m. of Offices

Hong Kong Property Development Profit

HK$ 4.2 billion

MTR Corporation In Numbers – 2014

Human Resources

24,154 Staff Worldwide

Mainland of China and International Businesses

Over 1.45 billion Passengers carried by our rail operations

in 6 Cities Outside of Hong Kong

Station Commercial Revenue

18.0% of Total Revenue in Hong Kong

Hong Kong Property and Other Businesses

Hong Kong Station Commercial Businesses

Hong Kong Operating Network with Future Extensions

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

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

Projects in Progress
- Guangzhou-Shenzhen-Hong Kong Express Rail Link
- Kwun Tong Line Extension
- South Island Line (East)
- Shatin to Central Link

Potential Future Extensions
- North Island Line
- Northern Link
- South Island Line (West)
- Extension to Central South

Properties Owned / Developed / Managed by the Corporation

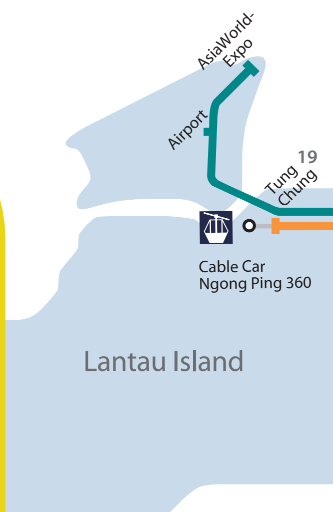
01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Towers
11 Hongway Garden / Infinitus Plaza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

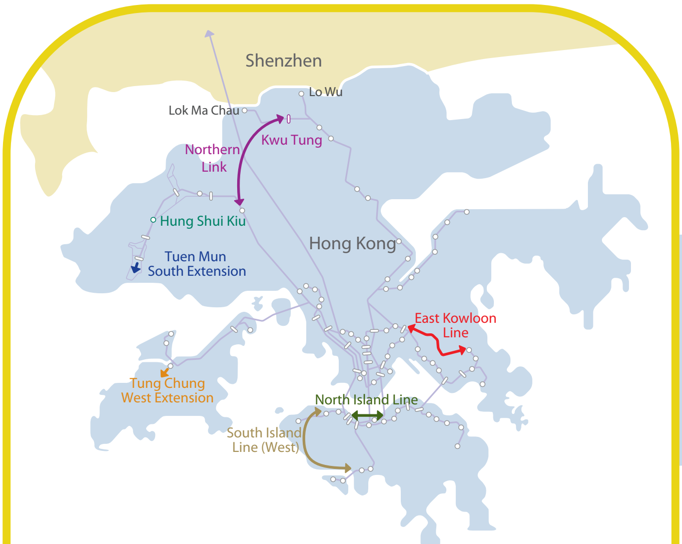
Property Developments Under Construction / Planning

34 LOHAS Park Package 4-10
40 Tai Wai Station
41 Tin Wing Stop
43 Wong Chuk Hang Station
44 Ho Man Tin Station

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

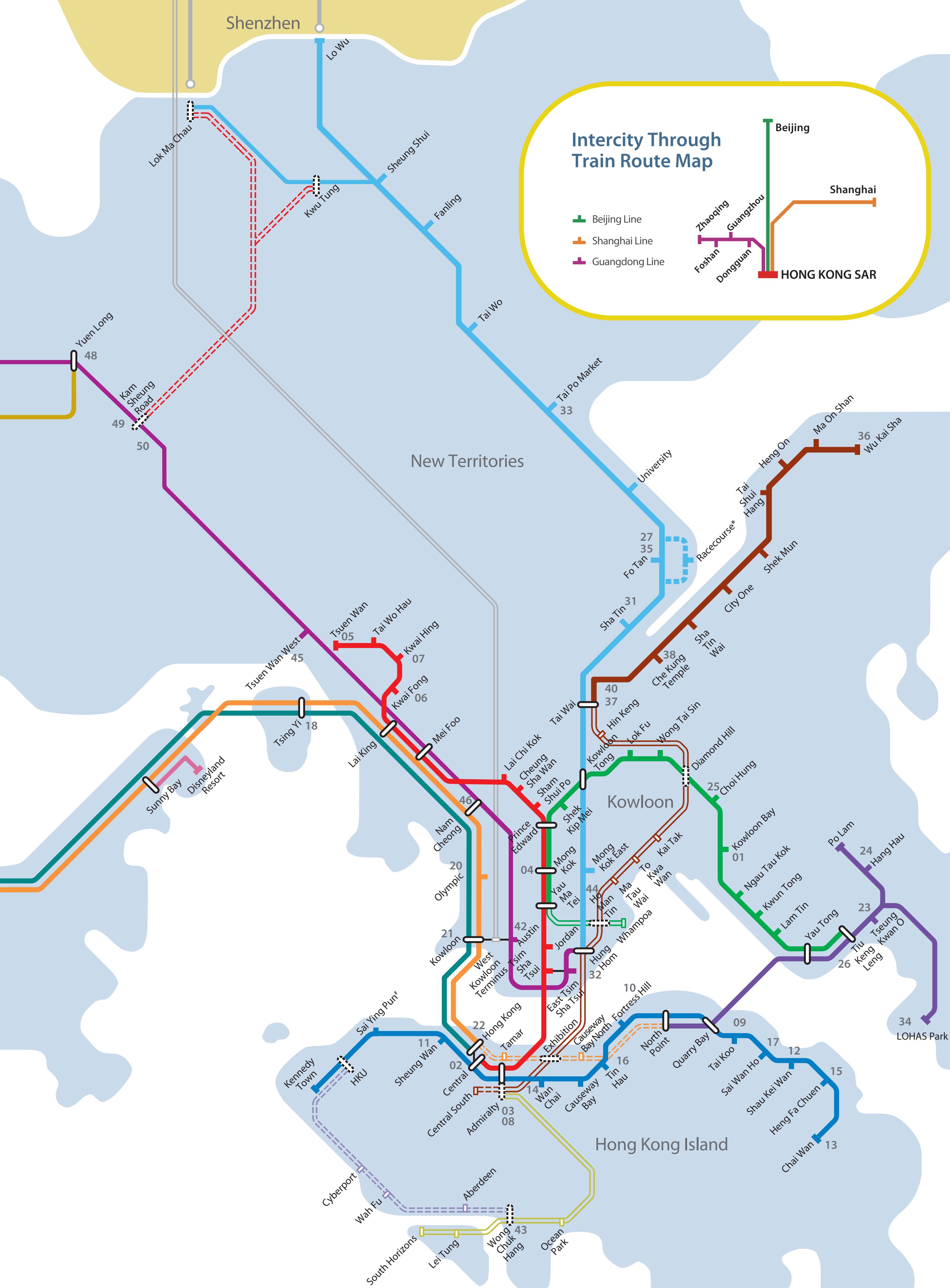
39 Century Gateway / Century Gateway II
45 Tsuen Wan West Station (TW5) Bayside / Tsuen Wan West Station (TW5) Cityside / Tsuen Wan West Station (TW6) / City Point
46 Nam Cheong Station
47 Long Ping Station (North) / Long Ping Station (South)
48 Yuen Long Station
49 Kam Sheung Road Station
50 Pat Heung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





Railway Projects Proposed in the Railway Development Strategy 2014

- Station
- Interchange Station
- Existing or Committed Railway
- New Railway Scheme (Preliminary Concept) (Shown in different colours)



Sai Ying Pun Station will open on 29 March 2015

MTR Corporation at a Glance

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

Hong Kong Transport Operations

Business Description

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

2014 Highlights

- Fare revenue increased 7.0% on higher patronage, further gains in market share and increased fares
- Total patronage increased 4.5% to 1,905 million with on-time performance maintained at 99.9%
- Spending of over HK$6 billion on maintenance, renewals and service improvements
- A new package of fare promotions introduced with an estimated value of approximately HK$500 million, as part of our 35th Anniversary celebrations
- Enhanced train frequencies with over 2,400 additional weekly services provided since 2012
- Western extension of the Island Line opened in December 2014
- Construction works for the South Island Line (East), Kwun Tong Line Extension, Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Shatin to Central Link all proceeding with further review and monitoring of the projects in light of the complexity and continued challenges encountered

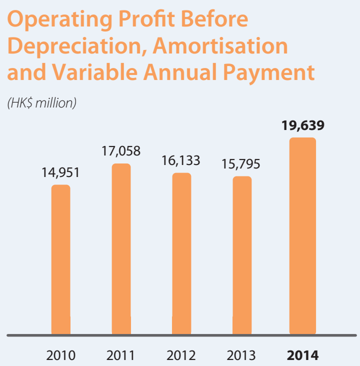
Hong Kong Station Commercial Businesses

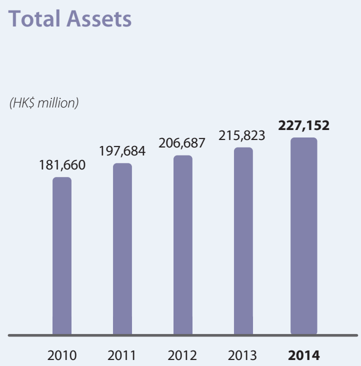
Business Description

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

2014 Highlights

- Station rental revenue rose on trade mix refinements, rental renewal of station shops and rental increases from the Duty Free Shops
- "Soccer Fever" and other sales packages have been rolled out in the year to generate more advertising revenue
- Installation is underway for Wi-Fi services in South Island Line (East) and Kwun Tong Line Extension stations, targeting services on first day of station operation





Hong Kong Property and Other Businesses

Business Description

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

2014 Highlights

- Strong pre-sale of Grand Austin (Austin Station Site D) with 99% of units sold, and property development profit generated from both The Austin (Austin Station Site C) and Grand Austin
- Successfully tendered LOHAS Park Packages 4 and 5 as well as Tai Wai Station site in 2014; LOHAS Park Package 6 and Tin Wing Stop sites in the first quarter of 2015
- Successful completion of the repartitioning and trademix enhancement project of Luk Yeung Galleria ground floor

Mainland of China and International Businesses

Business Description

We have invested in and operate urban rail networks and related property developments in the Mainland of China, operating concessions in the UK, Sweden and Australia. We have also invested in our first international Public-Private-Partnership project, in Sydney, Australia. Going forward, we will focus on successfully delivering our newly awarded businesses and continue prudently to pursue new railway and rail-related business opportunities that will generate incremental benefits to our shareholders.

2014 Highlights

In our Mainland of China railway and property businesses:

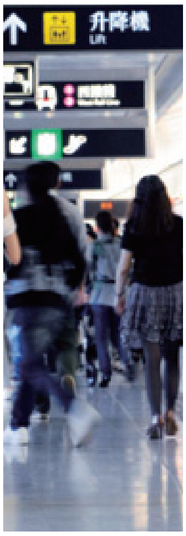
- Beijing Metro Line 14 Phase 2 East Section opened on 28 December 2014, covering 12 stations (two are currently bypassed)
- Phase 1 pre-sales of our first property project in Shenzhen, Tiara, will be launched in the first half of 2015, subject to market conditions

In our International railway businesses:

- Awarded the concession contract to operate Crossrail services for an eight-year period, with an option to extend to ten years
- Awarded the Operations, Trains and Systems Public-Private-Partnership Contract for the Sydney North West Rail Link, our first international Public-Private-Partnership project
- Secured the track access between Stockholm and Gothenburg to launch the MTR Express inter-city service in Sweden in March 2015

Chairman's Letter

Dr Raymond Ch'ien Kuo-fung
Chairman



In the 35 years since we started running passenger services, 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.

Dear Shareholders and other Stakeholders,

The year 2014 saw good performances and achievements from our businesses as we marked our 35th year of operations. In Hong Kong, the Western extension of the Island Line (also known as the West Island Line) opened in December, generating much excitement within MTR and amongst the community. Our transport operations continued to deliver world-class levels of service and safety, despite increasing patronage as well as a surge in demand during the public order events in Hong Kong in the latter part of the year. Improved demand for residential properties led to buoyant sales for our developments and the successful tendering of a number of our property development sites. Outside of Hong Kong, our associate company, Beijing MTR Corporation Limited, opened Phase 2 East Section of Beijing Metro Line 14 in December and we also secured two new landmark projects, the Crossrail Train Service ("Crossrail") in London and the North West Rail Link in Sydney, Australia.

However the year was not without its challenges. We announced delays in the construction and delivery of the four remaining rail network expansion projects in Hong Kong, resulting in cost increases. Although our train service delivery and passenger journeys on-time in Hong Kong remained at 99.9% in our heavy rail network, the year did see a slight increase in the number of longer delays to journeys, with 31 minutes or longer delays increasing from 8 to 12 cases.

Our financial results reflected the overall success of the year. MTR's recurrent profit after tax, being underlying profits before property development profits and investment property revaluation attributable to equity shareholders, increased by 7.9% to HK$8,024 million. With an increase in post-tax property development profits to HK$3,547 million, underlying profits before investment property revaluation rose by 34.5% to HK$11,571 million. Including investment property revaluation, net profit attributable to equity shareholders was HK$15,606 million, representing earnings per share after revaluation of HK$2.69. Your Board has proposed a final dividend of HK$0.80 per share, resulting in the full-year dividend increasing by 14.1% to HK$1.05 per share, with a scrip dividend option offered.

Building Value for the Long Term

We celebrated our 35th Anniversary at the International Chinese New Year Night Parade, continued with activities ranging from the "Journeys with You for 35 Years" poster campaign to the "Thank You" campaign during which we distributed anniversary gifts. Alongside the celebrations, we showed our sincere appreciation to passengers for their support over the decades through a package of fare promotions worth approximately HK$500 million, adding to the annual HK$2.2 billion worth of ongoing fare promotions and concessions which we already offer today.

In the 35 years since we started running passenger services, 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.

Providing passengers with a safe and reliable public transport service has brought us widespread acclaim and given us the ability to leverage our expertise and reputation into new areas of growth in other markets. Our long-term vision is to be a leading multinational company that connects and grows communities with caring service. Our immediate goals as we pursue this vision are to grow and enhance our Hong Kong core businesses, strengthen our Hong Kong corporate citizen reputation and accelerate our growth in the Mainland of China and internationally.

In Hong Kong, we continue to invest in our railway assets to make journeys more reliable, convenient and comfortable, while expanding the network to bring new populations within reach of our services. The opening of the Western extension of the Island Line has brought the benefits of our network to new areas of Hong Kong Island, making travel more convenient for many more thousands of people every day.

Work now continues on the four remaining Hong Kong network expansion projects, namely the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link"), the South Island Line (East), the Kwun Tong Line Extension and the Shatin to Central Link. We are addressing the delays experienced by these projects, in particular the

Express Rail Link, by enhancing processes and oversight. As part of this enhancement, the Board has established the Risk Committee and the Capital Works Committee to provide additional monitoring of overall enterprise risk as well as major capital projects. The Independent Board Committee ("IBC"), which was established by the Board to investigate the reasons for the delays of the Express Rail Link, has completed its work and its recommendations are being implemented. I would like to take this opportunity to thank the IBC and the two experts hired by the IBC, for their hard work and recommendations.

On 30 January 2015, the Office of the Chief Executive of HKSAR made public the Report of the Express Rail Link Independent Expert Panel. We have reviewed this report in conjunction with our two experts appointed by the IBC and will assist Government to implement recommendations where appropriate.

Moving beyond the current new rail lines under construction in Hong Kong, as public consultations have demonstrated, there is strong support for expanding the rail network even further, as highlighted by Government, making rail the backbone of public transportation. The new Railway Development Strategy 2014 has outlined Government's agenda for railway expansion in Hong Kong up to 2031. Seven new railway projects are proposed, and we will continue to work with, and support, Government in the delivery of these new railways for the community.

In the Mainland of China and internationally, our existing railway services are performing well. The Phase 2 East Section of Beijing Metro Line 14 became operational during the year and work on the third phase continues to progress. Preparation works for new rail projects and franchises, including Crossrail, North West Rail Link and MTR Express in Sweden, are progressing as planned. Shortly after signing the Letter of Intent for the Beijing Metro Line 16 ("BJL16") Public-Private-Partnership ("PPP") project, the Concession Agreement for BJL16 was initialled on 8 February 2015. Our property projects in the Mainland of China also continue to make progress, with initial pre-sales for Tiara, the residential development in Shenzhen, expected in the first half of 2015, subject to market conditions.

Corporate Responsibility

We are very focused on corporate responsibility as it is integral to the long-term success of the Company and the communities we serve. We strive to achieve this by generating economic growth in a responsible manner, having regard to our stakeholders' interests, through providing jobs and careers, whilst contributing positively to the community and managing our impact on the environment. This approach enables us to maintain the Company's position as a good corporate citizen that builds and connects communities across the world.

Our Operations

Sustainable Business Model

A sustainable business model is key to the long-term success of MTR. Two components of this model are particularly important – our "financing model" and the Fare Adjustment Mechanism ("FAM").

At MTR we use a number of proven financing models such as the "Rail plus Property", PPP and operating franchises. The "Rail plus Property" model is unique among them and has served Hong Kong and MTR well over many decades. It is pleasing to note that a number of cities from all over the world visit us on a regular basis to learn more about this model and how it may be replicated in their home markets.

A resilient business model over the long term is critical to ensuring the continued delivery of a high-quality rail service. For instance, the maintenance and upgrades to our existing rail system in Hong Kong cost over HK$6 billion in 2014. This amount is expected to increase significantly over time as the network matures. To ensure that adequate funds are available to re-invest back into the system, in order to maintain a high quality service, a sustainable fare structure is critical. Our current FAM is such a structure, which is transparent and objective, and is important to the long-term sustainability of quality rail service in Hong Kong.

Safety and Service

Our more than 16,000 staff in Hong Kong are dedicated to serving the community and to providing reliable and comfortable train journeys for our passengers. This attitude was reflected in train service performance in 2014, which despite the growth in passenger numbers, was maintained at a very high level by world standards, with train service delivery and passenger journeys on-time across the network maintained at 99.9%.

Ensuring the safety of our customers, the public, contractors and employees is an absolute priority. Our Corporate Strategic Safety Plan comprises three strategic approaches, namely fostering a Safety-First culture, driving continuous improvement and engaging stakeholders to achieve our safety goals. Our efforts to reinforce the Safety-First culture and continuous improvement in safety management secured us three awards in the 13th Hong Kong Occupational Safety & Health Award, jointly organised by the Occupational Safety and Health Council, the Labour Department and 13 other organisations.

We have also continued to work in close partnership with contractors to enhance safety standards at construction sites. For railway expansion projects, we engaged Det Norske Veritas to conduct bi-annual safety audits on all major contractors. For property development projects, in addition to our Safety Incentive Scheme, we launched a Safety Hero Award Scheme to encourage our contractors to carry out all construction works in a safe and sound manner.

Environment and Natural Resources

In both our railway and property operations, we strive to be resource-efficient and ecologically sustainable. In addition to the Corporate Sustainability Policy, our environmental principles are outlined in our Climate Change and Corporate Biodiversity policies. These commit us to reducing carbon emissions, increasing energy efficiency, protecting important natural habitats and taking steps to mitigate any negative impacts of our operations. In response to growing concerns over food waste and landfill capacity, MTR Malls have been serving on the Steering Committee of the Food Wise Hong Kong Campaign under the Environment Bureau since 2013. MTR Malls also initiated their own "MTR Malls Food Waste Reduction Pledge" incentive scheme to encourage food waste reduction practices in the shopping mall sector.

Our People

Attracting and maintaining a workforce that is well-equipped to support our businesses and expansion is important to our continued success. We make every effort to achieve this, including running various recruitment campaigns to attract the right calibre of candidates. We also develop and nurture talents and provide them with opportunities for career progression. Through various staff communication channels and engagement programmes, we talk with staff and resolve issues of concern. Meanwhile, motivational schemes and ways to recognise staff for their contributions, teamwork, professionalism and living MTR values are being rolled out across all our operations, both in Hong Kong and overseas.

Our Customers

We are committed to improving and upgrading our service to meet our customers' needs. In 2014, we implemented a number of initiatives to enhance customer convenience, comfort and accessibility, in response to customers' suggestions. These included additional train services, improvements in station access and facilities, and the enhancement of communication platforms. Our ability to keep Hong Kong moving during the public order events testifies to our absolute determination to serve the community to the best of our ability.

The promotions and concessions which we offer our passengers every year help reduce the burden of travel costs for a variety of different demographic groups in the community, as well as for longer distance travellers and frequent users. Such promotions and concessions in 2014 add up to approximately HK$2.7 billion, representing 17% of our fare revenue (after the deduction of such promotions and concessions).

Contributions to Society

Youth

Young people are future innovators and business partners, hence investing in them is integral to building and sustaining communities. Through our community investment initiatives, our goal is to empower them with skills, motivation, perspectives and opportunities to create a secure future for themselves and their communities.

Caring for the community is one of our core beliefs. Our colleagues continued to actively support our mentoring programme for secondary school students, "'Friend' for Life's Journeys", and they reached out to primary and secondary schools to impart MTR's enterprising spirit and work improvement practices through the "School-Company-Parent Programme" and the "Student Quality Circle Programme". Our leadership development programme, "'Train' for Life's Journeys", also helped secondary school students build confidence, develop a positive attitude, and enhance their communications and project-management skills.

In addition, we collaborated with the Hong Kong Council of Social Service and local universities to offer summer internship opportunities for university students with disabilities or special educational needs, in support of the Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme initiated by the Labour and Welfare Bureau. We also maintained our support for the Hong Kong Athletes Career & Education Programme, which gives retired athletes job opportunities and life skills training.

Arts

Celebrating our communities' heritage, history and identities, our "art in mtr" initiative, which is now in its 16th year, continues to enhance passengers' journeys. Marking our 35th Anniversary, in June we showcased the evolution of MTR tickets as well as various specially-designed tickets commemorating important occasions for Hong Kong in an "arttube" exhibition entitled "MTR Ticket Collection – 35 Years of Tickets to Ride".

Our "living art" programme has gone from strength to strength with weekly performances ranging from dance to traditional Chinese music being staged in stations. Our 55 community art galleries located within our stations offer an opportunity for residents to showcase their creativity.

In addition, our "art in station architecture" programme continues to enrich the travelling environment within the MTR network. This programme also offers a platform for communities to contribute to the design of their station. For instance, we invited members of the community to submit original artwork proposals for the new stations on the Western extension of the Island Line. The winning proposal, "Blooming Bud", which contains silhouettes of the local youth and handprints from children residing in the area, is now on permanent display in Kennedy Town Station. Photographs capturing memories of Western District taken by members of the public have been turned into collages that adorn the concourse and passageways of the new stations.

Supporting our communities

With the Company's support and encouragement, our employees also reached out to the community in a variety of other ways. In 2014, our "More Time Reaching Community" scheme organised 245 community projects involving over 6,000 volunteers. It was with great regret that the MTR HONG KONG Race Walking 2014, a charity event that has been held every year since 2005, was cancelled after a careful assessment of the prevailing situation along the race circuit and its vicinity. Nonetheless, we made a special donation of HK$10 million to the Hospital Authority through the Hospital Authority Charitable Foundation. We saw this as one way to express our appreciation to the public for their support during this period. This donation was in addition to the more than HK$15.5 million given by the Company and staff to charitable and other organisations during the year.

Recognition for Corporate Responsibility

During 2014, the Company's efforts to operate in a responsible way that balances the needs of our diverse stakeholder community again received wide recognition.

We have for many years been included in relevant investor indexes, including the Dow Jones Sustainability Index Asia Pacific, the FTSE4Good Index Series and the Hang Seng Corporate Sustainability Index.

Since 2011, we have been awarded the "5 Years Plus Caring Company Logo", and in 2014, we also gained a number of awards and certifications for our corporate responsibility practices.

Management Transition

I welcome Mr Lincoln Leong as the Company's Chief Executive Officer ("CEO"). Lincoln has been a member of MTR's Executive Directorate since 2002 and has been Acting Chief Executive Officer since August of last year. With Lincoln's knowledge of the Company, the opportunities and challenges which we face, the Board and I look forward to working with Lincoln and the Executive Directorate to deliver on the Company's vision.

I would like to take this opportunity again to extend my thanks to Mr Jay Walder, who left the Company as CEO in August 2014. I welcome to the Board the Hong Kong Permanent Secretary for Development (Works) Mr Wai Chi-sing as Non-executive Director and Mr James Kwan Yuk-choi, Mrs Lucia Li Li Ka-lai and Mr Benjamin Tang Kwok-bun as Independent Non-executive Directors, who were appointed on 14 October 2014. I likewise welcome Dr Eddy Fong Ching as Independent Non-executive Director, who was appointed on 13 January 2015. Their presence raises the Board strength to 20 members. Mr T. Brian Stevenson, after having served on the Board for more than 12 years, will retire as Independent Non-executive Director of the Company at our Annual General Meeting on 20 May 2015. I would like to thank Mr Stevenson, who is also currently the Chairman of the Audit Committee and a member of the Remuneration Committee, for his valuable contributions and service to both the Board and the Company over the past years.

I also welcome Dr Philco Wong who was appointed Projects Director on 28 October 2014 upon the retirement of Mr TC Chew.

My gratitude goes to my fellow directors for their invaluable counsel during the year. I also thank all of our staff members for their dedication to service excellence, especially for responding so well to the additional demands made on them by the public order events in Hong Kong. Such all-round dedication makes me confident that, working together, we will achieve our vision.

Raymond K.F. Ch'ien

Dr Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 16 March 2015

CEO's Review of Operations and Outlook

In our 35th Anniversary year we made further progress on our strategy of maintaining high levels of service performance in our railway operations, while expanding our businesses both in Hong Kong and internationally. This in turn supported a good set of financial results for 2014...

Lincoln Leong Kwok-kuen
CEO

Dear Shareholders and other Stakeholders,

In our 35th Anniversary year we made further progress on our strategy of maintaining high levels of service performance in our railway operations, while expanding our businesses both in Hong Kong and internationally. This in turn supported a good set of financial results for 2014, with higher profits from our recurrent businesses and increased contributions from property development.

Among the year's notable successes, the opening of the Western extension of the Island Line to HKU and Kennedy Town stations in December 2014, marked another major milestone and aroused considerable excitement not only within MTR, but in the wider Hong Kong community. The new service will greatly benefit the many thousands of people living in or travelling to the Western District of Hong Kong. Overall, our Hong Kong rail services again reported world-class levels of performance. This achievement was made all the more remarkable by the increase in passenger numbers and train trips brought about by service enhancements as well as the public order events in Hong Kong during the second half of the year. During the public order events, lines such as the Island Line and stations such as Sheung Wan saw significant increases in patronage, to which we responded with additional services and an increase in staffing. Our contribution to keeping Hong Kong moving during this challenging time is a testament to the dedication of our staff and the efficiency of our operations. More generally, our Listening • Responding programme continues to invest in service enhancements that respond directly to feedback from our passengers, as we strive to make journeys more frequent, safer and more comfortable. More than 1,100 additional weekly train trips were added over the course of the year.

Property development is an important part of the Company's business. In addition to strong sales at existing developments, 2014 saw a very active tendering cycle as we responded to market demand for new sites, with the momentum continuing into 2015. These tenders, comprising three more packages at LOHAS Park, the Tai Wai Station site as well as the Tin Wing Stop site, will help to meet the need for more housing in Hong Kong.

Outside of Hong Kong, we continue to expand our footprint, while focusing on projects that generate sustainable returns. In the United Kingdom, we were honoured to have been granted the Concession Agreement to operate the Crossrail Train Service ("Crossrail") in London, one of the largest new rail routes to have been built in Europe in recent years. In Australia, the consortium of which MTR is a member was awarded the Operations, Trains and Systems Contract for the Sydney North West Rail Link ("NWRL"), which is our first international Public-Private-Partnership ("PPP") project. In the Mainland of China, Beijing MTR Corporation Limited ("BJMTR") signed the Concession Agreement for Beijing Metro Line 14 ("BJL14") PPP project with the Beijing Municipal Government on 26 November 2014, and opened Phase 2 East Section of BJL14 on 28 December 2014. The Concession Agreement for Beijing Metro Line 16 ("BJL16") was also initialled on 8 February 2015.

Despite the overall success in 2014, a significant challenge which we faced was the delays, and in a number of cases, cost increases to our Hong Kong network expansion projects, including the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link"), South Island Line (East), Kwun Tong Line Extension and Shatin to Central Link. Our Board established an Independent Board Committee ("IBC") to examine the Express Rail Link project delay and we are now implementing the recommendations made in the two IBC reports to enhance our reporting, monitoring and communication processes. A number of these recommendations will also be implemented for existing and future new rail projects. In January 2015, Government also published its Independent Expert Panel ("IEP") report on the Express Rail Link delay. We have engaged the two experts who advised the IBC to review the IEP report and we will assist Government to implement recommendations from the IEP report as appropriate. In our operational performance, a slight increase in the number of longer delays on some of our rail lines in Hong Kong, particularly the East Rail Line, caused inconvenience to some passengers. We have moved swiftly to examine the reasons for these train service delays and, in the spirit of continuous improvement, are making positive changes. Together, these measures aim to ensure that we complete our new projects as efficiently as circumstances allow and maintain and enhance the excellent levels of service that make MTR one of the world's most respected railway companies.

Looking at our financial performance, total revenue for 2014 grew by 3.7% to HK$40,156 million. Earnings before interest, tax, depreciation and amortisation from recurrent businesses increased by an even greater percentage of 7.5% to HK$15,478 million. Excluding our Mainland of China and international subsidiaries, revenue increased by 8.1% and operating profit rose by 7.4%, while operating margin decreased slightly by 0.3 percentage point to 53.1%. Recurrent profits attributable to equity shareholders, being net profits before property development profit and investment properties revaluation, increased by 7.9% to HK$8,024 million. Post-tax property development profit rose to HK$3,547 million, and was derived mainly from the booking of profits from The Austin and Grand Austin. Taking into account the post-tax property development profit, net profit from underlying businesses attributable to equity shareholders increased by 34.5% to HK$11,571 million, representing earnings per share of HK$1.99. Gain in revaluation of investment properties was HK$4,035 million, as compared with HK$4,425 million in 2013. As a result, net profit attributable to equity shareholders was HK$15,606 million, equivalent to earnings per share of HK$2.69 after revaluation. Your Board has proposed a final dividend of HK$0.80 per share, resulting in a full year dividend of HK$1.05 per share, an increase of 14.1% over 2013, with a scrip dividend option offered.

Hong Kong Transport Operations

Total revenue from Hong Kong transport operations in 2014 was HK$16,223 million, a 7.0% increase over 2013. Operating costs of the Hong Kong transport operations increased by 9.3% to HK$9,236 million, resulting in a 4.0% rise in operating profit for this business to HK$6,987 million, with an operating margin of 43.1%.

Safety

Maintaining high safety standards in all aspects of our operations remains an absolute priority for the Company.

Our commitment to continuous improvement in safety has resulted in another year of success in our safety performance. We achieved a 5.8% reduction in reportable events on the Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island (including the Western extension of the Island Line), Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail and Ma On Shan lines), the Cross-boundary Service and the Airport Express in 2014.

Safety initiatives during the year were focused on escalator safety, train door chime and Light Rail safety. A new safety promotional campaign with the theme "Escalator Safety Awards Presentation" was launched to the public in August 2014. A review of our Safety Management System ("SMS") by an independent panel formed by the American Public Transportation Association was completed in April 2014. The review identified 29 Industry Leading Effective Practices, confirming the excellence of our SMS.

Patronage

Total patronage from all our rail and bus passenger services in Hong Kong increased by 4.5% to a record 1,904.6 million in 2014. Excluding the Intercity service, total patronage also increased by 4.5% to 1,900.3 million.

For the Domestic Service, total patronage reached 1,547.8 million, a 5.0% increase over 2013. The increase was driven by continued growth in the economy and additional demand arising during the public order events in Hong Kong that occurred between September and December 2014.

The Cross-boundary Service to Lo Wu and Lok Ma Chau showed a 1.5% increase in patronage to 113.0 million for the year.

Passenger traffic on the Airport Express increased by 8.9% over 2013 to 14.9 million, supported by a rise in air travel and more events held at AsiaWorld-Expo.

Passenger volume on our Light Rail and Bus services for 2014 was 224.6 million, a 2.4% rise, while patronage on the Intercity service was 0.6% higher at 4.3 million.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong increased by 4.0% to 5.46 million during 2014 (5.45 million excluding the Intercity service). The Domestic Service accounted for the majority of this patronage, increasing by 4.5% to 4.49 million.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong increased from 46.9% in 2013 to 48.1% in 2014, mainly as a result of the increase in market share for our Domestic Service. Within this total, our share of cross-harbour traffic was 68.2%. The Company's market share of Cross-boundary business for the year declined from 53.4% to 51.6%, owing to continued significant competition from other modes of transportation, while market share to and from the airport rose to 22.3% from 22.0%.

Fare Revenue

Total Hong Kong fare revenue in 2014 was HK$16,066 million, a 7.0% increase over 2013. Of this total, the Domestic Service accounted for HK$11,318 million or 70%. Average fare per passenger on our Domestic Service increased by 2.6% to HK$7.31.

Fare revenue from the Cross-boundary Service in 2014 was HK$3,049 million, an increase of 4.3% over 2013. Fare revenue from the Airport Express was 8.5% higher for the year at HK$915 million. Light Rail and Bus fare revenue in 2014 was HK$639 million, a 6.5% increase over 2013, while fare revenue from the Intercity service was HK$145 million, increasing by 0.7% over the year.

Having a transparent and objective mechanism to adjust fares is critical to the long term sustainability of an investment intensive business like metro rail. Such a mechanism provides the basis for funding the future significant investments required to maintain and upgrade the existing Hong Kong network. The Fare Adjustment Mechanism ("FAM") under which we operate was revised in 2013, and an overall fare adjustment rate of 3.6% was made in June 2014. The revision of the mechanism in 2013 resulted in an adjustment that was 0.5 percentage point lower than would have been the case before the revision. Hence passengers are enjoying lower fares than they otherwise would have.

Promotions and Concessions

In recognition of our 35th Anniversary and to thank passengers for their support over the years, in May 2014 we announced a package of fare promotions, including those associated with the FAM. These have an estimated value of approximately HK$500 million, adding to the annual HK$2.2 billion worth of ongoing fare concessions and promotions that we already offer today.

The promotions relating to the current FAM arrangement included the "10% Same-Day Second-Trip Discount" for Octopus users making every second trip (on the same mode of transport) on the same day. To thank our passengers for their support over the past 35 years, the promotion was extended to 30 April 2015 from the original end-date of 15 October 2014. On average, more than 1.7 million trips have benefitted from the discount on a daily basis since its launch in June 2014. In addition, to cap off our 35th Anniversary and celebrate the opening of the Western extension of the Island Line, we also offered a special promotion on the second and third days of Chinese New Year in 2015, which provided roughly half fares for adults (equivalent to Child Octopus Fare) and HK$1 for other passengers using Octopus on all domestic journeys during these two days.

The first multi-ride smart ticket, MTR City Saver, was launched in June 2014. Designed to save money for regular commuters making medium to long distance journeys within urban areas, it covers designated urban stations on seven lines. Costing just HK$400, it is valid for 40 single journeys in any consecutive 30 days. From launch up to 31 December 2014, more than 490,000 MTR City Saver tickets were sold, indicating the attractiveness of this promotion.

To manage morning peak demand, the trial of an Early Bird Discount Promotion was introduced in September 2014 and will run to May 2015, offering adult passengers using Octopus a 25% fare discount if they exit gates between 7:15am and 8:15am on weekdays (excluding public holidays) at 29 designated core urban stations.

Service and Performance

Service performance in 2014 continued to be maintained at world-class standards. Our train service delivery and passenger journeys on time across the network were maintained at 99.9%, which exceeds the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. In 2014, we operated over 1.8 million train trips in our heavy rail network, with 12 delays that lasted 31 minutes or more. Improvement measures continue to be developed to minimise the inconvenience caused to passengers due to a delay. Our continuing service excellence gained both local and international recognition.

To continue to enhance customer experience under our well-received Listening • Responding programme, more initiatives were rolled out in 2014. These focused on providing more comfortable journeys through additional train services, improving station access and facilities, and enhancing communication with passengers.

Three phases of train service enhancements were implemented in April, August to September and December 2014, increasing train frequencies on the Tsuen Wan, Kwun Tong, Island, East Rail, West Rail, Tseung Kwan O and Tung Chung lines at various times on weekdays and at weekends. During the year, over 1,100 train trips per week were added, bringing to more than 2,400 the number of train trips added weekly since 2012, when the Listening • Responding programme began. In addition, service hours on selected Light Rail routes have been extended since September 2014 to allow passengers to interchange from the last West Rail Line service of the day for onward travel to all 68 Light Rail stops.

We do appreciate that with the significant number of passengers, there are segments of our network which are crowded, particularly during rush hours. To ease this crowding we have increased train frequencies where we can, to the point where on many lines, services during rush hours have reached the capacity limit of our signalling equipment. We awarded the contract in early March 2015 for the replacement of signalling systems on a number of lines in our Domestic Service, as well as the Airport Express. This will enhance passenger carrying capacity, but the impact will not be significant. Hence, the solution will be the construction of more parallel rail lines to relieve crowding and enhance the robustness of the overall network. The Shatin to Central Link is one such example, as is the proposed North Island Line on Hong Kong Island.

To maintain and upkeep our existing railway assets and improve their operating performance and capacity, we spent over HK$6 billion on maintenance, renewals and service improvements in 2014. We embarked on two major new investment programmes during the year. In addition to the HK$3.3 billion contract for replacing the signalling systems with works scheduled to commence in 2016, we also started the process to refurbish or replace 78 out of our 93 existing M-type trains fleet, operating on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines between 2019 and 2022. This will make journeys more comfortable for our passengers. An initiative was also launched to modify the door bottom guides on M-type trains to reduce the chance of doors being blocked by foreign objects.

To improve platform management in stations, an additional 300 station assistants were recruited during 2014 to facilitate the smooth flow of passengers through stations, especially during peak periods. The installation of Automatic Platform Gates ("APGs") for the Ma On Shan Line commenced in November 2014 and the first set of APGs is now in place at Tai Wai Station.

Eight additional external lifts at stations are currently being installed for completion between 2015 and 2018. Work began in 2014 to replace 24 hydraulic lifts in phases to provide swifter movement within stations. Public toilets in Mong Kok and Prince Edward stations opened in January 2015 for passengers' use, adding convenience to their journeys.

After five years of planning, trialling and testing, the replacement of older magnetic single journey tickets by more convenient Single Journey Smart Tickets was completed in March 2014. Replacement of existing Light Rail Single Journey Ticket Issuing Machines started in September 2014. The new "2-in-1" Ticket Issuing and Add-value Machines were put into service in three Light Rail stops in December 2014 and will be gradually installed in all 68 Light Rail stops.

Communicating with passengers remains a priority. The MTR Mobile app ("MTR Mobile") now has some 2.5 million users, of which some 1.4 million have opted-in to receive push notification of Traffic News. MTR Mobile has been enhanced with Light Rail Planner, MTR Bus information and station lifts service status, which makes journey planning easier. It was also upgraded to provide visually impaired passengers with more user-friendly navigation and better audio information.

Next Train app, which already provided real-time information on train schedules for the Airport Express, Tung Chung Line and West Rail Line, was upgraded to extend its coverage to the Tseung Kwan O Line.

Hong Kong Station Commercial Businesses

Revenue from our Hong Kong station commercial businesses increased by 8.2% in 2014 to HK$4,963 million. The operating costs of our Hong Kong station commercial businesses increased by 11.0% to HK$515 million, with the result that operating profit increased by 7.9% to HK$4,448 million, representing an operating margin of 89.6%.

Station retail revenue for the year increased 9.0% to HK$3,197 million. The increase was mainly due to trade mix refinements, rental renewals of station shops, as well as rental increases from the Duty Free Shops.

As at 31 December 2014, there were 1,350 station shops covering 55,696 square metres of retail space. During 2014, 14 new shops were added at Kennedy Town and HKU stations in December, and 35 new shops were added at nine other stations. In total, 28 new brands were introduced to our station shops network. The demolition of shops at Hung Hom Station to facilitate construction works for the Shatin to Central Link offset additional floor space from the new shops, leading to a 1% decrease in overall retail space.

The continual launch of timely sales packages drove higher advertising revenue, increasing by 6.2% in 2014 to HK$1,118 million. "Soccer Fever" and other sales packages were rolled out in the year to generate more advertising revenue. Eight new single-sided and six double-sided concourse 12-sheet panels were added in Hong Kong, Kowloon and Airport stations, while 31 floor-mounted 12-sheet panels were installed at Kwai Fong and Kwai Hing stations. As at 31 December 2014, the number of advertising units was 45,007.

Revenue from telecommunications in 2014 increased by 7.2% to HK$479 million mainly due to mobile data capacity increases by telecom operators. Installation is underway for provision of Wi-Fi services in South Island Line (East) and Kwun Tong Line Extension stations, targeting the provision of services on the first day of operation of these new stations.

Hong Kong Property and Other Businesses

The Hong Kong property market remained stable in the first half of 2014 and improved in the latter half of the year. With developers adopting an active sales approach, a number of new residential projects came onto the market and received positive responses, resulting in significantly higher primary home sales than in 2013. Residential prices remained resilient, supported by low interest rates. The office leasing market and retail property market both remained relatively stable.

Property Development in Hong Kong

Profit from Hong Kong property developments in 2014 was HK$4,216 million comprising mainly profits from The Austin (Austin Station Site C) and Grand Austin (Austin Station Site D), for which Occupation Permits were obtained during the year.

Following the successful presale of The Austin in 2013, presale of Grand Austin in 2014 was well received, with 99% of 691 units sold. In total, 99% of the City Point's 1,717 units at Tsuen Wan West Station, where we act as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation ("KCRC"), were also sold. The Occupation Permit for City Point was obtained in September 2014.

In our property tendering activities, LOHAS Park Package 4 was awarded in April to a subsidiary of Sun Hung Kai Properties Limited. In October, the Tai Wai Station site was awarded to a subsidiary of New World Development Company Limited and in November, LOHAS Park Package 5 was awarded to a subsidiary of Wheelock and Company Limited. In January 2015, LOHAS Park Package 6 was awarded to a subsidiary of Nan Fung Group Holdings Limited, and the Tin Wing Stop site was awarded to a subsidiary of Sun Hung Kai Properties Limited in February 2015.

At LOHAS Park, to enhance the flexibility of the development's flat mix in order to meet market demand, we received approval from the Town Planning Board in February 2015 allowing us to increase the number of units by 4,000 under the approved Master Layout Plan to a maximum of 25,500 units.

In view of market demand for more land supply, we will continue to explore opportunities for other property developments along our railway lines.

Property Rental and Management Businesses in Hong Kong

Revenue from the Hong Kong property rental and management businesses in 2014 grew by 10.9% to HK$4,190 million. Operating costs increased by 11.0% to HK$747 million, resulting in operating profit rising 10.9% to HK$3,443 million, representing an operating margin of 82.2%.

Total property rental income in Hong Kong was HK$3,945 million, 11.2% higher than in 2013. Our shopping mall portfolio achieved an average 13% increase in rental reversion for the year. At 31 December 2014, our shopping malls in Hong Kong and the Company's 18 floors at Two International Finance Centre ("Two ifc") remained close to 100% let, with a major tenant at Two ifc renewing its lease in July 2014.

As at 31 December 2014, the Company's attributable share of investment properties in Hong Kong was 212,500 square metres of lettable floor area of retail properties, 41,006 square metres of lettable floor area of offices, and 14,282 square metres of property for other use.

We continue to invest in our retail properties to enhance their attractiveness and financial performance. In 2014, renovation works for the common area of PopCorn2 were completed. Luk Yeung Galleria completed the ground floor repartitioning and trademix enhancement project to rejuvenate the mall and create a more exciting shopping experience for shoppers. Paradise Mall also underwent a partial revamp project in the year for a more conducive mix of lifestyle offerings in its West Commercial Block. For the Maritime Square Extension project, which will add about 12,100 square metres of retail properties at a cost of approximately HK$2.4 billion (excluding capitalised interest), construction works commenced in 2014, with a targeted opening of this extension in the fourth quarter of 2017.

In the Tai Wai Station property development tender, we contributed HK$7.5 billion to the land premium payment and the additional fit-out costs for the shopping centre. We will take ownership of the shopping mall of about 62,000 square metres (including 1,380 square metres of bicycle park and cycle track) and a share of profits from the residential development. This mall is expected to start operations in 2021.

Hong Kong property management revenue in 2014 increased by 6.1% to HK$245 million. As at 31 December 2014, the area of managed commercial space was 763,018 square metres. The number of managed residential flat units rose by 911 to 91,434 units following additions from Century Gateway II in October 2014.

Other Businesses

The Ngong Ping cable car ("Ngong Ping 360") and associated theme village achieved a 18.7% increase in revenue in 2014 to HK$375 million. Visitor numbers for the year grew to approximately 1.83 million while reliability remained high at 99.8%. Growth in business was supported by new attractions, such as Stage 360, Motion 360 and new tour packages. Ngong Ping 360 gained local and international awards during the year, including being named one of the "Ten Amazing Cable Car Rides Around the World" by the UK's Daily Telegraph newspaper.

We leverage our experience as one of the world's leading railway operators to offer consultancy services to clients in Hong Kong and overseas. Revenue from our consultancy business in 2014 was HK$180 million, 40.6% higher than in 2013. This was mainly attributable to the Automated People Mover projects at the Hong Kong International Airport.

The Company's share of Octopus' net profit for 2014 increased slightly by 0.4% to HK$226 million. By 31 December 2014, more than 6,000 service providers in Hong Kong were accepting the Octopus service. Total Octopus cards and other stored-value Octopus products in circulation during the year reached 27.6 million. Average daily transaction volumes and value reached 13.4 million and HK$152.1 million respectively.

Income from providing project management services to Government, relating to the entrustment works on the Express Rail Link and Shatin to Central Link, was HK$1,561 million in 2014, an increase of 6.8% over 2013. Income from the entrustment works is currently booked on a cost recovery basis.

Mainland of China and International Businesses

In 2014, revenue from our Mainland of China and International subsidiaries, comprising railway related subsidiaries and property related subsidiaries, was HK$12,627 million. Revenue from our railway related subsidiaries outside of Hong Kong, namely MTR Corporation (Shenzhen) Limited, Metro Trains Melbourne Pty. Ltd. ("MTM"), MTR Stockholm AB ("MTRS"), MTR Express (Sweden) AB and the companies under Northwest Rapid Transit Consortium, was HK$12,472 million. This represented a decrease of 4.8% over 2013, mainly due to exchange rate movements. Operating costs decreased to HK$11,638 million, resulting in an 8.6% increase in operating profit to HK$834 million and an operating profit margin of 6.7%.

Our associates outside of Hong Kong, namely BJMTR, London Overground Rail Operations Limited ("LOROL"), Tunnelbanan Teknik Stockholm AB ("TBT") and Hangzhou MTR Corporation Limited ("HZMTR"), continued to provide high quality rail and related services to their respective communities. While HZMTR start-up losses stabilised, our overall share of losses from these four associates was HK$101 million in 2014.

The total number of passengers carried by our railway related subsidiaries and associates outside of Hong Kong was over 1,458 million in 2014, against approximately 1,355 million in 2013.

Railway Businesses in the Mainland of China

Beijing Metro Line 4 and the Daxing Line exceeded their service targets in 2014. Combined ridership in 2014 reached 461 million passenger trips, with average weekday patronage of more than 1.3 million. The two lines have 35 stations and a combined length of 50 km.

The last station of Phase 1 of BJL14, Qilizhang Station, an interchange with Beijing Metro Line 9, opened for service on 15 February 2014. BJL14 service performance has been satisfactory, with 18 million passenger trips and average weekday patronage of over 52,000. In total, Phase 1 has seven stations and runs for 12.4 km. BJL14 Phase 2 East Section opened on 28 December 2014, covering 12 stations (two are currently bypassed) and running for 14.8 km. The PPP for BJL14 begins when the line fully opens, expected after 2017. In December 2014, BJMTR received a nation-wide achievement of "First Grand Award" on "Realisation of Sustainable Development through Life Cycle Management of Operational Asset" from the China Association of Communication Enterprise Management in recognition of its innovative management model and technique. On 28 December 2014, a fare increase was applied across the entire Beijing metro system, the first such increase in seven years.

The operational performance of Shenzhen Metro Longhua Line also exceeded targets during the year. Ridership for the year was 168.7 million, with average weekday patronage reaching 460,000. The line runs 20.5 km and has 15 stations. As part of a plan to increase capacity by 50% through converting the existing 4-car fleet, the first 6-car trains entered service in January 2014 and as at 31 December 2014, 23 6-car trains had been put into service. By February 2015, all the trains in service had been converted to 6-car trains.

Hangzhou Metro Line 1 ("HZL1") achieved good operational performance and a strong increase in passenger numbers in 2014, with patronage up 56% to 144.4 million. Average weekday patronage reached 380,000. Although operating losses continued at HZMTR during 2014, different initiatives such as bus route rationalisation and park-and-ride schemes were implemented to encourage a change of travelling patterns among commuters, so as to increase patronage. The expansion of the metro network in Hangzhou is expected to benefit HZL1 patronage growth.

International Railway Businesses

In the UK, LOROL continued its award-winning service in London with good operational performance. LOROL has been assisting Transport for London ("TfL") to implement the GBP320 million capacity improvement project for London Overground with the first 4-car to 5-car train conversion put into service in November 2014. With its successful performance, LOROL has been appointed to run additional London Overground services that will extend the network by 28 stations and 43 km of route length starting in May 2015. In 2014, ridership grew by 14% to reach 114.8 million. LOROL has won many awards during the year, including the prestigious "Safety Award" in the UK National Rail Awards in recognition of the large reduction in passenger accidents since the start of the concession. The London Overground concession is due to expire in November 2016, and it will be re-let by TfL in an open tender process during 2015. We are considering our approach to this tender.

In Stockholm, MTRS' services achieved very good operational performance in 2014 and MTRS was awarded the prestigious "2014 Swedish Quality Award" by the independent Swedish Institute for Quality. Punctuality performance has continued to improve. Ridership for the year remained similar to 2013 at 329.4 million. The franchise comprises 100 stations and runs for 110 km.

In Melbourne, patronage on MTM was 222.2 million. The lines have 218 stations and run 390 km. Operational performance and customer satisfaction continued to improve. MTM received the "Operator & Service Provider Excellence Award" at the National Infrastructure Awards in March 2014.

Property Development in the Mainland of China

MTR Property Development (Shenzhen) Company Limited has made good progress on the Shenzhen Metro Longhua Line Depot Site Lot 1 property project, named Tiara, and preparations are underway for Phase 1 pre-sales to be launched in the first half of 2015, subject to market conditions. The sales office for Tiara officially opened in November 2014, and show flats will be opened for public viewing in March 2015. The project offers a total developable gross floor area of approximately 206,167 square metres of which approximately 10,000 square metres will be a small shopping centre.

Tianjin TJ-Metro MTR Construction Company Limited ("TJ-MTR"), the joint-venture company in which we have a 49% interest, continues to make progress on the project at Beiyunhe Station on Tianjin Metro Line 6. The total developable gross floor area of the site is approximately 278,650 square metres. The site is being developed for residential and commercial use.

Property Rental and Management Businesses in the Mainland of China

Revenue from our property rental and property management businesses in the Mainland of China increased by 6.2% to HK$155 million in 2014. Our shopping mall in Beijing, Ginza Mall, had an occupancy rate of 97.3% at the end of 2014.

For our property management business in China, the Company's managed gross floor area in the Mainland of China at the end of 2014 was 230,000 square metres. This comprised AO City Fortune Centre, the North Star Paseo Mall and office towers in Beijing.

Future Growth

Our network expansion projects in Hong Kong met with successes as well as some challenges in 2014, while further advances were made in our Mainland of China and International business.

Growth in Hong Kong

New Rail Lines Owned by MTR

Western extension of the Island Line

The opening in December 2014 of the 3-km Western extension of the Island Line, created much excitement in the Western District of Hong Kong Island. Upon opening, it started serving HKU and Kennedy Town stations. Sai Ying Pun Station, which is one of the three stations on this extension, will open on 29 March 2015, with one of its entrances at Ki Ling Lane targeted for opening by the end of 2015. As previously announced, our estimate of the project cost (excluding capitalised interest) was approximately HK$18.5 billion. This extension was built as a community railway, which brings added convenience to about 230,000 people working and living in the Western District, and the average daily patronage has reached over 100,000. The integrated, all-weather pedestrian network, including comfortable passageways, escalators and lifts, makes navigating the area's hilly terrain much easier.

South Island Line (East)

The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District of Hong Kong Island, with a train depot located in Wong Chuk Hang. It will be the first metro service to the Southern District of Hong Kong, serving an estimated residential and working population of 350,000. Excavation of the 3.2-km Nam Fung Tunnel connecting Admiralty and Ocean Park stations was completed in October 2014. The Wong Chuk Hang Depot has been topped out and, fitting-out and Electrical & Mechanical ("E&M") works are progressing well in the depot. The technically complex works for the underpinning of the existing Island Line tunnel, in order to construct the extension of Admiralty Station, continue to be a major challenge and timely completion of these works is critical to maintain the revised target opening date of end-2016. Structural works for Ocean Park and Wong Chuk Hang stations have been completed and fitting-out and E&M works are in progress. At Lei Tung Station and South Horizons Station, excavation works have been completed and construction of the station structure and entrances are in progress. The trains for the South Island Line (East) were delivered in 2014, and they are being gradually transferred to the Wong Chuk Hang Depot from late 2014. A series of train tests will be conducted on the tracks in 2015.

In August 2014, we revised upwards our estimate of the project cost (excluding capitalised interest) to HK$15.2 billion. With the complexity of the project and continued challenges encountered, this estimate will be further reviewed in light of project progress and may be revised upwards. As at 31 December 2014, the project was 82% complete.

Kwun Tong Line Extension

The 2.6-km Kwun Tong Line Extension will extend the Kwun Tong Line from its existing terminus at Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa. It will be the first metro service to link Ho Man Tin and Whampoa, serving a catchment population of 146,000. The major challenge which may impact the timetable is the excavation of the platform tunnel at Whampoa Station, the timely completion of which is critical to meet the revised target opening date of mid-2016. At Whampoa Station the excavation of both West and East concourses has moved ahead with approximately 88% of overall excavation completed by the end of 2014, while at Ho Man Tin Station 66% of structural works had been completed. Track work installation from Yau Ma Tei Station to Whampoa Station was 27% complete at the end of 2014.

The original estimate of the project cost (excluding capitalised interest) was HK$5.9 billion. With the complexity of the project and continued challenges encountered, this estimate will be further reviewed in light of project progress and may be revised upwards. As at 31 December 2014, the project was 72% complete.

Construction of New Rail Lines Entrusted to MTR by Government

Express Rail Link

The 26-km Express Rail Link will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. It will be served by the West Kowloon Terminus. As at 31 December 2014, the project was 66% complete and the target completion date had been revised from 2015 to a target of end 2017. Under the Express Rail Link Entrustment Agreement ("XRL Entrustment Agreement"), Government is responsible for funding the construction of the Express Rail Link. In July 2014, we provided to Government our project cost estimate at that time for the Express Rail Link project of HK$71.52 billion, inclusive of future insurance and project management costs. With the complexity of the project, particularly the works at the West Kowloon Terminus, we are reviewing again the project cost estimate and the target completion date (and any possible delay in respect thereof). Taking into account the continued construction challenges and recommendations from the IBC, the cost estimate may be revised significantly upwards. It is expected that this review will be completed within the second quarter of 2015, after which we will formally report the findings to Government. Thereafter, we will continue to monitor and review the project cost and completion date.

Under the XRL Entrustment Agreement, if a material modification to the programme for the execution of the entrustment activities is likely to result in a material increase or decrease in project management responsibilities or costs of the Company, the Company and Government are to negotiate in good faith to agree an increase or, as the case may be, decrease in the Project Management Fee (currently set at HK$4,590 million). Such negotiations have not yet commenced (as of 31 December 2014 and up to the date of this annual report) and, accordingly, at this stage, there is no certainty as to whether such fee will be increased. If the Company does not receive an increase in the Project Management Fee, we may not be able to recover the increased internal cost we incur in performing our obligations under the XRL Entrustment Agreement.

As regards to potential legal liability, Government has the right to claim against the Company if the Company breaches the XRL Entrustment Agreement, or if Government suffers a loss as a result of the Company's negligence in performing its obligations under the XRL Entrustment Agreement. The Company's total aggregate liability to Government arising out of or in connection with the XRL Preliminary Entrustment Agreement and the XRL Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the Project Management Fee and any other fees that the Company receives under the XRL Entrustment Agreement and certain fees received by the Company under the XRL Preliminary Entrustment Agreement.

Following the April 2014 announcement of the delay to the project, the Board established the IBC, which worked with independent experts to advise how the Company could deliver the project in a more transparent and timely manner. The resulting reports, published in July and October 2014, established various external reasons for delay to the project, including local labour shortage, utility diversion complications and unfavourable ground conditions. We are implementing the recommendations made for enhancements to the Company's systems and processes, including the establishment of the Board Capital Works Committee and Risk Committee. All these enhancements will improve the transparency and communications related to the project management.

On 30 January 2015, the Office of the Chief Executive of HKSAR made public the Report of the Express Rail Link Independent Expert Panel. We have reviewed this report in conjunction with our two experts appointed by the IBC and will assist Government to implement recommendations where appropriate.

Construction of the tunnels for this project, which involves extensive excavation using Tunnel Boring Machines ("TBMs") and the Drill-and-Blast method, was 92% complete at the end of 2014. Of particular note, breakthrough of the 7.6-km Drill-and-Blast tunnel that runs through Tai Mo Shan between Tse Uk Tsuen and Shek Yam was achieved in late March 2014, while excavation of the Mei Lai Road to Hoi Ting Road tunnels using TBMs was successfully completed in October 2014. With the use of blasting to further accelerate the excavation of the underground rock at the West Kowloon Terminus Station North, which commenced in September 2014, the overall excavation work of the West Kowloon Terminus was 88% complete by year end, while 43% of the concrete structure had been cast. The structural works for all 14 buildings for the Shek Kong Stabling Sidings were completed and E&M installations are in progress.

Shatin to Central Link

The 17-km Shatin to Central Link links up the existing railway lines to form an East West Corridor and a North South Corridor. The project covers ten stations, including six interchange stations linking existing railway lines and those under construction. The project was 27% complete overall by the end of 2014, with the East West Corridor 37% complete and the North South Link 9% complete. The progress of East West Corridor of the Shatin to Central Link has been mainly impacted by the archaeological works at a site in To Kwa Wan, resulting in 11 months delay with target opening now in 2019. For the North South Corridor, there is expected to be late site handover by other infrastructure projects in the vicinity, and our current estimate is that there will be at least six months delay in this project programme with target opening in 2021. The Company will continue to liaise closely with the concerned parties to mitigate such delays as far as possible. Under the Shatin to Central Link Entrustment Agreement, Government is responsible for funding the construction of the Shatin to Central Link. In May 2014, we notified Government of the delays to the completion of the East West Corridor and North South Corridor. With the complexity of the project, together with the increased costs due to the archaeological works at To Kwa Wan, we are reviewing the project cost estimate taking into account the continued construction challenges and using the recommendation from the IBC. After the review we will report the findings to Government. Thereafter, we will continue to monitor and review the project cost.

The Shatin to Central Link will provide much needed new links across the New Territories, serving a catchment population of 380,000 people and catchment employment of an estimated 260,000 people in 2021. Construction works at all stations continued throughout the year. Hin Keng Station was 37% complete. Piling works on the temporary piling platform at the at-grade box cut and cover tunnel commenced. Works at Diamond Hill Station were 48% complete by the year end, while at Kai Tak Station, the overall progress was 49% complete. The modification works on station platforms of Ma On Shan Line to tie in with the future 8-car train configuration of the East West Corridor of the Shatin to Central Link were 75% complete by the end of 2014, with installation of extended steel platform roofs in progress.

New Railway Projects Under Discussion

In September 2014, Government issued its Railway Development Strategy 2014, which outlined Government's agenda for railway expansion in Hong Kong up to 2031. The Company has provided some technical input to Government on these new railway projects and will continue to support Government in the delivery of new railways for the community.

Mainland of China and International Growth

On 26 November 2014, BJMTR officially signed the Concession Agreement for the BJL14 PPP project with the Beijing Municipal Government. The entire line will run for 47.3 km and has 37 stations, including ten interchange stations. Under the RMB50 billion PPP project, BJMTR will invest RMB15 billion and is responsible for the provision of E&M systems and rolling stock, as well as operation and maintenance of the line over a term of 30 years. The Phase 2 East Section of BJL14 opened on 28 December 2014. Full line operation is expected after 2017. To support BJMTR's investment in BJL14, the Company will invest about RMB2.45 billion as additional equity in BJMTR.

After signing a Letter of Intent for the BJL16 PPP project on 26 November 2014, the Concession Agreement was initialled on 8 February 2015. The line will run 50 km from Beianhe to Wanping, encompassing 29 stations. Under the RMB49.5 billion PPP project arrangement, BJMTR would be responsible for the provision of E&M systems as well as rolling stock, which takes up about 30% or approximately RMB15 billion of the project's capital cost. BJMTR would also undertake the operations and maintenance of BJL16 for a term of 30 years. To support BJMTR's investment in BJL16, the Company may need to further invest up to RMB2.45 billion as additional equity in BJMTR.

In January 2014, the Company signed a Strategic Cooperation Framework Agreement with the Longhua New District Administration Commission for the North Extension of Shenzhen Metro Longhua Line. Under the framework agreement, MTR will offer advice and technical support for the construction of the North Extension and a light rail system. The project feasibility study report is targeted to be completed in the first half of 2015. We are also continuing discussion and negotiation on the Principal and Joint Venture Agreements associated with the construction and operation of Shenzhen Metro Line 6.

In July 2014, we signed a Memorandum of Understanding with the Chongqing Municipal Government and have begun preliminary discussions on rail and property development in the municipality.

In the United Kingdom, we were awarded the contract to operate the Crossrail services by TfL and the Concession Agreement was signed in July 2014. MTR will operate the service for an eight-year period with an option to extend to ten years. Crossrail is a new rail service currently under construction and will be put into service in stages. MTR Corporation (Crossrail) Ltd., a 100% MTR owned subsidiary, will start operating the first stage of the service from May 2015 and the service is scheduled to expand to its full scope in 2019. Our bids for the Essex Thameside, Thameslink and Scotrail franchises, for which we were shortlisted, were not successful.

In Sweden, preparations have progressed well for the Company's new rail service, MTR Express ("MTRX"), which will operate between the two largest cities, Stockholm and Gothenburg. The service using existing rail tracks and infrastructure will be operated by our wholly-owned subsidiary MTR Express (Sweden) AB and will provide approximately 90 weekly train trips. Initial services will commence on 21 March 2015, with the full schedule planned for August 2015. Sales of tickets started smoothly on 23 January 2015 via MTRX's website.

In Australia, in September 2014 our consortium was awarded the Operations, Trains and Systems PPP Contract for NWRL, our first international PPP project outside of Hong Kong and the Mainland of China. The consortium includes MTR, Leighton Contractors Pty Ltd., John Holland Pty Ltd., UGL Rail Services Pty Ltd., Plenary Group Pty Limited and other financial sponsors. MTR, as a member of the consortium, is responsible for the design and delivery of the rail systems and Metro Trains Sydney Pty. Ltd, a 60% subsidiary of MTR, will operate and maintain the system for 15 years after commencement of operations. Start-up work is making good progress. MTR's equity contribution to the PPP company is estimated to be AUD 62.6 million. For the Dandenong Transformation Project (also known as Cranbourne-Pakenham Rail Corridor Project) in Melbourne, an interim offer was submitted in January 2015 and negotiation continues with the Government of the State of Victoria to finalise project details. This project is to upgrade the 57-km Pakenham and 18-km Cranbourne lines within the Melbourne metro network. These lines provide a crucial rail-corridor supporting the fast growing south-eastern population centres in the city. The project aims to boost the rail capacity of the two lines by 30% through the delivery of new trains, systems and infrastructure, catering for an additional 2 million passengers per year.

Financial Review

In 2014, the Group achieved good financial results with continued growth in our recurrent businesses locally and overseas as well as higher property development profits. The Group reported total revenue and total operating expenses of HK$40,156 million and HK$24,733 million, 3.7% and 1.7% higher than in 2013, respectively. Revenue from Hong Kong transport operations reached HK$16,223 million, an increase of 7.0%, owing to higher patronage in all our transport services and adjustments to fares which were partly offset by fare concessions. The related expenses grew by 9.3% to HK$9,236 million to support various service enhancements initiatives, such as increases in train trips and systems upkeep. Revenue from station commercial businesses increased by 8.2% to HK$4,963 million, mainly due to higher station shop rental rates and turnover rents. The related expenses were 11.0% higher at HK$515 million, mainly due to higher Government rent and rates and advertising agency fees. Property rental and management businesses recorded revenue of HK$4,190 million, up 10.9% as our shopping malls achieved double-digit growth in average rental reversion. An occupancy rate of close to 100% was achieved for our shopping malls and the office space at Two ifc. The related expenses increased by 11.0% to HK$747 million, in line with revenue growth. Affected by exchange rate movements, our Mainland of China and international subsidiaries recorded revenues of HK$12,627 million and expenses of HK$11,821 million, 4.7% and 5.1% lower than in 2013, respectively. Excluding the impact of marketing expenses incurred in 2014 for the preparation of the pre-sales of our property development in Shenzhen and on a constant exchange rate basis, revenues and expenses would have increased 1.3% and 0.4%, respectively. Other businesses in Hong Kong reported revenues and expenses of HK$2,153 million and HK$1,960 million, up 11.6% and 10.1% against 2013, respectively. Including project study and business development expenses of HK$454 million, the resulting operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment increased by 7.1% to HK$15,423 million, with operating margin increasing by 1.2 percentage points to 38.4%.

Hong Kong property development profit increased by HK$2,820 million to HK$4,216 million in 2014, derived mainly from profit recognitions from The Austin and Grand Austin, surplus from the sale of inventory units and agency fee income from the West Rail property developments. Depreciation and amortisation charges increased by 3.4% to HK$3,485 million and the variable annual payment to KCRC increased by 18.0% to HK$1,472 million. Operating profit before interest and tax therefore increased by 31.4% to HK$14,682 million.

Net interest and finance charges were HK$545 million in 2014, down from HK$732 million in 2013 due to lower average debt balances. Investment property revaluation gain amounted to HK$4,035 million in 2014. Profit sharing from Octopus Holdings Limited amounted to HK$226 million, about the same level as in 2013. Our share of loss from other associates was HK$105 million as compared to a loss of HK$67 million in 2013. While HZMTR start-up losses stabilised in 2014, the increase in share of loss was mainly due to increases in energy and train overhaul expenses at BJMTR and an increase in the operating costs of TBT.

Net profit attributable to shareholders, after deducting income tax of HK$2,496 million and profits shared by non-controlling interests of HK$191 million, increased from HK$13,025 million in 2013 to HK$15,606 million in 2014. Earnings per share therefore increased from HK$2.25 to HK$2.69. Excluding investment property revaluation, the underlying profit attributable to equity shareholders was HK$11,571 million, up 34.5% over 2013, with earnings per share also increasing from HK$1.48 in 2013 to HK$1.99 in 2014. Underlying profit from our recurrent businesses grew by 7.9% to HK$8,024 million while post-tax property development profits increased from HK$1,163 million in 2013 to HK$3,547 million in 2014.

Our balance sheet remained strong, as the Group's net assets increased by 7.1% to HK$163,482 million as at 31 December 2014. Total assets increased by 5.2% to HK$227,152 million as a result of investment property revaluation gains, capitalisation of further construction costs of the Island Line extension, South Island Line (East) and Kwun Tong Line Extension, further capital injection into TJ-MTR, as well as net cash increase due to cash receipts from our property development projects net of repayments of bank borrowings. These asset additions were offset by a decrease in property development in progress as cash was received from the reimbursement of land premium at Austin Station sites. Total liabilities increased slightly by 0.9% to HK$63,670 million as a result of increases in creditors and accrued charges for our Hong Kong railway extension projects as well as project management fees received in advance for our entrustment works on behalf of Government, offset by lower bank borrowings. The Group's net debt-to-equity ratio decreased from 11.8% at 31 December 2013 to 7.6% at 31 December 2014.

Cash generated from operations, net of taxes paid and working capital movements, increased by HK$1,289 million to HK$15,392 million in 2014, mainly due to the increase in operating profit. Receipts from property developments of HK$9,176 million mainly relate to the recovery of land premium and surplus proceeds for Austin Station sites. Including the Shenzhen government subsidy for the Shenzhen Metro Longhua Line of HK$652 million and other cash receipts of HK$375 million, net cash receipts increased from HK$19,042 million in 2013 to HK$25,595 million in 2014. Total capital expenditure for railway operations paid during the year was HK$9,771 million, including HK$2,960 million for the purchase of assets for our existing Hong Kong transport operations, HK$6,340 million for the construction of the Hong Kong railway extension projects and HK$471 million for Shenzhen Metro Longhua Line railway operations. For property related businesses, total capital expenditure paid was HK$2,588 million, including HK$410 million and HK$681 million for Hong Kong and Shenzhen property development projects respectively, and HK$1,497 million for property renovation and fitting out works for our investment properties and land premium paid in relation to the Maritime Square Extension project. The Group paid fixed and variable annual payments to KCRC amounting to HK$1,997 million and dividend to our equity shareholders amounting to HK$4,944 million. After taking into account the further equity injection into TJ-MTR of HK$294 million, net interest payment of HK$602 million and dividends to holders of non-controlling interests of HK$153 million, net cash payments decreased from HK$21,624 million in 2013 to HK$20,349 million in 2014. After these items and net loan repayment of HK$3,650 million, the Group's cash balance increased from HK$17,297 million at 31 December 2013 to HK$18,893 million at 31 December 2014.

In line with our progressive dividend policy, the Board has proposed a final dividend of HK$0.80 per share, giving a full year dividend of HK$1.05 per share, an increase of 14.1% over 2013, with a scrip dividend option offered.

Human Resources

We plan ahead to meet our current and future manpower needs in Hong Kong, the Mainland of China and internationally. The Company gained second place in a 2014 survey of the most attractive employer in Hong Kong conducted by the Randstad Group, one of the world's largest human resources service firms.

The Company, together with our controlled subsidiaries, employed 16,624 people in Hong Kong and 7,530 outside of Hong Kong as at 31 December 2014. During 2014, over 1,900 new hires were taken on and more than 1,500 staff were promoted internally, while staff turnover remained low at 4.4% in Hong Kong.

We encourage a positive dialogue and provide effective communication channels between management and staff for discussion of matters of mutual concern. To this end, we have a well-established staff consultation mechanism comprising Joint Consultative Committees and a Staff Consultative Council, with more than 800 staff representatives elected by staff. Two-way communication between line managers and frontline staff has been reinforced by the "Enhanced Staff Communication Programme", with more than 7,700 communication sessions organised in 2014, involving over 100,000 participants. One area of emphasis is strengthening internal communication both locally and among our global operations, including the launch of a new multinational internal communication platform "MTRconnects".

The "Work Improvement Team" ("WIT") programme has continued to encourage collective innovation, continuous improvement and staff engagement. WIT has been MTR's "DNA" in Hong Kong for more than 26 years and in 2014, there were 5,369 members and 920 teams, with 905 projects submitted. Following its success in Hong Kong, WIT has been introduced in our Shenzhen, Beijing, Hangzhou, Stockholm and Melbourne operations. There were 2,097 members and 250 teams in these five operations, with 306 projects submitted in 2014.

To nurture our leadership talents, we have continued our people development initiatives at corporate and divisional levels, along with our Executive Associate and graduate development programmes. We also provided ample opportunities to develop staff at different levels during the year, such as through the Executive Continuous Learning Programme for executives and senior managers as well as the MTR Advanced Management Programme for senior managers from Hong Kong, the Mainland of China and overseas.

CEO's Review of Operations and Outlook

MTR's culture of excellence, learning and caring again won several local and international awards during the year. In 2014, 7,331 courses were delivered, providing 6.9 training days per Hong Kong employee.

Community Engagement

We make every effort to engage with communities and consider their needs, both in the course of our day-to-day operations and in relation to the construction of new railway lines and buildings.

Open communication channels such as the customer service hotline, suggestion forms at stations, online feedback via our website, "Voice of Customers" surveys and radio phone-in programme, all help to ensure we stay abreast of public concerns so as to react quickly to changing needs. District Council Liaison Teams comprising representatives from across the Company engage District Councils outside meeting chambers and work with them to organise activities to show care to the community.

While new railways bring significant economic and social benefits, their construction may cause disturbance to local communities and businesses. In our network expansion projects, we have learnt that engaging stakeholders as early as the project planning stage and onwards through implementation is crucial to successful delivery. Project liaison engineers serve as a single point of contact and act as the bridge between community relations colleagues and construction management teams.

To facilitate two-way dialogue with the wider community during project delivery, we have established Community Liaison Groups that hold meetings with local residents, District Council members and representatives from Government. Stakeholders are also invited to attend meetings and access up-to-date progress information throughout project delivery, using our project hotlines and information centres. Information about our projects is also made available to all stakeholders via our website, social media and project-specific brochures.

Outlook

The economic outlook remains uncertain with the US recovery appearing to be on a sustained path, although a number of European and emerging market economies, including the Mainland of China, are seeing a slowdown. In Hong Kong, Government's commitment to building infrastructure and improving the environment by focusing on rail as the backbone of public transport should continue to create opportunities for MTR.

With continued economic and tourism growth, we expect our rail business to experience further patronage increases, supported by the opening of the Western extension of the Island Line. Rental renewals and reversions in our station commercial and property rental businesses will depend on market conditions.

In our property development business, sales for LOHAS Park Package 3 and pre-sales of Phase 1 of the Shenzhen Tiara development are expected to be launched in the first half of 2015, depending on market conditions. As the Occupation Permit for LOHAS Park Package 3 has already been obtained in December 2014, booking of profits for this development will be based on the date when sales proceeds exceed the development cost.

In our property tendering activities between now and year end, subject to market conditions, we aim to tender out two to three more packages in LOHAS Park as well as the Yuen Long Station site, where we act as agent for the relevant subsidiary of KCRC.

Outside of Hong Kong we will continue to pursue sustainable growth opportunities.

I would like to welcome Dr Philco Wong, who was appointed as Projects Director on 28 October 2014, upon the retirement of Mr TC Chew. I thank Mr Chew for his contributions to MTR.

I am most grateful for the trust and confidence placed in me by the Board in appointing me as Chief Executive Officer; I am most honoured by this appointment. MTR is a Hong Kong success story made possible with the support of the people of Hong Kong, our dedicated and hard-working colleagues, our shareholders and other stakeholders. I look forward to working with my MTR colleagues to take MTR to even higher levels of achievement.

Finally, my thanks go to our Board Members for their support throughout the year, as well as to all my colleagues at MTR who have worked so hard and served our customers with outstanding professionalism, teamwork and dedication. They are truly the heroes of MTR.

Lincoln Leong Kwok-kuen, *Chief Executive Officer*
Hong Kong, 16 March 2015

Key Figures

	2014	2013	% Increase/ (Decrease)
Financial highlights *(HK$ million)*			
Revenue			
– Hong Kong transport operations	**16,223**	15,166	7.0
– Hong Kong station commercial businesses	**4,963**	4,588	8.2
– Hong Kong property rental and management businesses	**4,190**	3,778	10.9
– Mainland of China and international subsidiaries	**12,627**	13,246	(4.7)
– Other businesses	**2,153**	1,929	11.6
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	**15,423**	14,399	7.1
Profit on Hong Kong property development	**4,216**	1,396	202.0
Operating profit before depreciation, amortisation and variable annual payment	**19,639**	15,795	24.3
Profit attributable to equity shareholders arising from underlying businesses	**11,571**	8,600	34.5
Total assets	**227,152**	215,823	5.2
Loans, other obligations and bank overdrafts	**20,507**	24,511	(16.3)
Obligations under service concession	**10,614**	10,658	(0.4)
Total equity attributable to equity shareholders	**163,325**	152,557	7.1
Financial ratios			
Operating margin *(%)*	**38.4**	37.2	1.2% pts.
Operating margin (excluding Mainland of China and international subsidiaries) *(%)*	**53.1**	53.4	(0.3%) pt.
Net debt-to-equity ratio* *(%)*	**7.6**	11.8	(4.2%) pts.
Return on average equity attributable to equity shareholders arising from underlying businesses *(%)*	**7.3**	5.8	1.5% pts.
Interest cover *(times)*	**15.2**	11.5	3.7 times
Share information			
Basic earnings per share *(HK$)*	**2.69**	2.25	19.6
Basic earnings per share arising from underlying businesses *(HK$)*	**1.99**	1.48	34.5
Dividend per share *(HK$)*	**1.05**	0.92	14.1
Share price at 31 December *(HK$)*	**31.80**	29.35	8.3
Market capitalisation at 31 December *(HK$ million)*	**185,284**	170,187	8.9
Operations highlights			
Total passenger boardings in Hong Kong *(million)*			
– Domestic Service	**1,547.8**	1,474.7	5.0
– Cross-boundary Service	**113.0**	111.4	1.5
– Airport Express	**14.9**	13.7	8.9
– Light Rail and Bus	**224.6**	219.3	2.4
Average number of passengers *(thousand)*			
– Domestic Service *(weekday)*	**4,490**	4,297	4.5
– Cross-boundary Service *(daily)*	**309.7**	305.1	1.5
– Airport Express *(daily)*	**40.8**	37.4	8.9
– Light Rail and Bus *(weekday)*	**630.8**	618.4	2.0
Fare revenue per passenger *(HK$)*			
– Domestic Service	**7.31**	7.13	2.6
– Cross-boundary Service	**26.97**	26.25	2.8
– Airport Express	**61.47**	61.70	(0.4)
– Light Rail and Bus	**2.85**	2.73	4.1
Proportion of franchised public transport boardings *(%)*	**48.1**	46.9	1.2% pts.

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

MTR 35th Anniversary

1970's

1975 The Company was established on 26 September to build and operate a mass transit railway system for Hong Kong.

1979 The then Modified Initial System (Kwun Tong to Shek Kip Mei) commenced public service on 1 October and carried 285,000 passengers on the first day of operation.

1980's

1982 The Tsuen Wan Line was officially opened on 10 May.

1984 The Company and Kowloon-Canton Railway Corporation ("KCRC") joined hands to launch Common Stored Value Tickets in mid-October.

1985 On 31 May, the Island Line operating from Chai Wan Station to Admiralty Station commenced service.

1989 The Eastern Harbour Rail crossing was opened on 5 August, providing passengers a much-needed alternative for crossing Victoria Harbour.

1990's

1997 The Company and other transport firms launched the Octopus Contactless Smart Card, which has since become the most popular payment method on public transport and for an increasing range of day-to-day expenses.

1998 The Tung Chung Line was opened on 22 June, extending MTR services to Lantau Island through West Kowloon and Tsing Yi.

On 6 July, the Airport Express began service, transporting passengers between the Hong Kong International Airport at Chek Lap Kok and Central.

In the 35 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 ten lines, 220.9 km of route length that in 2014 carried over 1.9 billion passengers, together with a range of complementary businesses. Since 2007, we have been building a portfolio of railway operations in Europe, the Mainland of China and Australia. Publicly listed since 2000, we are held in high regard world-wide for our sustainable approach to public transport.

2000 In October, the successful MTR Privatisation Share Offer attracted an oversubscription of 17.4 times for a HK$9.4 billion offering and created a shareholder base of over 600,000 at the time of listing.

2002 The Tseung Kwan O Line commenced service on 18 August.

2004 On 24 February, the Government announced its decision to invite the Company and KCRC to commence discussions on the Rail Merger.

2005 Disneyland Resort Line commenced service on 1 August.

2006 The Company signed a Memorandum of Understanding with the Government on 11 April, setting out the terms of the proposed merger of the rail systems of the Company and KCRC, together with the acquisition of a property package.

2007 London Overground Rail Operations Limited commenced the operations of London Overground in November.

The Rail Merger with KCRC was completed on 2 December.

2009 On 16 August, Austin Station commenced passenger service, which connected the West Rail Line with the East Rail Line.

Beijing Metro Line 4 commenced its trial operations on 28 September.

The Company took over the operation of Stockholm Metro and Melbourne Metropolitan Train Network in November.

2011 Full line operation of the Shenzhen Metro Longhua Line was commenced on 16 June.

2012 Hangzhou Metro Line 1 commenced full line operation in November.

2013 In May, the first phase of Beijing Metro Line 14 opened to serve commuters.

2014 Island Line service extended to Western District on 28 December.

2000's

Key Events in 2014

January

To kick-off celebrations of the Company's 35th Anniversary, a replica first-generation train compartment was displayed at various stations to take passengers back through time.

The Company signed a Strategic Cooperation Framework Agreement with the Longhua New District Administration Commission in Shenzhen for the North Extension of Shenzhen Metro Longhua Line.

February

The first 3-car train for the South Island Line (East) arrived at Siu Ho Wan Depot for initial testing.

March

New Single Journey Smart Tickets were available for sale at all stations following completion of conversion works for the ticket issuing systems.

April

As part of the 35th Anniversary celebrations, an "MTR Journeys with You for 35 Years" exhibition was held at different stations and shopping malls from April to August.

The tender for LOHAS Park Package 4 Property Development was awarded to Globaluck Limited, a subsidiary of Sun Hung Kai Properties Limited.

To provide more convenient and comfortable journeys for passengers, heavy rail and Light Rail services were enhanced by adding 313 weekly train trips and 148 services per week respectively.

The Company announced that the opening of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") project would be delayed until 2017. The Board appointed an Independent Board Committee ("IBC") to review management of the project.

April

MTR Mobile app won two Gold awards in the Web Accessibility Recognition Scheme 2014 for its enhanced designs including comprehensive audio information provision and voice over navigation control for visually-impaired users.

May

To thank passengers for 35 years of support, the Company announced a package of fare promotions with an estimated value of approximately HK$500 million, adding to the annual HK$2.2 billion worth of ongoing fare concessions and promotions offered today.

June

The new MTR City Saver was launched, benefitting medium to long distance frequent travellers commuting within a pre-designated urban area.

The Company announced that completion of the South Island Line (East) and Kwun Tong Line Extension would be delayed due to challenges encountered in critical areas.

Pre-sale of flats at the new property development project at Austin Station Site D, Grand Austin, was launched.

July

The Board accepted the findings and recommendations made in the first report of the IBC for enhancements to the Company's systems and processes in managing railway projects. The Board also appointed Deputy Chief Executive Officer Mr Lincoln Leong to be Acting Chief Executive Officer effective 16 August, after the departure of Chief Executive Officer Mr Jay H Walder on 15 August.

MTR Corporation (Crossrail) Ltd., a wholly owned subsidiary of the Company, was selected by Transport for London as the operator of London's new Crossrail service, which will commence service in phases starting from 2015.

The Company signed a Memorandum of Understanding with the Chongqing Municipal Government for rail and property development in the municipality.

August

The Company announced the appointment of Dr Philco Wong as Projects Director with effect from 28 October following the retirement of Mr TC Chew.

To improve comfort levels, a new round of train service enhancements with a total of 600 weekly train trips were added to six of the busiest MTR lines starting from 29 August.

A works programme was announced to upgrade Hung Hom Station with new facilities to serve as a railway hub and interchange for the Shatin to Central Link's East West and North South corridors.

The Company's Board set up two new committees, the Capital Works Committee and the Risk Committee, to ensure the work of the Company's management continues to meet high standards and quality.

September

The Company launched the Early Bird Discount Promotion trial programme at 29 designated core urban stations.

Light Rail service was enhanced to allow passengers travelling on the last West Rail Line train of the day to connect to all 68 stops in the Light Rail network.

A consortium in which the Company is a member was awarded the Operations, Trains and Systems Public-Private-Partnership contract for the North West Rail Link project in Sydney by the New South Wales Government of Australia.

To celebrate MTR's 35th Anniversary and to thank passengers for their support, nostalgic souvenirs were distributed to passengers at stations.

October

The Company awarded the tender for the Tai Wai Station Property Development to Lucrative Venture Limited, a subsidiary of New World Development Company Limited.

The Company announced the appointments of the Permanent Secretary for Development (Works) Mr Wai Chi-sing as a Non-Executive Director and Mr James Kwan Yuk-choi, Mrs Lucia Li Li Ka-lai and Mr Benjamin Tang Kwok-bun as Independent Non-Executive Directors.

The Board accepted recommendations in the second report of the IBC to enable the Company to deliver the Express Rail Link project in a more transparent and timely manner according to the revised programme.

November

MTR HONG KONG Race Walking 2014 was cancelled following careful assessment of the uncertain situation caused by activities along the race circuit and vicinity. Nevertheless, the Company used its own resources to make a special donation of HK$10 million to the Hospital Authority to support community health projects.

Beijing MTR Corporation signed a Letter of Intent with the Beijing Municipal Government which states a mutual understanding to initial a Concession Agreement for the Beijing Metro Line 16 Public-Private Partnership project.

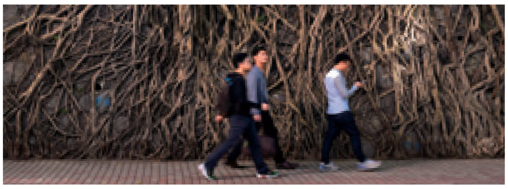
The tender for the LOHAS Park Package 5 Property Development was awarded to Leading Elite Limited, a subsidiary of Wheelock and Company Limited.

December

Island Line service extended to Western District, serving passengers at the new Kennedy Town and HKU stations on 28 December connecting the district with the rest of Hong Kong by rail.

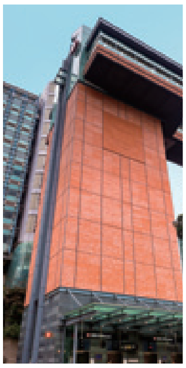
Phase 2 East Section of Beijing Metro Line 14 opened for passenger service on 28 December.

Door chimes standardisation programme was rolled out progressively across all MTR lines, starting with Tseung Kwan O Line, to facilitate smoother train operations and raise door safety awareness.

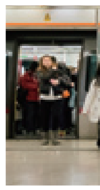


99.9%
Train Service Delivery

World Class Service Levels



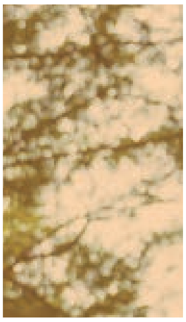
48.1%
Share of Franchised Public Transport Market



Over
1.9 billion
Total Patronage

Hong Kong Transport Operations

To continue to enhance customer experience under our well-received Listening • Responding programme, more initiatives were rolled out in 2014. These focused on providing more comfortable journeys through the provision of additional train services, improving station access and facilities, and enhancing our communication with passengers.



Total revenue from the Company's Hong Kong transport operations in 2014 was HK$16,223 million, a 7.0% increase over 2013. Operating costs of the Hong Kong transport operations increased by 9.3% to HK$9,236 million, resulting in a 4.0% rise in operating profit for this business to HK$6,987 million, with an operating margin of 43.1%.

Safety

Maintaining high safety standards in all aspects of our operations remains an absolute priority for the Company.

We are committed to continuous improvement in safety and this approach resulted in another year of success in our safety performance. We achieved a 5.8% reduction in reportable events on the Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island (including the Western extension of the Island Line), Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail and Ma On Shan lines), the Cross-boundary Service and the Airport Express in 2014.

We implemented a range of safety initiatives during the year, with the main focus on escalator safety, train door chime and Light Rail safety. A new safety promotional campaign with the theme "Escalator Safety Awards Presentation" was launched to the public in August 2014. A review of our Safety Management System ("SMS") by an independent panel formed by the American Public Transportation Association was completed in April 2014. The review identified 29 Industry Leading Effective Practices, confirming the excellence of our SMS.

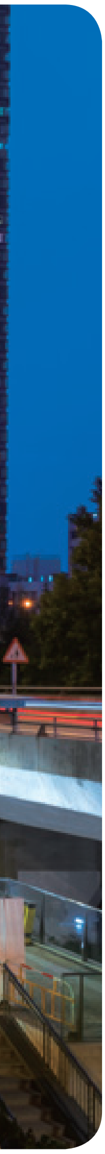
HKU Station on the Island Line extension opened for service in December 2014

In the pursuit of continuous improvement in safety, we actively engage in safety benchmarking and sharing with our own subsidiaries and associates through the internal established mechanisms and with other major metros around the world through the Community of Metros ("CoMET"). Our latest ranking in safety performance in the CoMET benchmarking remained among the top, indicating achievement and alignment with our safety aspiration of being amongst the very best in safety performance globally. Additionally, through the benchmarking and sharing, we can also achieve mutual learning of the good practices in safety management with our own subsidiaries and associates and with other metros internationally.

Patronage

Total patronage from all our rail and bus passenger services in Hong Kong increased by 4.5% to a record 1,904.6 million in 2014. Excluding the Intercity service, total patronage also increased by 4.5% to 1,900.3 million.

For the Domestic Service, total patronage reached 1,547.8 million, a 5.0% increase over 2013. The increase was driven by continued growth in the economy and additional demand arising during the public order events in Hong Kong that occurred between September and December 2014.



The Cross-boundary Service to Lo Wu and Lok Ma Chau showed a 1.5% increase in patronage to 113.0 million for the year.

Passenger traffic on the Airport Express increased by 8.9% over 2013 to 14.9 million, supported by a rise in air travel and more events held at AsiaWorld-Expo.

Passenger volume on our Light Rail and Bus services for 2014 was 224.6 million, a 2.4% rise, while patronage on the Intercity service was 0.6% higher at 4.3 million.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong increased by 4.0% to 5.46 million during 2014 (5.45 million excluding the Intercity service). The Domestic Service accounted for the majority of this patronage, increasing by 4.5% to 4.49 million.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong increased from 46.9% in 2013 to 48.1% in 2014, mainly as a result of the increase in market share for our Domestic Service. Within this total, our share of cross-harbour traffic was 68.2%. The Company's market share of Cross-boundary business for the year declined from 53.4% to 51.6%, owing to continued significant competition from other modes of transportation, while market share to and from the airport rose to 22.3% from 22.0%.

Fare Revenue

Total Hong Kong fare revenue in 2014 was HK$16,066 million, a 7.0% increase over 2013. Of this total, the Domestic Service accounted for HK$11,318 million or 70%. Average fare per passenger on our Domestic Service increased by 2.6% to HK$7.31.

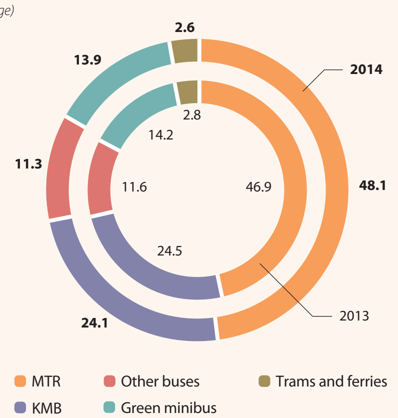
Fare revenue from the Cross-boundary Service in 2014 was HK$3,049 million, an increase of 4.3% over 2013. Fare revenue from the Airport Express was 8.5% higher for the year at HK$915 million. Light Rail and Bus fare revenue in 2014 was HK$639 million, a 6.5% increase over 2013, while fare revenue from the Intercity service was HK$145 million, increasing by 0.7% over the year.

Having a transparent and objective mechanism to adjust fares is critical to the long term sustainability of an investment intensive business like metro rail. Such a mechanism provides the basis for funding the future significant investments required to maintain and upgrade the existing Hong Kong network. The Fare Adjustment Mechanism ("FAM") under which we operate was revised in 2013, and an overall fare adjustment rate of 3.6% was made in June 2014. The revision of the mechanism in 2013 resulted in an adjustment that was 0.5 percentage point lower than would have been the case before the revision. Hence passengers are enjoying lower fares than they otherwise would have.

Market Share of Major Transport Operators in Hong Kong

The Company's overall market share increased from 46.9% in 2013 to 48.1% in 2014.

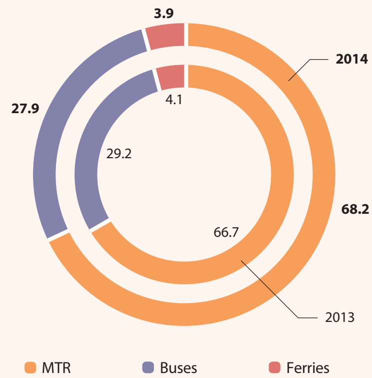
(Percentage)



Market Share of Major Transport Operators Crossing the Harbour

The Company's market share of cross-harbour traffic increased to 68.2%.

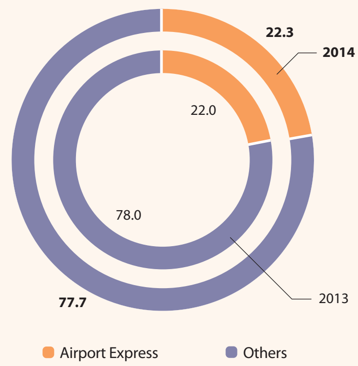
(Percentage)



Market Share of Airport Express

The proportion of air passengers using the Airport Express rose to 22.3%.

(Percentage)



Hong Kong Transport Operations

During the year, over 1,100 train trips per week were added to our railway network

Promotions and Concessions

Our fare promotions and concessions during the year began with recognition of our 35th Anniversary. To thank passengers for their support over more than three decades, in May 2014 we announced a package of fare promotions, including those associated with the FAM. These have an estimated value of approximately HK$500 million, adding to the annual HK$2.2 billion worth of ongoing fare concessions and promotions that we already offer today.

Promotions relating to the current FAM arrangement included the "10% Same-Day Second-Trip Discount" for Octopus users making every second trip (on the same mode of transport) on the same day. To thank our passengers for their support over the past 35 years, the promotion was extended to 30 April 2015 from the original end-date of 15 October 2014. The promotion proved very popular and on average, more than 1.7 million trips have benefitted from the discount each day since it was launched in June 2014. In addition, to cap off our 35th Anniversary and celebrate the opening of the Western extension of the Island Line, we also offered a special promotion on the second and third days of Chinese New Year in 2015. In this promotion, adults can enjoy roughly half fare (equivalent to Child Octopus Fare) whilst other passengers, when using Octopus, paid only HK$1 for their domestic journey.

Extensive training ensures a diligent and helpful attitude from our frontline staff

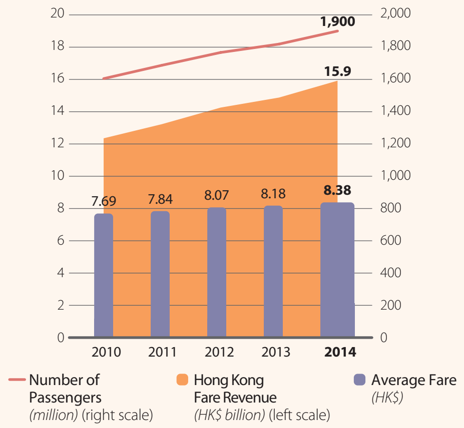
Light Rail is a vital transport network for the North-Western New Territories

In June 2014, we launched our first multi-ride smart ticket, MTR City Saver. Designed to save money for regular commuters making medium to long distance journeys within urban areas, it covers designated urban stations on seven lines. The cost is just HK$400, and it is valid for 40 single journeys in any consecutive 30 days. From the time it was launched up to 31 December 2014, more than 490,000 MTR City Saver tickets were sold, indicating the attractiveness of this promotion to the travelling public.

To manage morning peak demand, the trial of an Early Bird Discount Promotion was introduced in September 2014 and will run to May 2015. It offers adult passengers using Octopus

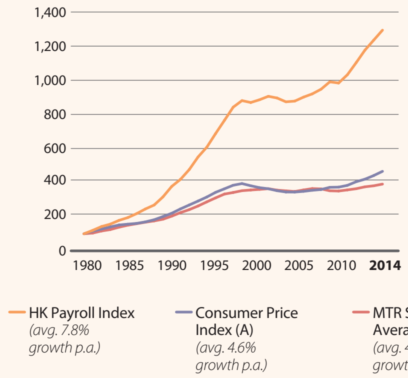
Passengers and Fares (Hong Kong Transport Operations excluding Intercity)

Economic growth supported the increase in fare revenue and patronage.



Fare Trend

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



Service Quality Index and Fare Index

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

	2014	2013
Service Quality Index		
Domestic and Cross-boundary services	**70**	73
Airport Express	**82**	84
Light Rail	**72**	69
Bus	**68**	69
Fare Index		
Domestic and Cross-boundary services	**62**	62
Airport Express	**71**	72
Light Rail	**73**	69
Bus	**66**	66

a 25% fare discount if they exit station gates between 7:15am and 8:15am on weekdays (excluding public holidays) at 29 designated core urban stations.

To encourage targeted segments of passengers to travel with MTR for outbound cross-boundary trips, free rides for children were introduced during the summer holidays, as well as discounted rides for students from selected universities and residents living in areas where MTR has high growth potential. A special Park and Ride promotion at MTR Hung Hom Station Car Park was offered to passengers interchanging with MTR for onward travel to Lo Wu or Lok Ma Chau stations.

Online purchase has been available for Cross-boundary Travel Pass since April 2014. Child Tourist Day Pass and Airport Express Single Journey Tickets (Child) are also available for online purchase starting in July 2014. Free rides on the Airport Express were offered to children aged between 3 and 11 using Child Octopus during festive seasons. Redemption of Airport Express "Ride to Rewards" programme rewards has been made easier.

The MTR Club is an important loyalty tool and by the end of the year, club membership had reached more than 1.47 million. A Bonus Points Scheme launched in December 2013 and lasting until March 2014 allowed members to accumulate points by taking the MTR and redeem souvenir tickets.

As of December 2014, 33 fare savers in different districts have offered fare discounts to encourage more new passengers onto the network who do not live, study or work near an MTR station but are within a reasonable walking distance.

To promote MTR Tourist Tickets and the convenience they bring to tourists, a promotion with gift and discount offers from MTR Malls and prepaid SIM cards ran from the beginning of the year until May 2014. This was followed in June 2014 by special offers from some of Hong Kong's major tourist attractions including Hong Kong Disneyland, Ocean Park, Madame Tussauds Hong Kong and our own Ngong Ping 360.

Service Performance

Service performance in 2014 continued to be maintained at world-class standards. Our train service delivery and passenger journeys on time across the network were maintained at 99.9%, which exceeds the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. In 2014, we operated over 1.8 million train trips in our heavy rail network, with 12 delays lasting 31 minutes or more. Improvement measures continue to be developed to minimise the inconvenience caused to passengers due to a delay.


MTR's transport system keeps Hong Kong moving every day of the year

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

Awards Received in Hong Kong	Organisation
Hong Kong Service Awards 2014 • Category Award of Public Transportation • Corporate Responsibility	East Week Magazine
Prime Awards for Eco-Business 2014 • Platinum Award in the Category of Eco Transportation Services	MetroBox Magazine
Yahoo! Emotive Brand Awards 2013 – 2014 • Category of Logistics & Transportation	Yahoo!
Prestigious Corporate Brand Awards 2014 • Top Favourite Service Brand voted by Hong Kong Consumer • Top Favourite Advertisement Commercials voted by Hong Kong Consumer	Ming Pao Daily News & MSC Marketing Programme of the Chinese University Hong Kong
Gold Award for Web Accessibility Recognition Scheme (Mobile Stream) *(For MTR Mobile app)*	Office of the Government Chief Information Officer & Equal Opportunities Commission
Best Local Mobile App Award *(For MTR Mobile app)*	e-zone Magazine (Published by Hong Kong Economic Times)
Marketing Excellence Awards 2014 • Gold Award in Excellence in Use of Apps *(For MTR Mobile app)*	Marketing Magazine

Awards Received outside of Hong Kong	Organisation
Best Metro Rail Operator – Asia Pacific	The Third Annual Metro Rail India Summit 2014
The Global AirRail AWARDS 2014 • Marketing Campaign of the Year *(for Airport Express)*	Global AirRail in Oslo, Norway
2014 Most Popular Hong Kong and Macau Brands Award Ceremony Gold Award *(for The Guangzhou-Kowloon Through Train service)*	China Media in Mainland of China
2014 W^3 Awards • General Website Categories – Transportation Gold Winner *(For MTR website)* • Mobile Applications – Maps & Navigation Silver Winner *(For MTR Mobile app)*	The Academy of Interactive & Visual Arts, US

Service Enhancement

To continue to enhance customer experience under our well-received Listening • Responding programme, more initiatives were rolled out in 2014. These focused on providing more comfortable journeys through the provision of additional train services, improving station access and facilities, and enhancing our communication with passengers.

Three phases of train service enhancements were implemented in April, August to September and December 2014, which resulted in increased train frequencies on the Tsuen Wan, Kwun Tong, Island, East Rail, West Rail, Tseung Kwan O and Tung Chung lines at various times on weekdays and at weekends. During the year, more than 1,100 train trips per week were added, bringing to more than 2,400 the number of train trips added weekly since 2012, when the Listening • Responding programme began.

For Light Rail, service hours on selected routes have been extended since September 2014 to allow passengers to interchange from the last West Rail Line service of the day for onward travel to all 68 Light Rail stops.

We fully understand that given the significant number of passengers on the MTR network, there are segments that become crowded particularly during rush hours. To ease this crowding we have increased train frequencies where we can, to the point where on many lines, services during rush hours have reached the capacity limit of our signalling equipment. We awarded the contract in early March 2015 for the replacement of the signalling systems on a number of lines in our Domestic Service as well as the Airport Express. This will enhance passenger carrying capacity, but the impact will not be significant. Hence, the solution will be the construction of more parallel rail lines to relieve crowding and enhance the robustness of the overall

We spent over HK$6 billion on maintenance, renewals and service improvements for our railway assets in 2014

network. The Shatin to Central Link is one such example, as is the proposed North Island Line on Hong Kong Island.

To maintain and upkeep our existing railway assets, and improve their operating performance and capacity, we spent over HK$6 billion on maintenance, renewals and service improvements in 2014. We embarked on two major new investment programmes during the year. In addition to the HK$3.3 billion contract for replacing the signalling systems with works scheduled to begin in 2016, we also started the process to refurbish or replace 78 of our 93 existing M-type trains fleet, operating on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines between 2019 and 2022. This will make journeys more comfortable for our passengers. An initiative was also launched to modify the door bottom guides on M-type trains to reduce the chance of doors being blocked by foreign objects.

We have also been upgrading our fleet of buses. In 2014, eight older buses were replaced with new models to provide feeder services to and from West Rail Line stations and Light Rail stops. The new buses were fitted with Euro V engines, which meet the latest and most stringent environmental standards. They are thus contributing to cleaner air in Hong Kong.

To improve platform management in stations, 300 more station assistants were recruited during 2014. The assistants help to facilitate the smooth flow of passengers through stations, especially during peak periods.

New equipment has likewise made stations more comfortable, accessible and efficient. The installation of Automatic Platform Gates ("APGs") for the Ma On Shan Line commenced in November 2014 and the first set of APGs is already in place at Tai Wai Station.

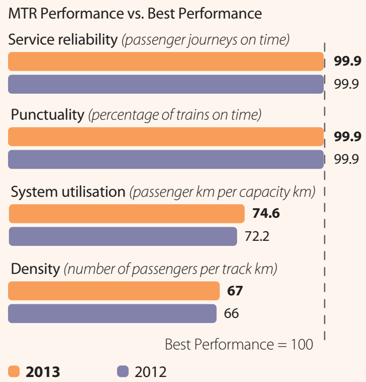
Eight additional external lifts at stations are currently being installed for completion between 2015 and 2018. Work also began in 2014 to replace 24 hydraulic lifts in phases to provide swifter movement within stations. Public toilets were opened in Mong Kok and Prince Edward stations in January 2015 for passengers' use, adding convenience to their journeys.

We likewise continued our work to link stations with the surrounding area to make them more accessible. Work on a new "Crystal Cube" entrance at Tsim Sha Tsui Station continued throughout the year, while refurbishment works began at Tai Tong Road Light Rail Stop in the third quarter of 2014 to replace the platform canopy and create a more spacious environment. The construction of the pedestrian link to Austin Station sites C and D entrances has progressed well, while the interfacing work design for the Yuen Long Station footbridge connection to a neighbouring development was completed in August 2014.

After five years of planning, trialling and testing, the replacement of all older magnetic single journey tickets by the new more convenient Single Journey Smart Tickets was completed in March 2014. Replacement of existing Light Rail Single Journey Ticket Issuing Machines started in September 2014. New "2-in-1"

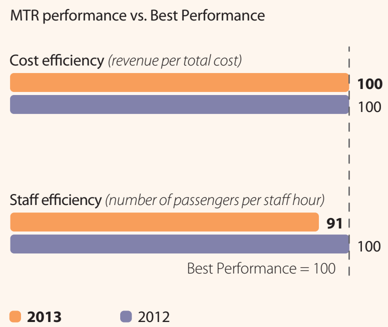
Benchmarking Comparisons

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



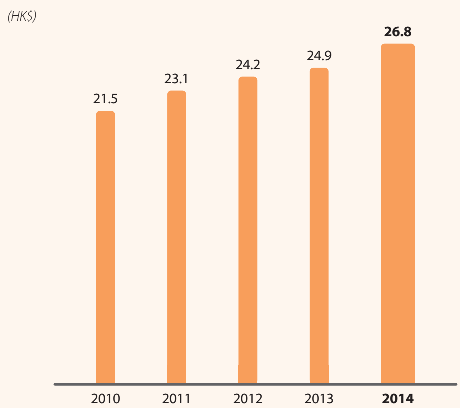
Cost Efficiency and Staff Efficiency

New initiatives continue to be introduced to enhance operating efficiency.



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

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



Ticket Issuing and Add-value Machines were put into service in three Light Rail stops in December 2014 and will be gradually installed in all 68 Light Rail stops.

Communicating with passengers remains a priority for MTR. The "MTR Mobile" app ("MTR Mobile") now has some 2.5 million users, of which some 1.4 million have opted-in to receive push notification of Traffic News. MTR Mobile has been enhanced with a number of applications, including a Light Rail Planner, MTR Bus information and station lifts service status, all of which make journey planning easier for passengers. It has also been upgraded to allow greater accessibility, with a design that provides visually impaired passengers with more user-friendly navigation and better audio information. Moreover, according to a survey result released in November 2014 by the Hong Kong Blind Union on web accessibility of 30 selected major websites frequently used by visually impaired persons in Hong Kong, our customer website has achieved 100% of the 15 criteria being tested, increased from 76.9% in 2012. Apart from the enhanced accessibility design, the MTR website has been revamped with a modern and user-friendly layout. This features a range of personalised functions and a responsive web design for optimal display in computer desktops, mobile phones and tablets.

Next Train app, which already provided real-time information on train schedules for the Airport Express, Tung Chung Line and West Rail Line, was upgraded to extend its coverage to the Tseung Kwan O Line.

Airport Express provides convenient and reliable services to air travellers

System and Market Information

Railway operation data	2014		2013	
Total route length *(km)*	**220.9**		218.2	
Number of rail cars	**2,106**		2,106	
Number of stations (Island Line, Tsuen Wan Line, Kwun Tong Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, West Rail Line, Airport Express, East Rail Line and Ma On Shan Line)	**87**		84	
Number of Light Rail stops	**68**		68	
Number of e-instant Bonus machines in stations	**51**		49	
Number of station shops	**1,350**		1,336	
Number of advertising units in stations	**21,592**		21,104	
Number of advertising units in trains	**23,415**		23,954	
Daily hours of operation				
Island Line, Tsuen Wan Line, Kwun Tong Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, West Rail Line, Airport Express and Light Rail	**19.0**		19.0	
East Rail Line and Ma On Shan Line	**19.5**		19.5	
Minimum train headway *(second)*	**Morning Peak**	**Evening Peak**	Morning Peak	Evening Peak
– Tsuen Wan Line	**120**	**120**	120	120
– Kwun Tong Line	**126**	**140**	126	144
– Island Line	**112**	**124**	112	130
– East Rail Line				
Hung Hom to Sheung Shui	**212**	**200**	212	212
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**	150	150
– Tung Chung Line				
Hong Kong to Tung Chung	**360**	**360**	360	360
Hong Kong to Tsing Yi	**240**	**240**	240	240
– Airport Express	**600**	**600**	600	600
– West Rail Line	**171**	**210**	171	210
– Disneyland Resort Line	**270**	**270**	270	270
– Light Rail	**270**	**300**	270	300

International Performance Comparisons: the 16-member Community of Metros (CoMET)

Metro system network data (2013)	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
Passenger journeys *(million)*	**1,586**	1,470	1,193	1,282	1,685	563	2,491	1,742	1,606	483	672	1,507	889	635	493	711
Car kilometres *(million)*	**269**	372	224	524	389	172	799	557	253	107	143	339	110	110	120	124
Route length *(km)*	**175**	394	253	439	226	284	325	480	218	115	104	538	65	121	146	129
Number of stations	**82**	190	132	270	163	247	175	424	303	66	100	286	58	103	173	78

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

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

Operations Performance in 2014

Service performance item	Performance Requirement	Customer Service Pledge Target	Actual Performance
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on-time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	**99.8%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.7%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥ 5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	600,000	**3,585,340**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	600,000	**4,747,878**
Ticket reliability: magnetic and smart ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	8,000	**28,150**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.7%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	N/A	99.0%	**99.7%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.6%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.7%**
– West Rail Line	97.0%	99.0%	**99.8%**
– Light Rail	N/A	99.0%	**99.9%**

Operations Performance in 2014 *(continued)*

Service performance item	Performance Requirement	Customer Service Pledge Target	Actual Performance
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability	N/A	99.0%	**99.9%**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.9%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.5%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	91.0%	**99.9%**
Cleanliness			
– Train compartment: cleaned daily	N/A	99.0%	**99.9%**
– Train exterior: washed every 2 days (on average)	N/A	99.0%	**100.0%**
Northwest Transit Service Area Bus Service			
– Service Delivery	N/A	99.0%	**99.7%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

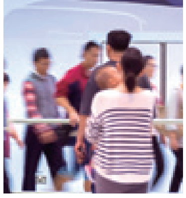
49
New Shops
Added

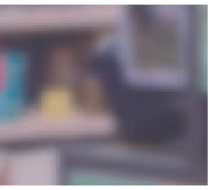
Providing Your Needs

4G
Data access along the journey

Hong Kong Station Commercial Businesses

Revenue from our Hong Kong station commercial businesses increased by 8.2% in 2014 to HK$4,963 million. The operating costs of our Hong Kong station commercial businesses rose by 11.0% to HK$515 million, with the result that operating profits increased by 7.9% to HK$4,448 million, representing an operating margin of 89.6%.





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Station Retail

Station retail revenue for the year increased by 9.0% to HK$3,197 million. The increase was mainly due to trade mix refinements, rental renewals of station shops, as well as rental increases from the Duty Free Shops.

We continually refresh and enhance the brand positioning of MTR Shops. Between March and May 2014, a thematic branding campaign re-run "Style to GO" was launched, with station

MTR Shops provide a wide choice of goods and services to address passengers' needs

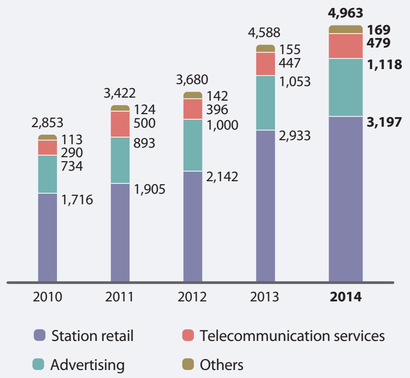
Executive Management's Report
Hong Kong Station Commercial Businesses

publicity and digital media featuring Korean pop stars. Further promoting the stylish convenience positioning and trade variety of MTR Shops, posters featuring 18 new brands at MTR Shops were displayed across the MTR network during the year. We also made every effort to recruit quality new brands. An MTR Shops Leasing Package was launched in September 2014 to enhance leasing terms by offering a set of differentiating benefits riding on our brand value. In September 2014, a voting campaign with the theme of "My Favourite MTR Shops 2014" was launched for all MTR Club Members. The aim of the campaign was to promote the wide variety of MTR Shops and to recognise the efforts made by MTR Shops tenants in serving passengers' daily needs. In November 2014, an online game with a lucky draw was launched to enhance customers' liking and awareness of MTR Shops as well as to promote MTR Shops as a preferred shopping destination.

Revenue from Hong Kong Station Commercial Businesses

Revenue increased in 2014 due to an improvement in station shop rental and advertising revenues.

(HK$ million)



Themed advertising packages create impact for advertisers promotion campaigns

iCentres and Wi-Fi hotspots provide free Wi-Fi service to passengers

As at 31 December 2014, there were 1,350 station shops, covering 55,696 square metres of retail space. During the year, 14 new shops were added at Kennedy Town and HKU stations in December and 35 new shops were added at nine other stations. In total, 28 new brands were introduced to our station shops network. The demolition of shops at Hung Hom station to facilitate construction works for the Shatin to Central Link offset additional floor space from the new shops, however, leading to a 1% decline in overall retail space.

Advertising

During 2014, we continually launched timely sales packages to attract and retain advertisers. These supported an increase in advertising revenue, which grew by 6.2% in 2014 to HK$1,118 million. "Soccer Fever" and a number of other sales packages were rolled out during the year to generate more advertising revenue. We also added more large-scale advertising formats.

Eight new single-sided and six double-sided concourse 12-sheet panels were added in Hong Kong, Kowloon and Airport stations, while 31 floor-mounted 12-sheet panels were installed at Kwai Fong and Kwai Hing stations. As at 31 December 2014, the total number of advertising units had reached 45,007.

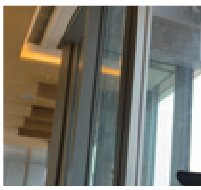
Telecommunications

Revenue from telecommunications in 2014 increased by 7.2% to HK$479 million. This rise was mainly due to mobile data capacity increases by telecom operators. Installation is currently underway for the provision of Wi-Fi services in South Island Line (East) and Kwun Tong Line Extension stations. We are targeting the provision of services on the first day of operation of these new stations. The extensive two-year project to enhance 2G and 3G capacity in 48 stations was completed during 2014.

Access to Your Quality Home

5 property development tenders awarded

91,434 managed residential flats

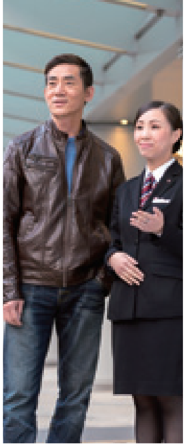


13 Shopping Malls

in our portfolio

Hong Kong Property and Other Businesses

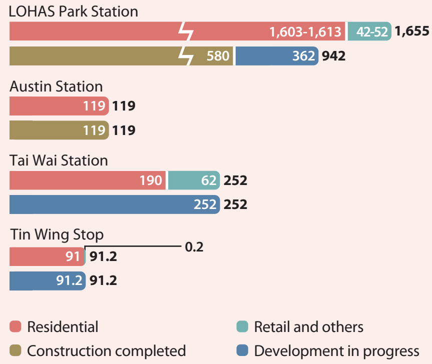
The Hong Kong property market remained stable during the first half of 2014, while showing improvement in the latter half of the year... Residential prices remained resilient, supported by low interest rates. The office leasing market and retail property market both remained relatively stable.



Property Development Packages for Operating Network – Plan and Progress

The pre-sale of Grand Austin (Austin Station Site D) launched, with 99% of 691 units sold.

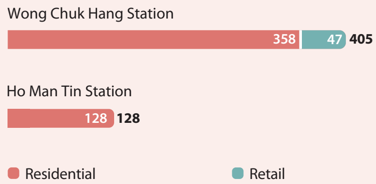
Gross floor area (thousand sq. m.)



Property Development Packages for Future Extensions

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

Gross floor area (thousand sq. m.)



The Hong Kong property market remained stable during the first half of 2014, while showing improvement in the latter half of the year. Developers adopted an active sales approach during 2014, and a number of new residential projects came onto the market. The response from buyers was positive, resulting in significantly higher primary home sales than in 2013. Residential prices remained resilient, supported by low interest rates. The office leasing market and retail property market both remained relatively stable.

Property Development in Hong Kong

Profit from Hong Kong property developments in 2014 was HK$4,216 million comprising mainly profits from The Austin (Austin Station Site C) and Grand Austin (Austin Station Site D), for which Occupation Permits were obtained during the year.

Following the successful presale of The Austin in 2013, we launched the presale of Grand Austin in 2014 which was also well received, with 99% of 691 units sold by the year end. In total, 99% of the City Point's 1,717 units at Tsuen Wan West Station, where we act as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation ("KCRC"), were also sold. The Occupation Permit for City Point was obtained in September 2014. The Occupation Permit for LOHAS Package 3 was obtained in December 2014 and sales of the residential units are scheduled to commence in the first half of 2015.

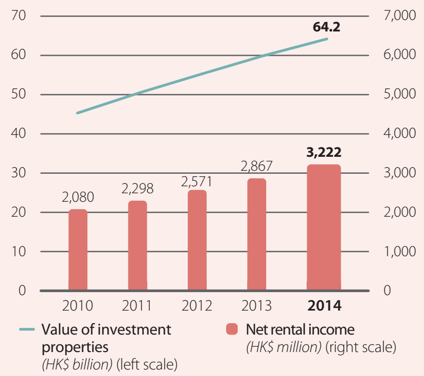
In our property tendering activities, LOHAS Park Package 4 was awarded in April to Globaluck Limited, a subsidiary of Sun Hung Kai Properties Limited. In October, the Tai Wai Station site was awarded to Lucrative Venture Limited, a subsidiary of New World Development Company Limited. This was followed by LOHAS Park Package 5, which was awarded in November 2014 to Leading Elite Limited, a subsidiary of Wheelock and Company Limited. In January 2015, LOHAS Park Package 6 was awarded to Great Team Development Limited, a subsidiary of Nan Fung Group Holdings Limited, and the Tin Wing Stop site was awarded to Best Vision Development Limited, a subsidiary of Sun Hung Kai Properties Limited in February 2015.

At LOHAS Park, to enhance the flexibility of development's flat mix in order to meet market demands, we received approval from the Town Planning Board in February 2015 allowing us to increase the number of residential units by 4,000 under the approved Master Layout Plan to a maximum of 25,500 units.

Hong Kong Property and Other Businesses

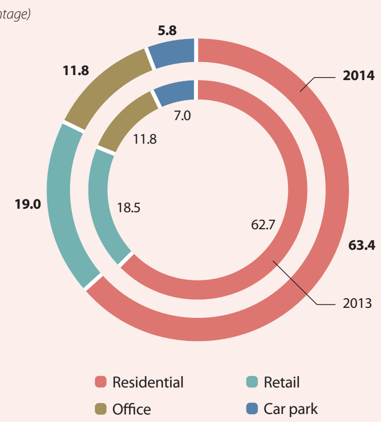
Investment Properties

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



Distribution of Hong Kong Property Management Income

At the end of the year, the Company had 91,434 residential units and 763,018 sq.m. of commercial and office space under management in Hong Kong.



In view of market demand for more land supply, we will continue to explore opportunities for other property developments along our railway lines.

Property Rental and Management Businesses in Hong Kong

Revenue from the Hong Kong property rental and management businesses in 2014 grew by 10.9 % to HK$4,190 million. Operating costs increased by 11.0% to HK$747 million, resulting in operating profit rising 10.9% to HK$3,443 million, representing an operating margin of 82.2%.

Total property rental income in Hong Kong was HK$3,945 million, which was 11.2% higher than in 2013. Our shopping mall portfolio achieved an average 13% increase in rental reversion for the year. As at 31 December 2014, our shopping malls in Hong Kong and the Company's 18 floors at Two International Finance Centre ("Two ifc") remained close to 100% let, with a major tenant at Two ifc renewing its lease in July 2014.

As at 31 December 2014, the Company's attributable share of investment properties in Hong Kong was 212,500 square metres of lettable floor area of retail properties, 41,006 square metres of lettable floor area of offices, and 14,282 square metres of property for other use.

We continue to invest in our retail properties to enhance their attractiveness and financial performance. In 2014, renovation works for the common area of PopCorn2 were completed. Luk Yeung Galleria completed the ground floor repartitioning and trademix enhancement project to rejuvenate the mall and create a more exciting shopping experience for those visiting the mall. Paradise Mall also underwent a partial revamp during the year, with the aim of achieving a more conducive mix of lifestyle offerings in its West Commercial Block. Construction works for the Maritime Square Extension project also commenced in 2014 and we target to open this extension in the fourth quarter of 2017. This will add about 12,100 square metres to our retail properties at a cost of approximately HK$2.4 billion (excluding capitalised interest).

In relation to the Tai Wai Station property development tender, the Company has contributed HK$7.5 billion to the land premium payment and the additional fit-out costs for the shopping centre. We will take ownership of the shopping mall of about 62,000 square metres (including 1,380 square metres of bicycle park and cycle track) and a share of profits from the residential development. This mall is expected to start operations in 2021.

Our properties are desirable for their excellent facilities and convenient locations

Luk Yeung Galleria provides an exciting shopping experience following its revamp

The outstanding performance of MTR Malls has been widely recognised during 2014 with the winning of various awards. These included the "Top 10 My Favourite Shopping Mall in Hong Kong" in the *Hong Kong Economic Times*, "Customer Caring Service Award" and "Luxurious Experience Shopping Centre Award" in the "Hong Kong Service Awards 2014" given by *East Week*, as well as the "Best PR / Guerilla Marketing Campaign – Gold" award in the "Marketing Events Awards 2014" from *Marketing Magazine*.

We also received recognition for our programmes to put into practice Government's "Energy Saving Charter" and reduce environmental impacts at our properties, for example through the installation of energy saving equipment and commitment to waste reduction programmes. MTR shopping malls again won the "Platinum Prime Award for Eco-Business 2014" given by *Prime Magazine* and the Business Environment Council. Energy saving initiatives have been extensively explored during the design of the Maritime Square Extension. These include advanced air conditioning systems that feature demand management controls, as well as energy efficient lighting. In addition to supporting the "Food Wise Charter", MTR Malls are also participating in the Steering Committee of the Food Wise Hong Kong Campaign set up by the Environment Bureau. We have also implemented the self-initiated "MTR Malls Food Waste Reduction Pledge" to support food waste reduction at source.

Hong Kong property management revenue in 2014 increased by 6.1% to HK$245 million. As at 31 December 2014, the area of managed commercial space was 763,018 square metres. The number of managed residential flat units rose by 911 to 91,434 units following additions from Century Gateway II in October 2014.

To promote food waste recycling and reduce pressure on landfill, our managed properties Heng Fa Chuen, The Capitol of LOHAS Park and Tierra Verde have implemented the Food Waste Recycling Scheme.

Other Businesses

Ngong Ping cable car ("Ngong Ping 360")

Ngong Ping 360 and associated theme village achieved an 18.7% increase in revenue in 2014 to HK$375 million. Visitor numbers for the year grew to approximately 1.83 million while reliability remained high at 99.8%. Growth in business was supported by a number of new attractions, including Stage 360, Motion 360 and various new tour packages. During 2014, Ngong Ping 360 received both local and international awards, including being named one of the "Ten Amazing Cable Car Rides Around the World" by the UK's *Daily Telegraph newspaper*.

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 Period of packages awarded	Actual/Expected completion date
Property Development Packages awarded			
Tuen Mun	2.65	Aug 2006	By phases from 2012 – 2014
Tsuen Wan West (TW7)	2.37	Sep 2008	2014
Nam Cheong	6.18	Oct 2011	By phases from 2017 – 2019
Tsuen Wan West (TW5) Cityside	1.34	Jan 2012	2018
Tsuen Wan West (TW5) Bayside	4.29	Aug 2012	2018
Long Ping (North)	0.99	Oct 2012	2018
Tsuen Wan West (TW6)	1.38	Jan 2013	2018
Long Ping (South)	0.84	Jun 2013	2019
	20.04		
Property Development Packages to be awarded			
Yuen Long	About 3.46	Under review	Under review
Kam Sheung Road	About 9.37	Under review	Under review
Pat Heung Maintenance Centre	About 23.56	Under review	Under review
	36.39		
Total	**56.43**		

Excellent property management services are provided to residents

Consultancy Business

We leverage our experience as one of the world's leading railway operators to offer consultancy services to clients in Hong Kong and overseas. Revenue from our consultancy business in 2014 was HK$180 million, 40.6% higher than in 2013. This was mainly attributable to the Automated People Mover projects at the Hong Kong International Airport.

Octopus

The Company's share of Octopus' net profit for 2014 increased slightly by 0.4% to HK$226 million. By 31 December 2014, more than 6,000 service providers in Hong Kong were accepting the Octopus service. Total Octopus cards and other stored-value Octopus products in circulation during the year reached 27.6 million. Average daily transaction volumes and value reached 13.4 million and HK$152.1 million respectively.

Project Management

Income from providing project management services to Government, relating to the entrustment works on the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Shatin to Central Link, was HK$1,561 million in 2014, an increase of 6.8% over 2013. Income from the entrustment works is currently booked on a cost recovery basis.

Property Development Packages Completed during the year and Awarded

Location	Developers	Type	Gross floor area (sq. m.)	Period of package tenders	Actual/Expected completion date
LOHAS Park Station					
Package Three (Hemera)	Cheung Kong (Holdings) Ltd.	Residential Kindergarten	128,544 1,000	Awarded in November 2007	2014
Package Four	Sun Hung Kai Properties Ltd.	Residential	122,302	Awarded in April 2014	2020
Package Five	Wheelock and Company Ltd.	Residential	102,336	Awarded in November 2014	2020
Package Six	Nan Fung Group Holdings Limited	Residential	136,970	Awarded in January 2015	2021
Tai Wai Station					
Tai Wai	New World Development Co. Ltd.	Residential Retail	190,480 62,000	Awarded in October 2014	2022
Austin Station					
The Austin and Grand Austin	New World Development Co. Ltd. and Wheelock Properties Limited	Residential	119,116	Awarded in March 2010	2014
Tin Wing Stop					
Tin Wing Stop	Sun Hung Kai Properties Ltd.	Residential Retail	91,051 205	Awarded in February 2015	2021
Tuen Mun Station#					
Century Gateway and Century Gateway II	Sun Hung Kai Properties Ltd.	Residential Retail	119,512 25,000	Awarded in August 2006	By phases from 2012 – 2014
Tsuen Wan West Station#					
City Point	Cheung Kong (Holdings) Ltd.	Residential	113,064	Awarded in September 2008	2014
TW5 Cityside	Chinachem Group	Residential Retail	66,114 11,210	Awarded in January 2012	2018
TW5 Bayside	Cheung Kong (Holdings) Ltd.	Residential Retail Kindergarten	167,100 40,000 550	Awarded in August 2012	2018
TW6	New World Development Co. Ltd. and Vanke Property (Overseas) Limited	Residential	62,711	Awarded in January 2013	2018
Nam Cheong Station#					
Nam Cheong	Sun Hung Kai Properties Ltd.	Residential Retail Kindergarten	214,700 26,660 1,000	Awarded in October 2011	By phases from 2017 – 2019
Long Ping Station#					
Long Ping (North)	K. Wah International Holdings Limited and Sino Land Company Limited	Residential	48,675	Awarded in October 2012	2018
Long Ping (South)	Chinachem Group	Residential	41,990	Awarded in June 2013	2019

 # as a development agent for the relevant subsidiaries of KCRC

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 Retail	663,612 – 673,612 39,500 – 49,500		
Wong Chuk Hang Station	Residential Retail	357,500 47,000	2015 – 2020	2020 – 2024
Ho Man Tin Station	Residential	128,400		

Notes:

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

Investment Property Portfolio in Hong Kong (as at 31 December 2014)

Location	Type	Lettable floor area (sq. m.)	No. of parking spaces	Company's ownership interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping centre	39,461	–	100%
	Car park	–	993	100%
Telford Plaza II, Kowloon Bay, Kowloon	Shopping centre	19,363	–	50%
	Car park	–	136	50%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping centre	11,107	–	100%
	Car park	–	651	100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping centre	18,050	–	100%
	Wet market	1,216	–	100%
	Car park	–	415	100%
Maritime Square, Tsing Yi	Shopping centre	29,171	–	100%
	Kindergarten	920	–	100%
	Car park	–	220	100%
	Motorcycle park	–	50	100%
The Lane, Hang Hau	Shopping centre	2,629	–	100%
	Car park	–	16	100%
	Motorcycle park	–	1	100%
PopCorn 2, Tseung Kwan O	Shopping centre	8,463	–	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	1,252	–	100%
Choi Hung Park & Ride Public Car Park, No. 8 Clear Water Bay Road, Choi Hung, Kowloon	Car park	–	54	51%
	Motorcycle park	–	10	51%
	Park & ride	–	450	51%
Elements, No. 1 Austin Road West, Kowloon	Shopping centre	45,800	–	81%
	Car park	–	898	81%
Cross Border Coach Terminus, No. 1 Austin Road West, Kowloon	Coach terminus	5,113	–	100%
Kindergarten, No. 1 Austin Road West, Kowloon	Kindergarten	1,045	–	81%
Plaza Ascot, Fo Tan	Shopping centre	7,720	–	100%
Royal Ascot, Fo Tan	Residential	2,784	–	100%
	Car park	–	20	100%
Ocean Walk, Tuen Mun	Shopping centre	6,083	–	100%
	Car park	–	32	100%
Sun Tuen Mun Shopping Centre, Tuen Mun	Shopping centre	9,022	–	100%
	Car park	–	421	100%
Hanford Plaza, Tuen Mun	Shopping centre	1,932	–	100%
	Car park	–	22	100%
Retail Floor and 1-6/F, Citylink Plaza, Shatin	Shopping centre	12,054	–	100%
Portion of G/F and portion of 1/F, MTR Hung Hom Building, Hung Hom	Office	1,596	–	100%
The Capitol, LOHAS Park	Shop unit	391	–	100%
	Residential care home for the elderly	2,571	–	100%
Le Prestige, LOHAS Park	Kindergarten	800	2	100%
The Riverpark, Che Kung Temple	Shop unit	154	–	100%
	Kindergarten	708	–	100%

Investment Property Portfolio in Hong Kong (as at 31 December 2014) *(continued)*

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

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

Properties held for sale (as at 31 December 2014)

Location	Type	Gross floor area (sq.m.)	No.of parking spaces	Company's ownership interest
Island Harbourview, No. 11 Hoi Fai Road, Kowloon	Car park	–	119	40%
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping centre	6,026*	–	40%
	Car park	–	330	40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car park	–	117	40%
The Arch, No. 1 Austin Road West, Kowloon	Residential	548**	–	38.5%
	Car park	–	12	38.5%
Residence Oasis, No. 15 Pui Shing Road, Hang Hau, Tseung Kwan O	Motorcycle park	–	18	71%
The Grandiose, No. 9 Tong Chun Street, Tseung Kwan O	Motorcycle park	–	24	70%
Harbour Green, No. 8 Sham Mong Road, Kowloon	Car park	–	24	35%
	Kindergarten	1,299	–	50%
The Palazzo, No. 28 Lok King Street, Shatin	Residential	1,022**	–	55%
	Retail	2,000	–	55%
	Car park	–	33	55%
	Motorcycle park	–	8	55%
Lake Silver, No. 599 Sai Sha Road, Shatin	Residential	1,674**	–	92.88%
	Retail	3,000	–	92.88%
	Kindergarten	1,000	–	92.88%
	Car park	–	105	92.88%
	Motorcycle park	–	–	92.88%
Festival City, No. 1 Mei Tin Road, Shatin	Car park	–	231	100%
Le Prestige, LOHAS Park, Tseung Kwan O	Car park	–	25	52.93%
The Riverpark, No. 8 Che Kung Miu Road, Shatin	Residential	2,254.5***	–	87%
	Car park	–	29	87%
	Motorcycle park	–	–	87%
The Austin, 8 Wui Cheung Road, Kowloon	Car park	–	17	67.5%
Grand Austin, 9 Austin Road West, Kowloon	Car park	–	10	67.5%

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

Managed properties in Hong Kong (as at 31 December 2014)

Number of managed residential flats	91,434 units
Area of managed commercial and office space	763,018 sq.m.

53km will be added to our Hong Kong network

Deliver the New Era Network

4 New Railway Projects are in progress

Island Line Extension

opened in December 2014

Hong Kong Network Expansion

The Company's network expansion projects in Hong Kong during the year comprised five new lines, one of which, the Western extension of the Island Line (or West Island Line), came into operation in December 2014.

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New Rail Lines Owned by MTR

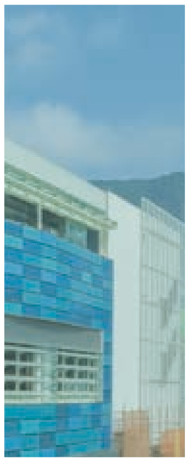
Western extension of the Island Line (or West Island Line)

The opening in December 2014 of the 3-km Western extension of the Island Line, created much excitement in the Western District of Hong Kong Island. Upon opening, it started serving HKU and Kennedy Town stations. Sai Ying Pun Station, which is one of the three stations on this extension, will open on 29 March 2015, with one of its entrances at Ki Ling Lane targeted for opening by the end of 2015. As previously announced, our estimate of the project cost (excluding capitalised interest) was approximately HK$18.5 billion. This extension was built as a community railway, which brings added convenience to about 230,000 people working and living in the Western District, and the average daily patronage has reached over 100,000. The integrated, all-weather pedestrian network, including comfortable passageways, escalators and lifts, makes navigating the area's hilly terrain much easier.

Community engagement is an important aspect of all project work and in July 2014, "Conservation of Stonewall Trees", a new book about the preservation of the century-old tree walls at Forbes Street in Kennedy Town during construction of the Western extension of the Island Line, was published. In September 2014, talented young Hong Kong directors explored the theme of "community" in a series of three short films launched as part of another community outreach campaign for the project.

South Island Line (East)

The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District of Hong Kong Island, with



The technically complex works for the underpinning of the existing Island Line tunnel, in order to construct the extension of Admiralty Station, continue to be a major challenge

a train depot located in Wong Chuk Hang. It will be the first metro service to the Southern District of Hong Kong, serving an estimated residential and working population of 350,000. Excavation of the 3.2-km Nam Fung Tunnel connecting Admiralty and Ocean Park stations was completed in October 2014. The Wong Chuk Hang Depot has been topped out and, fitting-out and Electrical & Mechanical ("E&M") works are progressing well in the depot. The technically complex works for the underpinning of the existing Island Line tunnel, in order to construct the extension of Admiralty Station, continue to be a major challenge and timely completion of these works is critical to maintain the revised target opening date of end-2016. Structural works for Ocean Park and Wong Chuk Hang stations have been completed and fitting-out and E&M works are in progress. At Lei Tung Station and South Horizons Station, excavation works have been completed and construction of the station structure and entrances are in progress. The trains for the South Island Line (East) were delivered in 2014, and they are being gradually transferred to the Wong Chuk Hang Depot from late 2014. A series of train tests will be conducted on the tracks in 2015.

In August 2014, we revised upwards our estimate of the project cost (excluding capitalised interest) to HK$15.2 billion. With the complexity of the project and continued challenges encountered, this estimate will be further reviewed in light of project progress and may be revised upwards. As at 31 December 2014, the project was 82% complete.

Kwun Tong Line Extension

The 2.6-km Kwun Tong Line Extension will extend the Kwun Tong Line from its existing terminus at Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa. It will be the first metro service to link Ho Man Tin and Whampoa, serving a catchment population of 146,000. The major challenge which may impact the timetable is the excavation of the platform tunnel at Whampoa Station, the timely completion of which is critical to meet the revised target opening date of mid-2016. At Whampoa Station the excavation of both West and East concourses has moved ahead with approximately 88% of overall excavation completed by the end of 2014, while at Ho Man Tin Station 66% of structural works had been completed. Track work installation from Yau Ma Tei Station to Whampoa Station was 27% complete at the end of 2014.

The original estimate of the project cost (excluding capitalised interest) was HK$5.9 billion. With the complexity of the project and continued challenges encountered, this estimate will be further reviewed in light of project progress and may be revised upwards. As at 31 December 2014, the project was 72% complete.

The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District of Hong Kong Island

Construction of New Rail Lines Entrusted to MTR by the Government

Express Rail Link

The 26-km Express Rail Link will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. It will be served by the West Kowloon Terminus. As at 31 December 2014, the project was 66% complete and the target completion date had been revised from 2015 to a target of end 2017. Under the Express Rail Link Entrustment Agreement ("XRL Entrustment Agreement"), Government is responsible for funding the construction of the Express Rail Link. In July 2014, we provided to Government our project cost estimate at that time for the Express Rail Link project of HK$71.52 billion, inclusive of future insurance and project management costs. With the complexity of the project, particularly the works at the West Kowloon Terminus, we are reviewing again the project cost estimate and the target completion date (and any possible delay in respect thereof). Taking into account the continued construction challenges and recommendations from the IBC, the cost estimate may be revised significantly upwards. It is expected that this review will be completed within the second quarter of 2015, after which we will formally report the findings to Government. Thereafter, we will continue to monitor and review the project cost and completion date.

Under the XRL Entrustment Agreement, if a material modification to the programme for the execution of the entrustment activities is likely to result in a material increase or decrease in project management responsibilities or costs of the Company, the Company and Government are to negotiate in good faith to agree an increase or, as the case may be, decrease in the Project Management Fee (currently set at HK$4,590 million). Such negotiations have not yet commenced (as of 31 December 2014 and up to the date of this annual report) and, accordingly, at this stage, there is no certainty as to whether such fee will be increased. If the Company does not receive an increase in the Project Management Fee, we may not be able to recover the increased internal cost we incur in performing our obligations under the XRL Entrustment Agreement.

As regards to the potential legal liability, Government has the right to claim against the Company if the Company breaches the XRL Entrustment Agreement, or if Government suffers a loss as a result of the Company's negligence in performing its obligations under the XRL Entrustment Agreement. The Company's total aggregate liability to Government arising out of or in connection with the XRL Preliminary Entrustment Agreement and the XRL Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the Project Management Fee and any other fees that the Company receives under the XRL Entrustment Agreement and certain fees received by the Company under the XRL Preliminary Entrustment Agreement.

Hong Kong Network Expansion

Following the April 2014 announcement of the delay to the project, the Board established the IBC, which worked with independent experts to advise how the Company could deliver the project in a more transparent and timely manner. The resulting reports, published in July and October 2014, established various external reasons for delay to the project, including local labour shortage, utility diversion complications and unfavourable ground conditions. We are implementing the recommendations made for enhancements to the Company's systems and processes, including the establishment of the Board Capital Works Committee and the Risk Committee. All these enhancements will improve transparency and communications related to the project management.

On 30 January 2015, the Office of the Chief Executive of HKSAR made public the Report of the Express Rail Link Independent Expert Panel. We have reviewed this report in conjunction with our two experts appointed by the IBC and will assist Government to implement recommendations where appropriate.

Construction of the tunnels for this project, which involves extensive excavation using Tunnel Boring Machines ("TBMs") and the Drill-and-Blast method, was 92% complete at the end of 2014. Of particular note, breakthrough of the 7.6-km Drill-and-Blast tunnel that runs through Tai Mo Shan between Tse Uk Tsuen and Shek Yam was achieved in late March 2014, while excavation of the Mei Lai Road to Hoi Ting Road tunnels using TBMs was successfully completed in October 2014. With the use of blasting to further accelerate the excavation of the underground rock at the West Kowloon Terminus Station North, which commenced in September 2014, the overall excavation work of the West Kowloon Terminus was 88% complete by year end, while 43% of the concrete structure had been cast. The structural works for all 14 buildings for the Shek Kong Stabling Sidings were completed and E&M installations are in progress.

The overall excavation work of the West Kowloon Terminus was 88% complete by the end of 2014

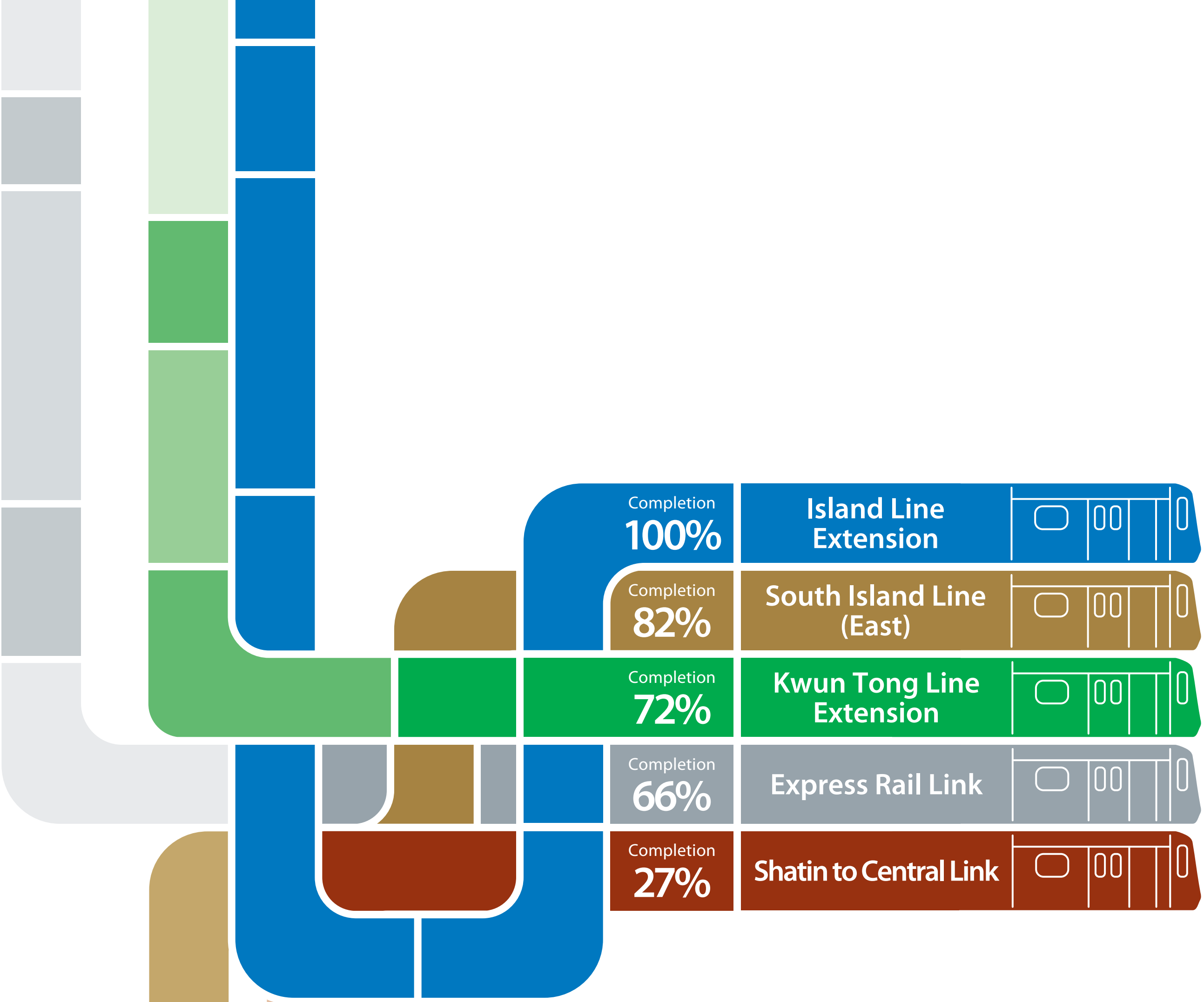
Shatin to Central Link

The 17-km Shatin to Central Link links up the existing railway lines to form an East West Corridor and a North South Corridor. The project covers ten stations, including six interchange stations linking existing railway lines and those under construction. The project was 27% complete overall by the end of 2014, with the East West Corridor 37% complete and the North South Link 9% complete. The progress of East West Corridor of the Shatin to Central Link has been mainly impacted by the archaeological works at a site in To Kwa Wan, resulting in 11 months delay with target opening now in 2019. For the North South Corridor, there is expected to be late site handover by other infrastructure projects in the vicinity, and our current estimate is that there will be at least six months delay in this project programme with target opening in 2021. The Company will continue to liaise closely with the concerned parties to mitigate such delays as far as possible. Under the Shatin to Central Link Entrustment Agreement, Government is responsible for funding the construction of the Shatin to Central Link. In May 2014, we notified Government of the delays to the completion of the East West Corridor and North South Corridor. With the complexity of the project, together with the increased costs due to the archaeological works at To Kwa Wan, we are reviewing the project cost estimate taking into account the continued construction challenges and using the recommendation from the IBC. After the review we will report the findings to Government. Thereafter, we will continue to monitor and review the project cost.

The Shatin to Central Link will provide much needed new links across the New Territories, serving a catchment population of 380,000 people and catchment employment of an estimated 260,000 people in 2021. Construction works at all stations continued throughout the year. Hin Keng Station was 37% complete. Piling works on the temporary piling platform at the at-grade box cut and cover tunnel commenced. Works at Diamond Hill Station were 48% complete by the year end, while at Kai Tak Station, the overall progress was 49% complete. The modification works on station platforms of Ma On Shan Line to tie in with the future 8-car train configuration of the East West Corridor of the Shatin to Central Link were 75% complete by the end of 2014, with installation of extended steel platform roofs in progress.

New Railway Projects Under Discussion

In September 2014, Government issued its Railway Development Strategy 2014, which outlined Government's agenda for railway expansion in Hong Kong up to 2031. The Company has provided some technical input to Government on these new railway projects and will continue to support Government in the delivery of new railways for the community.



Progress of New Railway Projects in 2014

	No of Stations	Route Length (km)	Project Funding
Sheung Wan to Kennedy Town	3	2.7	Capital Grant
Admiralty to South Horizons	5	7	Rail plus Property
Yau Ma Tei to Whampoa	2	2.6	Rail plus Property
West Kowloon to Guangzhou South	1	26*	Service Concession
Tai Wai to Hung Hom **Hung Hom to Admiralty**	8 2	11 6	Service Concession

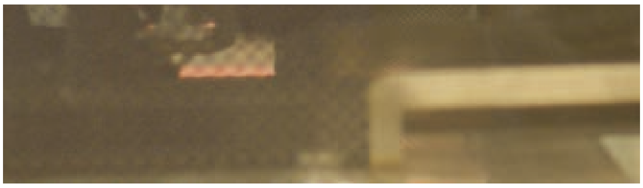
* This represents the route length from West Kowloon in Hong Kong to the boundary of Hong Kong and Shenzhen.

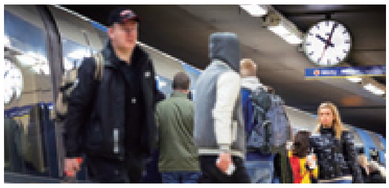
624km total route length in overseas operation

7 lines in operation outside of Hong Kong

Network around The World

145.7km total route length in Mainland of China operation





Mainland and International Businesses and Growth

The total number of passengers carried by our railway related subsidiaries and associates outside of Hong Kong was approximately over 1,458 million in 2014, against approximately 1,355 million in 2013.

The Company's Mainland of China and International subsidiaries comprise both railway related subsidiaries and property related subsidiaries. Revenue from these businesses in 2014 was HK$12,627 million. Revenue from the Company's railway related subsidiaries outside Hong Kong, namely MTR Corporation (Shenzhen) Limited, Metro Trains Melbourne Pty. Ltd. ("MTM"), MTR Stockholm AB ("MTRS"), MTR Express (Sweden) AB and the companies under Northwest Rapid Transit Consortium, was HK$12,472 million. This represented a decrease of 4.8% over 2013, mainly due to exchange rate movements. Operating costs decreased to HK$11,638 million in 2014, resulting in an 8.6% increase in operating profit to HK$834 million and an operating profit margin of 6.7%.

Our associates outside of Hong Kong, namely Beijing MTR Corporation Limited ("BJMTR"), London Overground Rail Operations Limited ("LOROL"), Tunnelbanan Teknik Stockholm AB and Hangzhou MTR Corporation Limited ("HZMTR"), continued to provide high quality rail and railway related services to their respective communities. The start-up losses at HZMTR stabilised and our overall share of losses from these four associates was HK$101 million in 2014.

The total number of passengers carried by our railway related subsidiaries and associates outside of Hong Kong was over 1,458 million in 2014, against approximately 1,355 million in 2013.

Railway Businesses in the Mainland of China

Beijing Metro Line 4 and the Daxing Line both exceeded their service targets in 2014. The combined ridership on these two lines in 2014 reached 461 million passenger trips, with an average weekday patronage of more than 1.3 million. The two lines have 35 stations and a combined length of 50 km.

The last station of Phase 1 of BJL14, Qilizhang Station, an interchange with Beijing Metro Line 9, opened for service on 15 February 2014. BJL14 service performance has been satisfactory, recording 18 million passenger trips and average weekday patronage of over 52,000 in 2014. In total, Phase 1 has seven stations and runs for 12.4 km. BJL14 Phase 2 East Section opened on 28 December 2014, covering 12 stations (two of which are currently bypassed) and running for 14.8 km. The Public-Private-Partnership ("PPP") model for BJL14 will begin when the line fully opens on a date currently expected to be after 2017. In December 2014, BJMTR received a nation-wide achievement of "First Grand Award" for the "Realisation of Sustainable Development through Life Cycle Management of Operational Asset" from the China Association of Communication Enterprise Management. This was in recognition of its innovative management model and technique. On 28 December 2014, a fare increase was applied across the entire Beijing metro system, the first such increase in seven years.

The operational performance of the Shenzhen Metro Longhua Line also exceeded targets during the year. Ridership for the year reached 168.7 million, with average weekday patronage reaching 460,000. The line runs 20.5 km and has 15 stations. As part of a plan to increase capacity by 50% through converting the existing 4-car fleet, the first 6-car trains entered service in January 2014 and as at 31 December 2014, a total of 23 6-car trains had been put into service. By February 2015, all the trains in service have been converted to 6-car trains.

Mainland and International Businesses and Growth

Hangzhou Metro Line 1 ("HZL1") achieved a good operational performance and saw a strong increase in passenger numbers in 2014. Patronage was up by 56% to 144.4 million when compared with 2013 and average weekday patronage reached 380,000. Although HZMTR still incurred an operating loss for the year 2014, different initiatives such as bus route rationalisation and park-and-ride schemes were implemented to encourage a change of travelling patterns among commuters, so as to increase patronage. The expansion of the metro network in Hangzhou is expected to benefit HZL1 patronage growth.

International Railway Businesses

In the UK, LOROL continued its award-winning service in London with good operational performance. LOROL has been assisting Transport for London ("TfL") to implement the GBP320 million capacity improvement project for the London Overground with the first 4-car to 5-car train conversion put into service in November 2014. LOROL's successful performance has enabled it to secure the appointment to run additional London Overground services. These will extend the network by 28 stations and 43 km of route length starting in May 2015. In 2014, ridership on LOROL grew by 14% during the year to reach 114.8 million. LOROL has won many awards during the year, including the prestigious "Safety Award" in the UK National Rail Awards in recognition of the large reduction in passenger accidents since the start of the concession. The London Overground concession is due to expire in November 2016, and it will be re-let by TfL in an open tender process during 2015. We are considering our approach to this tender.

In Stockholm, MTRS' services achieved very good operational performance in 2014. MTRS was awarded the prestigious "2014 Swedish Quality Award" by the independent Swedish Institute for Quality. Punctuality performance has continued to improve. Ridership for the year was similar to 2013 at 329.4 million. The franchise comprises 100 stations and runs for 110 km.

In Melbourne, patronage on MTM was 222.2 million. The lines have 218 stations and run 390 km. Operational performance and customer satisfaction continued to improve. MTM received the "Operator & Service Provider Excellence Award" at the National Infrastructure Awards in March 2014.

Property Development in the Mainland of China

MTR Property Development (Shenzhen) Company Limited has made good progress on the Shenzhen Metro Longhua Line Depot Site Lot 1 property project, named Tiara. Preparations are underway for Phase 1 pre-sales to be launched in first half of 2015, subject to market conditions. The sales office for Tiara officially opened in November 2014, and show flats will be opened for public viewing in March 2015. The project offers a total developable gross floor area of approximately 206,167 square metres of which approximately 10,000 square metres will be a small shopping centre.

Tianjin TJ-Metro MTR Construction Company Limited is a joint-venture company in which we have a 49% interest. It continues to make progress on the property project located at Beiyunhe Station on Tianjin Metro Line 6. The total developable gross floor area of the site is approximately 278,650 square metres. The site is being developed for mixed residential and commercial use.

Property Rental and Management Businesses in the Mainland of China

Revenue from our property rental and property management businesses in the Mainland of China increased by 6.2% to HK$155 million in 2014. Our shopping mall in Beijing, Ginza Mall, had an occupancy rate of 97.3% at the end of 2014.

The Company's managed gross floor area in the Mainland of China at the end of 2014 was 230,000 square metres. This comprised AO City Fortune Centre in Beijing, with 24,000 square metres of commercial and 58,000 square metres of residential space, and the North Star Paseo Mall and office towers in Beijing with 148,000 square metres of commercial space. The Company is currently providing pre-operation consultancy to Shenzhen East Pacific International Mall with a gross floor area of 48,000 square metres.

Mainland of China and International Growth

On 26 November 2014, BJMTR officially signed the Concession Agreement for the BJL14 PPP project with the Beijing Municipal Government. The entire line will run for 47.3 km and has 37 stations, including ten interchange stations. Under the RMB50 billion PPP project, BJMTR will invest RMB15 billion and will be responsible for the provision of Electrical and Mechanical ("E&M") systems and rolling stock, as well as the operation and maintenance of the line over a term of 30 years. As noted earlier, the Phase 2 East Section of BJL14 opened on 28 December 2014 and full line operation is expected some time after 2017. To support BJMTR's investment in BJL14, the Company will invest about RMB2.45 billion as additional equity in BJMTR.

Operational performance and customer satisfaction of MTM continued to improve

After signing a Letter of Intent for the Beijing Metro Line 16 ("BJL16") PPP project on 26 November 2014, the Concession Agreement was initialled on 8 February 2015. The line will run 50 km from Beianhe to Wanping, encompassing 29 stations. Under the RMB49.5 billion PPP project arrangement, BJMTR would be responsible for the provision of E&M systems as well as rolling stock, which takes up about 30% or approximately RMB15 billion of the project's capital cost. BJMTR would also undertake the operations and maintenance of BJL16 for a term of 30 years. To support BJMTR's investment in BJL16, the Company may need to further invest up to RMB2.45 billion as additional equity in BJMTR.

In January 2014, the Company signed a Strategic Cooperation Framework Agreement with the Longhua New District Administration Commission in Shenzhen for the North Extension of Shenzhen Metro Longhua Line. Under the framework agreement, MTR will offer advice and technical support for the construction of the North Extension as well as a light rail system. The project feasibility study is underway, with target completion in the first half of 2015. We are also continuing discussion and negotiation on the Principal and Joint Venture Agreements associated with the construction and operation of Shenzhen Metro Line 6.

In July 2014, we signed a Memorandum of Understanding with the Chongqing Municipal Government and have begun preliminary discussions regarding rail and property development in the municipality.

In the United Kingdom, we were awarded the contract to operate the Crossrail services by TfL and the Concession Agreement was signed in July 2014. MTR will operate the service for an eight-year period with an option to extend to ten years. Crossrail is a new rail service currently under construction that will enter service in stages. MTR Corporation (Crossrail) Ltd., a 100% MTR owned subsidiary, will start operating the first stage of the service from May 2015. The service is scheduled to reach its full scope of operation in 2019. Our bids for the Essex Thameside, Thameslink and Scotrail franchises, for which we were shortlisted, were not successful.

In Sweden, preparations have progressed well for the Company's new rail service, MTR Express ("MTRX"), which will operate between the country's two largest cities of Stockholm and Gothenburg. The service uses existing rail tracks and infrastructure. It will be operated by our wholly-owned subsidiary MTR Express (Sweden) AB and will provide approximately 90 weekly train trips. Initial services will commence on 21 March 2015, with full schedule planned in August 2015. Sales of tickets started smoothly on 23 January 2015 on the MTRX's website.

In Australia, in September 2014 our consortium was awarded the Operations, Trains and Systems PPP Contract for the Sydney North West Rail Link. This marks our first international PPP project outside of Hong Kong and the Mainland of China. The consortium includes MTR, Leighton Contractors Pty Ltd., John Holland Pty Ltd., UGL Rail Services Pty Ltd., Plenary Group Pty Limited and other financial sponsors. MTR, as a member of the consortium, is responsible for the design and delivery of the rail systems. In addition, Metro Trains Sydney Pty. Ltd, a 60% subsidiary of MTR, will operate and maintain the system for 15 years after commencement of operations. Start-up work is making good progress. MTR's equity contribution to the PPP company is estimated to be AUD 62.6 million. For the Dandenong Transformation Project (also known as Cranbourne-Pakenham Rail Corridor Project) in Melbourne, an interim offer was submitted in January 2015 and negotiation continues with the Government of the State of Victoria to finalise the project details. This is a project to upgrade the 57-km Pakenham line and the 18-km Cranbourne line within the Melbourne metro network. These lines provide a crucial rail-corridor supporting the fast growing south-eastern population centres in the city. The project aims to boost the rail capacity of the two lines by 30% through the delivery of new trains, systems and infrastructure, which will enable it to cater for an additional 2 million passengers a year.

In Stockhom, we achieved very good operational performance and were given the prestigious "2014 Swedish Quality Award"

Mainland of China and International Railway Businesses at a Glance

	MTR Corporation Shareholding	Business Model	Commencement of Franchise / Expected Date of Commencement of Operation	Franchise / Concession Period *(years)*	Number of Stations	Route Length *(km)*
Projects In Operation						
Mainland of China						
Beijing Metro Line 4 ("BJL4")	49%	Public-Private-Partnership ("PPP")	Sep 2009	30	24	28
Daxing Line of BJL4	49%	Operations and Maintenance ("O&M") Concession	Dec 2010	10	11	22
Shenzhen Metro Longhua Line	100%	Build-Operate-[Note 1] Transfer ("BOT")	Phase 1 : Jul 2010 Phase 2 : Jun 2011	30	Phase 1: 5 Phase 2: 10	Phase 1: 4.5 Phase 2: 16
Hangzhou Metro Line 1	49%	PPP	Nov 2012	25	31	48
Beijing Metro Line 14 ("BJL14")	49%	O&M Concession	Phase 1 : May 2013 Phase 2 : Dec 2014	Until Full Line Opens	Phase 1: 7 Phase 2: 12[Note 2]	Phase 1: 12.4 Phase 2: 14.8
Overseas						
London Overground, United Kingdom	50%	O&M Concession	Nov 2007	9	57[Note 3]	124
Stockholm Metro, Sweden	100%	O&M[Note 4] Concession	Nov 2009	8	100	110
Metro Trains Melbourne, Australia	60%	O&M Concession	Nov 2009	8	218	390
Projects In Progress						
BJL14, Mainland of China	49%	PPP	Full Line: After 2017	30	Full Line: 37	Full Line: 47.3
Crossrail, United Kingdom	100%	O&M Concession	May 2015	8	40 (28)[Note 5]	118
MTR Express, Sweden	100%	Open Access Operation	Mar 2015[Note 6]	N/A[Note 7]	5[Note 8]	455
Sydney North West Rail Link, Australia	Mixed	PPP (Operations, Trains & System)	2019	15	13[Note 9]	36[Note 9]
Pending Finalisation of Agreement						
Beijing Metro Line 16, Mainland of China	49%	PPP	Phase 1: 2016 Phase 2: After 2017	30	Full Line: 29	Full Line: 50

Notes:

1. *Shenzhen Metro Longhua Line Phase 1 assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Ltd took over the operation of Phase 1 in July 2010.*
2. *BJL14 Phase 2 East Section has 12 stations, 10 opened (two are currently bypassed).*
3. *This represented the number of stations managed by LOROL. The total number of stations served for London Overground is 83. Starting from May 2015, the West Anglia services will become part of the London Overground system, adding 28 stations (24 managed by LOROL) and about 43km of route length.*
4. *Rolling stock maintenance under a 50:50 joint venture between MTR Stockholm and Mantena AS.*
5. *MTR Crossrail will manage 28 out of the total 40 stations in the Crossrail network.*
6. *MTR Express initial service will commence on 21 March 2015, with full schedule planned in August 2015.*
7. *The license to operate this service is subject to renewal.*
8. *MTR Express is not responsible for the management of these stations.*
9. *North West Rail Link has 8 existing stations and 5 retrofitted stations, and a 13-km existing line extended with a 23-km new construction.*

Over 6,000

volunteers participating in 245 "More Time Reaching Community" projects

6.9

training days per employee

Building on our Team Spirit

Over 7,700
enhanced staff
communication sessions

Human Resources

The Company, together with our controlled subsidiaries, employed 16,624 people in Hong Kong and 7,530 outside of Hong Kong as at 31 December 2014.

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Recruitment and Retention

In support of our operational needs and business growth, we proactively formulated various manpower resourcing strategies and staff engagement initiatives which enabled us to meet current and future manpower needs in Hong Kong, the Mainland of China and internationally. During 2014, over 1,900 new hires were taken on and more than 1,500 people were promoted internally, while staff turnover remained low at 4.4% in Hong Kong.

To reach out to more job seekers, we launched various recruitment campaigns, including recruitment days, recruitment counters at stations, job fairs, career talks and partnership programmes with tertiary institutions, as well as novel recruitment advertising means such as in-station facilities, info-panels inside trains, social media and revamped careers website.

We put particular effort to attract young talents and recruited 150 Apprentices and Technician Associates during the year to support our future operational requirements. We also launched a new Tradesman Associate Programme, with 33 people joining and starting a structured on-the-job training for maintenance work in 2014. In addition, a total of 24 Graduate Engineers, 25 Functional Associates and five Graduate Trainees were recruited for succession of future managerial positions. In the Mainland of China, we also partnered with two educational institutions, namely the Guangzhou Institute of Railway Technology and the Shenzhen No. 2 Vocational School of Technology, to recruit trainees.

To strengthen our ability to mobilise staff across the Company and to enhance their expertise globally, the China and International Business Mobile Resource Team is being expanded to incorporate international resources and build up a Global Resource Pool that can be accessed by our overseas operations.

We have also introduced programmes to support the employment of persons with disabilities. During the year, the Company collaborated with the Hong Kong Council of Social Service and local universities to provide summer internship opportunities for university students with disabilities or special educational needs. In September 2014, the Company was awarded the "Talent-Wise Employment Charter – Outstanding Inclusive Organization" in recognition of our efforts to promote employment of persons with disabilities.

Efforts to retain staff have also been strengthened. In Hong Kong, to enhance retention of professional and technical staff till project completion, we have introduced a Project Retention Bonus Scheme for eligible staff working for designated railways extension projects under construction. In the Mainland of China we have reviewed our remuneration structure, enhanced our benefit provisions, introduced market salary adjustments where necessary, and other initiatives designed to make the Company a more attractive employment prospect. This is alongside various other initiatives to reward and motivate staff across the Company. Reflecting these efforts, the Company has been voted as one of the top two most attractive employers in Hong Kong in surveys conducted by the Randstad Group, one of the world's largest human resources services firms, for two consecutive years.

Staff Motivation and Engagement

A variety of programmes and initiatives were implemented to motivate and engage staff. In 2014, a fund was introduced to encourage departments to arrange small scale activities to promote team spirit and networking. All divisions and departments have also been encouraged to provide more opportunities for job enrichment and cross-function rotation. Our short motivational video series "MTR People Making a Difference", featuring stories about the work of our staff received a very positive response, while the MTR Grand Awards

Living VMV seminars were conducted regularly to promote the Company's "Vision, Mission and Values"

for Outstanding Contribution Scheme for 2014 received 65 submissions, ten of them from our subsidiaries and affiliates. Representatives of the winning Mainland and overseas teams and individual winners were invited to Hong Kong to attend the awards ceremony. MTRconnects also successfully engaged our global workforce through a variety of programmes, including our first-ever Worldwide Photo Competition. The "We are MTR" programme continued to strengthen connections with retirees and former MTR colleagues. In the Mainland of China, numerous events have been held to strengthen identification with the Company. At our operations in Australia, Sweden and the UK, we again conducted staff surveys designed to help management understand staff concerns.

Leadership Development

To nurture our leadership talents, we have continued our people development initiatives at corporate and divisional levels, along with our Executive Associate and graduate development programmes. We also provided ample opportunities to develop staff at different levels during the year, such as through the Executive Continuous Learning Programme for executives and senior managers and MTR Advanced Management Programme for senior managers from Hong Kong, the Mainland of China and overseas, supplemented by numerous other focusing on leadership transformation for managers and senior supervisors.

We have more than 100 graduate and functional trainees in Hong Kong and the Mainland of China. During 2014, they followed structured and customised training and development which included job rotations, as well as 42 training and development programmes. Executives and senior managers attended eight in-house seminars and workshops during the year, supplementing the learning resource guides they receive on a regular basis. Two "Leaders Forum" seminars brought CEO-level executives from multinational companies to share their insights, while to assist with strategic talent identification we collaborated with Ivey Business School in Hong Kong to organise group development programmes. The MTR Advanced Management Programme, Strategic Change Leaders for Success and Reaching New Horizons – Leadership Transformation Programme also helped senior managers to enhance their leadership capability and to better understand the topical issues such as managing change, decision making and stakeholder management. Similar programmes were organised for our operations in Melbourne.

A Culture of Excellence, Learning and Development

During the year, we continued to enhance our programmes designed to provide staff with training, focus them on excellence and foster personal development.

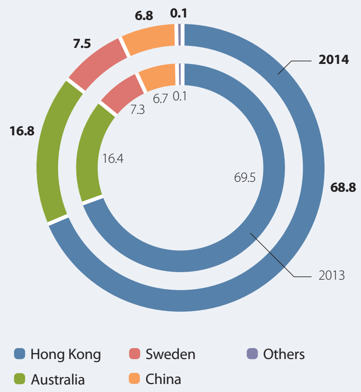
The Company's Learning Resource Centre serves as a platform to provide up-to-date resources for staff members to pursue knowledge and skills enhancement via a variety of self-learning materials. It fosters a continuous learning culture by providing training and development materials, recommending relevant readings and references, and engaging staff to learn through monthly highlights.

To promote the continuous self-learning culture further, e/Mobile Learning have been blended into training and development initiatives as a flexible learning tool for staff. To stimulate creativity, eight "We Can Innovate" learning videos were launched, showcasing MTR innovations in different divisions. For comprehensive coverage, four video distribution channels are in place that staff can access, including the Intranet, TV sets in stations, ESpedia and M-board, as well as a discussion board on the website.

Across the Company, customised training curricula catered to specific needs during the year, addressing functional and non-functional competencies, strategic planning, partnering and teambuilding. Considerable effort was made to train front-line train and station staff in service excellence, with numerous training sessions involving hundreds of staff members on subjects ranging from handling customer complaints to support from back-room colleagues. There were also bi-monthly seminars for the "Healthy Living Programme" to enhance staff knowledge on wellness in aspects of "Body", "Heart", "Mind" and "Relationships". These were supplemented by "Healthy Mind, Healthy Habits" workshops and those on related subjects such as Tai Chi.

Staff Distribution by Geographical Location

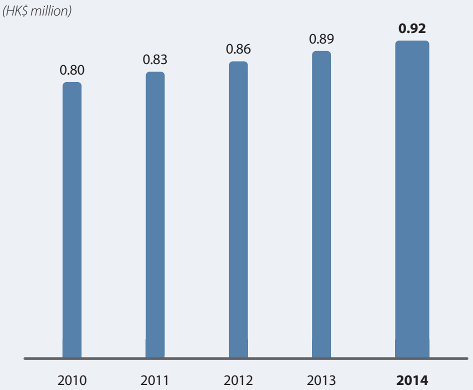
(Percentage)



Staff Productivity – Earnings Per Employee*

* Hong Kong businesses excluding property development

(HK$ million)



In July 2014, our Operations Training in Hong Kong and three Mainland hubs were brought into the Network. This is an important collaborative mechanism for the interests of all participating parties, acting as an interactive learning platform to sustain trainers' competencies and capabilities.

Our efforts to promote training and development again won several local and international awards during the year, including the Award for Excellence in Practice from the Association for Talent Development (formerly the American Society for Training & Development) and the Excellent Learning & Development Award in the HR Excellence Awards 2014 organised by the Hong Kong Institute of Human Resource Management. In 2014, 7,331 courses were delivered, providing 6.9 training days per Hong Kong employee.

Employee Communication

We encourage a positive dialogue and provide effective communication channels between management and staff for discussion of matters of mutual concern. To this end, we have a well-established staff consultation mechanism comprising Joint Consultative Committees and a Staff Consultative Council, with more than 800 staff representatives elected by staff. Two-way communication between line managers and frontline staff has been reinforced by the "Enhanced Staff Communication Programme", with more than 7,700 communication sessions organised in 2014, involving over 100,000 participants.

To engage staff with corporate developments and explain our proactive communication on our extension projects, new sections were introduced on the intranet such as "CEO Messages" and "MTR In Focus". Forums for executives and general managers also continued to be used to strengthen communication and interaction, as well as site visits in which the CEO and executives met and exchanged ideas with staff to help understand their work progress and the challenges facing.

Communication among our business units worldwide was strengthened through meetings and the multinational internal communication platform MTRconnects, which aims to enhance the sharing of corporate updates and MTR people's stories among staff globally. The platform's view rate had reached 338,000 by year end, with more than 9,900 unique visitors recorded.

Driving Work Improvement

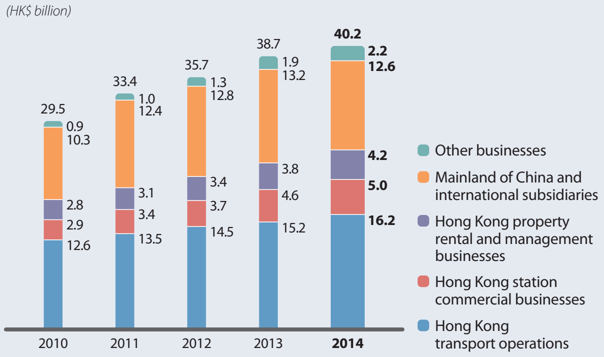
Our Staff Suggestion Scheme has been in place for a number of years as a staff engagement channel that successfully encourages creativity in the work place. In 2014, the scheme was revamped, with new awards introduced to motivate staff to submit innovative ideas.

The "Work Improvement Team" ("WIT") programme has continued to encourage collective innovation, continuous improvement and staff engagement. WIT has been MTR's "DNA" in Hong Kong for more than 26 years and in 2014, there were 5,369 members and 920 teams, with 905 projects submitted. Following its success in Hong Kong, WIT has been introduced in our Shenzhen, Beijing, Hangzhou, Stockholm and Melbourne operations. There were 2,097 members and 250 teams in these five operations, with 306 projects submitted in 2014.

Financial Review

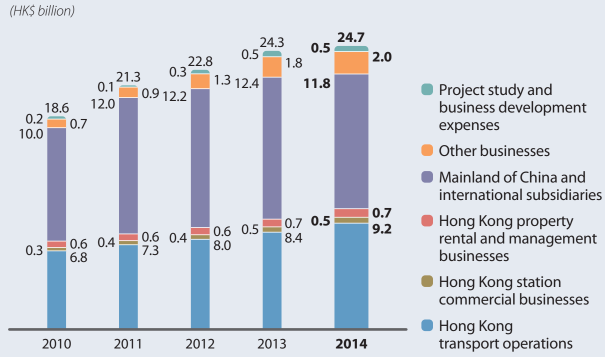
Turnover

Turnover showed continuous growth and increased by 3.7% to HK$40.2 billion in 2014.



Operating Expenses

Operating expenses in 2014 increased to HK$24.7 billion in support of various service enhancement initiatives.



Profit and Loss

In 2014, the Group achieved good financial results, with continued growth in our recurrent businesses locally and overseas as well as higher property development profit.

Hong Kong transport operations reported total fare revenue of HK$16,066 million, up 7.0% against 2013. Fare revenues in 2014 amounted to HK$11,318 million for the Domestic Service (to which the Island Line was extended to Western District on Hong Kong Island on 28 December 2014), HK$3,049 million for the Cross-boundary Service, HK$915 million for the Airport Express, HK$639 million for Light Rail and Bus services and HK$145 million for Intercity. Demand for our rail and bus services was higher and total patronage increased by 4.5% to 1,904.6 million in 2014. Average fares for the Domestic, Cross-boundary, Light Rail and Bus services were higher than in 2013, rising by 2.6%, 2.8%, 4.2% and 4.1% respectively. The increases were due to the fare adjustments under the FAM after accounting for fare concessions. The Airport Express and Intercity are not subject to the FAM, and the average fare of the Airport Express decreased by 0.4% due to fare promotions targeted at achieving higher patronage, while the average fare of Intercity increased marginally by 0.1%. Including other rail-related income of HK$157 million, total revenue from Hong Kong transport operations increased by 7.0% to HK$16,223 million. Expenses related to Hong Kong transport operations grew by 9.3% to HK$9,236 million in 2014 to support various service enhancements initiatives such as increases in train trips and systems upkeep. As a result, the operating profit for Hong Kong transport operations rose by 4.0% to HK$6,987 million, while the operating margin declined by 1.2 percentage points to 43.1%.

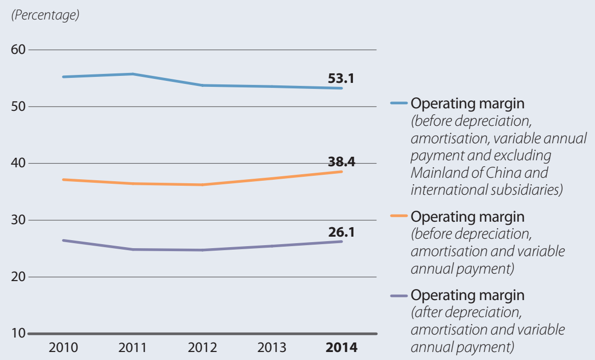
Hong Kong station commercial businesses generated solid growth, with total revenue of HK$4,963 million, up 8.2% over 2013. Enhancement of our trade mix and the introduction of new brands in the MTR network contributed to higher rental rates and turnover rents, and station retail revenue grew by 9.0% to HK$3,197 million. Advertising revenue was up 6.2% to HK$1,118 million as new and well-targeted advertising packages, including feature advertising in certain dedicated areas in stations, were introduced. Telecommunication revenue increased by 7.2% to HK$479 million as there was greater demand from telecommunication operators for mobile data capacity. Revenue from other station commercial business amounted to HK$169 million, up 9.0%. Expenses in relation to Hong Kong station commercial businesses increased by 11.0% to HK$515 million, mainly due to higher Government rent and rates and agency fees relating to the advertising business. Overall, the operating profit of the Hong Kong station commercial businesses increased by 7.9% to HK$4,448 million, while operating margin decreased slightly by 0.3 percentage point to 89.6%.

The Hong Kong property rental and management businesses continued to perform well and achieved total revenue of HK$4,190 million, up 10.9% over 2013. Property rental income grew by 11.2% to HK$3,945 million, as our shopping malls achieved double-digit growth in average rental reversion. An occupancy rate of close to 100% was achieved for our shopping malls and the office space at Two International Finance Centre. The property management business continued to grow, with Hong Kong property management revenue rising by 6.1% to HK$245 million, mainly due to higher manager's remunerations. The number of residential units under management increased by 911 units to 91,434 units as at 31 December 2014. Expenses relating to our Hong Kong property rental and management businesses increased by 11.0% to HK$747 million, in line with revenue growth. The resulting operating profit from Hong Kong property rental and management businesses increased by 10.9% to HK$3,443 million, with operating margin maintained at 82.2%.

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

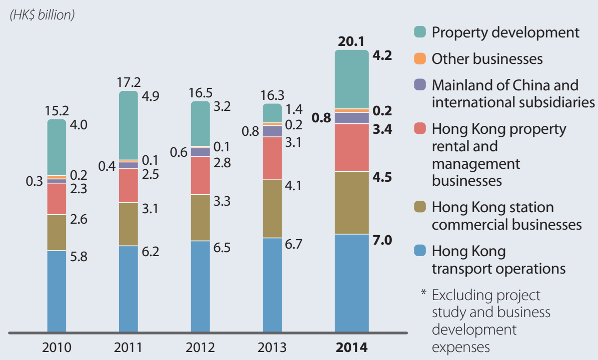
Operating Margin

Operating margin further improved to 38.4%.



Operating Profit Contributions*

Growth in operating profits was recorded across all business segments in 2014, particularly in our Hong Kong property development segment where profit was mainly derived from The Austin and Grand Austin.



revenue and expenses of HK$12,627 million and HK$11,821 million, respectively. The resulting operating profit of HK$806 million, up 1.9% over 2013, included the initial losses of HK$19 million in respect of our new franchises in Sweden and Australia together with marketing expenses of HK$55 million for the preparation of the pre-sales of our property development in Shenzhen. Excluding the impact of the above, as well as on a constant exchange rate basis, the operating profit would be 17.6% higher than in 2013. In Australia, the revenue and expenses of MTM were HK$8,476 million and HK$7,896 million, respectively, with the resulting operating profit increasing by 5.1% to HK$580 million in 2014. On a constant exchange rate basis, the resulting operating profit improved by 13.4%. In Sweden, MTRS reported revenue and expenses of HK$3,347 million and HK$3,220 million, respectively. The resulting operating profit was HK$127 million, down from HK$138 million in 2013, as an arbitration settlement with the local transport authority for energy cost provision amounting to HK$46 million was awarded in favour of MTRS in 2013. In the Mainland of China, the revenue and expenses of the Shenzhen Metro Longhua Line were HK$601 million and HK$455 million, respectively. The resulting operating profit rose by HK$68 million to HK$146 million, mainly due to higher patronage. The Group's property rental and management businesses in the Mainland of China recorded an operating profit of HK$27 million, an increase of HK$4 million from 2013.

Other businesses, including Ngong Ping 360, consultancy business and project management service to the Government for the entrustment works regarding the Express Rail Link and Shatin to Central Link, recorded an overall operating profit of HK$193 million, up 30.4% from 2013. The increase was mainly due to higher visitor numbers as well as the full year impact of the fare rise at Ngong Ping 360 in December 2013. Overall operating margin rose by 1.3 percentage points to 9.0%. Revenue from entrustment works on behalf of Government amounted to HK$1,561 million, up 6.8%, and has been recognised on a cost recovery basis.

Including marketing expenses of HK$55 million incurred by MTR Property Development (Shenzhen) Company Limited as mentioned above and project study and new business development expenses amounting to HK$454 million in 2014, operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment increased by 7.1% to HK$15,423 million. Operating margin increased by 1.2 percentage points to 38.4%.

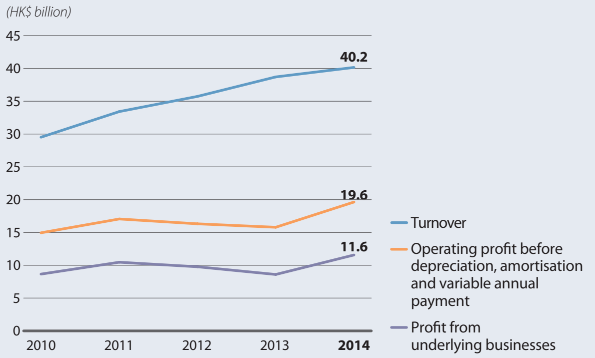
Hong Kong property development profit before tax in 2014 was HK$4,216 million, comprising profit recognitions from The Austin and Grand Austin, surplus from the sale of inventory and agency fee income from the West Rail property developments. In 2013, Hong Kong property development profit before tax amounted to HK$1,396 million, which was derived mainly from the sale of inventory units at The Riverpark at Che Kung Temple Station and car parking spaces at various developments.

Variable annual payment to Kowloon-Canton Railway Corporation ("KCRC") on relevant revenue generated from use of KCRC assets was HK$1,472 million, increasing by 18.0% over 2013 as a higher level of relevant revenue was generated and charged at the highest 35% charge band. Depreciation and amortisation increased by 3.4% to HK$3,485 million in 2014. Net interest and finance charges were HK$545 million, down from HK$732 million in 2013 due to lower average debt balances. Investment property revaluation gain amounted to HK$4,035 million in 2014, down from HK$4,425 million in 2013.

Share of profits from associates decreased from HK$158 million in 2013 to HK$121 million in 2014. Profit sharing from Octopus Holdings Limited amounted to HK$226 million, about the same level as in 2013. Share of profit from Beijing MTR Corporation

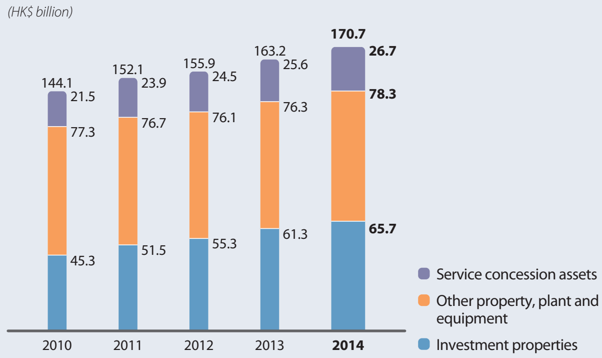
Net Results from Underlying Businesses

Supported by the profit growth in both recurrent and property development businesses, underlying business profit in 2014 reported a record high at HK$11.6 billion.



Fixed Assets Growth

Fixed assets in 2014 increased to HK$170.7 billion mainly due to asset additions for the Hong Kong rail system, revaluation gains in investment properties, as well as assets commissioned upon the opening of Western extension of the Island Line in December 2014.



Limited amounted to HK$185 million in 2014, a decrease of HK$18 million from 2013 due to an increase in energy tariff and train overhaul expenses. Share of profit from London Overground Rail Operations Limited and management fee income to the Group amounted to HK$24 million and HK$14 million, an increase from HK$18 million and decrease from HK$15 million in 2013, respectively. For Hangzhou MTR Corporation Limited, our share of loss amounted to HK$315 million, a similar level as in 2013. Share of profit from Tunnelbanan Teknik Stockholm AB amounted to HK$5 million in 2014, a decrease from HK$17 million in 2013 due to an increase in operating expenses. Share of profits from the other associates amounted to a loss of HK$4 million in 2014, mainly due to initial losses in respect of our new franchise in Australia.

Net profit attributable to shareholders, after deducting income tax of HK$2,496 million and profits shared by non-controlling interests of HK$191 million, increased from HK$13,025 million in 2013 to HK$15,606 million in 2014. Earnings per share therefore increased from HK$2.25 to HK$2.69. Excluding investment property revaluation, the underlying profit attributable to equity shareholders was HK$11,571 million, up 34.5% against 2013, with earnings per share also increasing from HK$1.48 in 2013 to HK$1.99 in 2014. Underlying profit from our recurrent businesses grew by 7.9% to HK$8,024 million, while post-tax property development profits increased from HK$1,163 million in 2013 to HK$3,547 million in 2014.

In line with our progressive dividend policy, the Board has proposed a final dividend of HK$0.80 per share, giving a full year dividend of HK$1.05 per share, an increase of 14.1% over 2013, with a scrip dividend option offered.

Balance Sheet

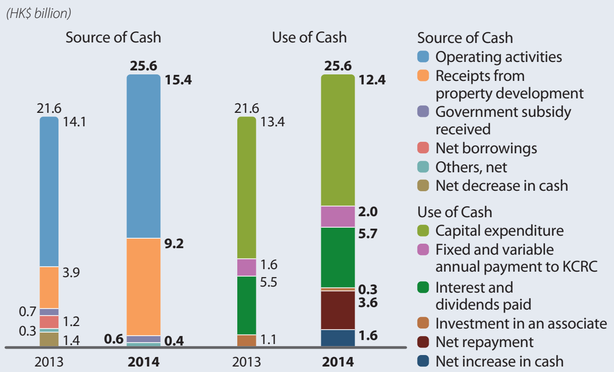
Our balance sheet remained strong, as net assets increasing by 7.1% to HK$163,482 million at the end of 2014 as compared with the end of 2013.

Total assets increased by HK$11,329 million during the year to HK$227,152 million at 31 December 2014. Total fixed assets increased by HK$7,500 million to HK$170,656 million. The increase was mainly due to asset additions, revaluation gains on our investment properties and self-occupied properties as well as the transfer of the construction costs of the Island Line extension from railway construction in progress upon opening of the stations in December 2014, after depreciation, amortisation and disposals were deducted. Railway construction in progress increased by HK$4,681 million to HK$16,229 million as a result of further construction works for the South Island Line (East) and Kwun Tong Line Extension. Interests in associates increased by HK$520 million to HK$5,797 million, mainly due to further equity injection into Tianjin TJ-Metro MTR Construction Company Limited ("TJ-MTR") and our share of profits from associates in 2014. Amounts due from related parties amounted to HK$1,073 million, an increase of HK$419 million, mainly relating to costs recoverable from Government for the Shatin to Central Link. Property development in progress decreased by HK$3,743 million to HK$7,490 million as cash was received from the developer for the reimbursement of land premium at Austin Station sites. Cash, bank balances and deposits increased by HK$1,596 million to HK$18,893 million, mainly due to cash receipts from our property development projects net of repayments of bank borrowings.

Total liabilities of the Group increased slightly from HK$63,121 million at the beginning of 2014 to HK$63,670 million at the end of 2014, while total bank borrowings decreased by HK$4,004 million to HK$20,507 million. Creditors and accrued charges increased by HK$2,628 million to HK$16,421 million mainly due to increases in project accruals for our Hong Kong rail extension projects as well as project management fees received in advance for our entrustment works on behalf of Government. Amounts due to related parties amounted to HK$1,607 million, an increase of HK$219 million that was mainly due to an increase in variable annual payment due to KCRC. Current and deferred tax liabilities

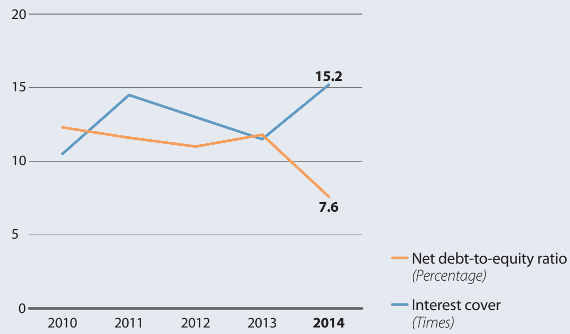
Cash Utilisation

Net increase in cash in 2014 was mainly contributed by higher cash inflow from operating activities and property development.



Debt Servicing Capability

Interest cover and gearing ratio were enhanced in 2014.



balances increased by HK$647 million and HK$688 million to HK$996 million and HK$10,977 million in 2014, respectively.

Share capital and other statutory capital reserves increased by HK$838 million to HK$45,280 million as a result of new shares issued under the employee share option schemes. Together with the increase in retained earnings, net of dividends paid, and an increase in fixed asset revaluation reserve and other reserves of HK$9,930 million, total equity attributable to shareholders of the Company increased by HK$10,768 million to HK$163,325 million at 31 December 2014.

The net debt-to-equity ratio decreased from 11.8% at 2013 year-end to 7.6% at 2014 year-end.

Cash Flow

Cash generated from operations, net of taxes paid and working capital movements, increased by HK$1,289 million to HK$15,392 million in 2014, mainly due to the increase in operating profit. Receipts from property developments of HK$9,176 million mainly relate to the recovery of land premium and surplus proceeds for Austin Station sites as well as other surplus proceeds from The Riverpark, Lake Silver, Le Prestige and The Palazzo. Government subsidy for the Shenzhen Metro Longhua Line received was HK$652 million. Including other cash receipts, such as dividends received from associates and proceeds from new shares issued under the employee share option schemes, totalling HK$375 million, net cash receipts increased from HK$19,042 million in 2013 to HK$25,595 million in 2014.

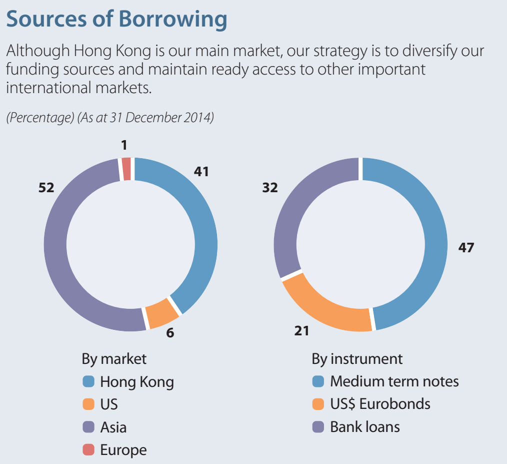
For railway operations, total capital expenditure during the year was HK$9,771 million, including HK$2,960 million for the purchase of assets for our Hong Kong transport operations' existing railways and related operations, HK$6,340 million for the construction of Hong Kong railway extension projects, and HK$471 million for Shenzhen Metro Longhua Line railway operations. For property related businesses, total capital expenditure was HK$2,588 million, including HK$410 million and HK$681 million for Hong Kong and Shenzhen property development projects, respectively, and HK$1,497 million for property renovation and fitting out works for our investment properties and land premium paid in relation to the Maritime Square Extension project. During the year, the Group also made a further equity injection into TJ-MTR of HK$294 million. The Group paid fixed and variable annual payments to KCRC amounting to HK$1,997 million and dividends to our equity shareholders amounting to HK$4,944 million. After net interest payment of HK$602 million and dividends to holders of non-controlling interests of HK$153 million, net cash payments decreased from HK$21,624 million in 2013 to HK$20,349 million in 2014.

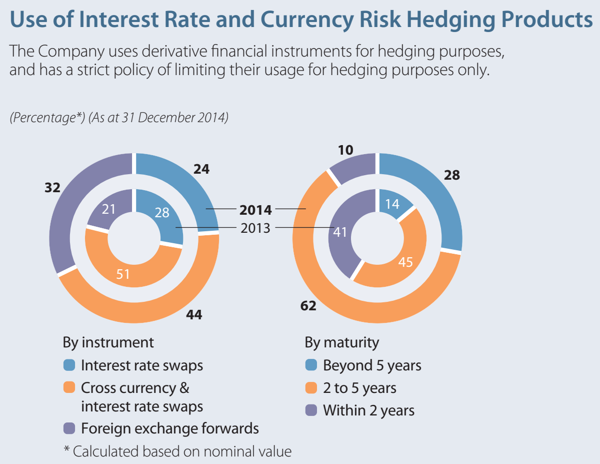
Overall, a net cash inflow before financing activities of HK$5,246 million was generated. After net loan repayment of HK$3,650 million, the Group's cash balance increased from HK$17,297 million at 31 December 2013 to HK$18,893 million at 31 December 2014.

Financing Activities

During the year, the U.S. economy continued to grow in a moderate pace with improvement in employment, housing and consumer sentiment. The US Federal Reserve ended its bond buying programme ('QE') in October as expected and began preparing the market for its first rate hike since 2006. In anticipation, the short-to-medium end of the treasury yield curve became increasingly volatile with the 2-year Treasury yield rising to as high as 0.74% p.a. before ending the year at 0.66% p.a..

By contrast, despite the ending of QE, long-term treasury yields continued to decline during the year to near historical lows on the back of subdued inflation, significantly lower energy and commodity prices, as well as safe haven flows from other underperforming or politically troubled economies. Yields on 10-year and 30-year Treasuries declined from a high of 3.03% p.a. and 3.97% p.a. in the beginning of 2014 to end the year





respectively at 2.17% p.a. and 2.75% p.a., while the 3-month USD-LIBOR rate rose slightly from 0.25% p.a. to 0.26% p.a.. In Hong Kong, yield on 10-year Hong Kong Exchange Fund Notes trended down to 1.86% p.a. from 2.31% p.a., while the 3-month HKD-HIBOR remained at 0.38% p.a..

During the year, a core financing strategy of the Group was to arrange bilateral banking facilities to provide sufficient coverage of forward funding needs whilst taking advantage of near historical low interest rates to lock in fixed rate funding via selective private placements of long-term notes. Following this strategy, the Group took advantage of improved liquidity in the Hong Kong banking market to arrange additional bilateral banking facilities totalling over HK$4,000 million at more competitive fees and tighter credit margins.

The Group also took advantage of the lower long-term rates and favourable arbitrage funding opportunities in the Australian dollar market to issue 12-year and 15-year notes in Australian dollars which were swapped into HK dollars at very favourable fixed rate levels. Totalling about HK$550 million, these notes helped further lengthen and diversify the Group's debt maturity profile whilst helping to lock in attractive fixed rate long-term funding.

Cost of Borrowing

The Group's consolidated gross debt position decreased from HK$24,511 million at year-end 2013 to HK$20,507 million at year-end 2014 whilst the weighted average borrowing cost remained the same at 3.6 % in 2014, resulting in lower net interest expense charged to the Profit and Loss Account of HK$545 million as compared to HK$732 million in 2013.

Treasury Risk Management

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

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

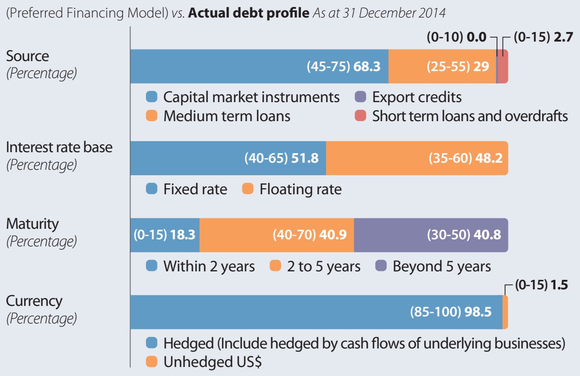
In accordance with Board policy, derivative financial instruments shall only be used for controlling or hedging risk exposures, and not for speculation. Derivative instruments currently used by the Group are over-the-counter derivatives comprising mainly interest rate swaps, cross currency swaps and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

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

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

Preferred Financing Model and Debt Profile

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



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

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

In managing liquidity risk, the Group will maintain sufficient cash balance and undrawn committed banking facilities to provide forward coverage of at least between six to 15 months of projected cash requirements. The Group also conducts regular stress testing to identify and estimate any potential shortfall in future cash flow, and would arrange new financings or take other appropriate actions as necessary to reduce risk of material liquidity shortfall.

Credit Rating

Throughout the year, the Company's credit ratings remained strong and on par with those of the Hong Kong SAR Government.

The Company's issuer and senior unsecured debt ratings as well as short-term rating were affirmed in June 2014 by Moody's Investors Service at respectively "Aa1" and "P-1" with a stable outlook.

The Company's long-term corporate credit and short-term ratings were affirmed in August 2014 by Standard & Poor's at respectively "AAA" and "A-1+" with a stable outlook.

This was followed in November 2014 by the affirmation of Rating & Investment Information Inc. of Japan of the Company's issuer and short-term credit ratings of respectively "AA+" and "a-1+", with a stable outlook.

Financing Capacity

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

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

Capital expenditure for Hong Kong property investment and development comprises mainly costs of enabling works for property development, fitting-out and renovation works of shopping centres, and payments of portions of land premium for certain property development projects. Expenditure for Mainland of China and overseas investments consists primarily of equity contribution to BJMTR for the Beijing Metro Line 14 project, remaining capital expenditure for Shenzhen Metro Longhua Line, and investment in the Longhua depot property development project.

Based on current programme, total net capital expenditure for the next three years from 2015 to 2017 (inclusive) is estimated at HK$27.1 billion for Hong Kong railway projects, HK$15.5 billion for Hong Kong property investment and development, and HK$8.1 billion for Mainland of China and overseas investments for a total of HK$50.7 billion. Out of this total, it is estimated that HK$27.6 billion will be incurred in 2015, HK$13.3 billion in 2016, and HK$9.8 billion in 2017.

With forward financing coverage extending beyond 2015 and a strong financial position, the Group believes that it has sufficient financing capacity to fund these capital expenditure projects and to capture other potential investment opportunities.

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

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

Ten-Year Statistics

	2014	2013	2012	2011	2010	2009	2008	2007#	2006	2005
Financial										
Consolidated Profit and Loss Account *(HK$ million)*										
Turnover	**40,156**	38,707	35,739	33,423	29,518	18,797	17,628	10,690	9,541	9,153
Operating profit before depreciation, amortisation and variable annual payment	**19,639**	15,795	16,133	17,058	14,951	13,069	14,009	14,229	11,032	11,259
Depreciation and amortisation	**3,485**	3,372	3,208	3,206	3,120	2,992	2,944	2,752	2,688	2,695
Interest and finance charges	**545**	732	879	921	1,237	1,504	1,998	1,316	1,398	1,361
Investment property revaluation gain/(loss)	**4,035**	4,425	3,757	5,088	4,074	2,798	(146)	8,011	2,178	2,800
Profit for the year	**15,797**	13,208	13,514	15,688	12,844	10,101	8,035	16,584	8,139	8,953
Profit attributable to equity shareholders arising from underlying businesses	**11,571**	8,600	9,618	10,468	8,657	7,303	8,185	8,571	5,962	6,140
Dividend proposed and declared	**6,116**	5,335	4,575	4,396	3,405	2,977	2,715	2,522	2,328	2,299
Earnings per share *(HK$)*	**2.69**	2.25	2.31	2.69	2.21	1.77	1.43	2.98	1.48	1.65
Consolidated Balance Sheet *(HK$ million)*										
Total assets	**227,152**	215,823	206,687	197,684	181,660	176,492	159,345	155,668	120,421	113,666
Loans, other obligations and bank overdrafts	**20,507**	24,511	23,577	23,168	21,057	23,868	31,289	34,050	28,152	28,264
Obligations under service concession	**10,614**	10,658	10,690	10,724	10,749	10,625	10,656	10,685	–	–
Deferred income	**765**	623	488	403	605	167	156	515	1,682	3,584
Total equity attributable to equity shareholders	**163,325**	152,557	142,904	131,907	121,914	110,479	101,431	94,889	79,242	71,969
Financial Ratios										
Operating margin *(%)*	**38.4**	37.2	36.1	36.3	37.0	50.6	53.0	55.4	54.7	55.9
Operating margin (excluding Mainland of China and international subsidiaries) *(%)*	**53.1**	53.4	53.6	55.6	55.1	53.8	53.2	55.9	55.3	55.9
Net debt-to-equity ratio *(%)*	**7.6**	11.8	11.0	11.6	12.3	24.9	40.6	46.5	35.1	38.8
Interest cover *(times)*	**15.2**	11.5	13.0	14.5	10.5	7.1	6.0	9.0	6.7	7.6
Employees										
Corporate management and support departments	**1,756**	1,676	1,600	1,486	1,362	1,319	1,235	1,530	823	810
Station commercial businesses	**170**	158	148	144	144	137	125	138	82	82
Operations	**10,404**	10,033	9,460	9,244	9,026	8,789	8,708	8,937	4,521	4,600
Projects	**2,764**	2,804	2,495	2,109	1,794	1,365	995	942	260	242
Property and other businesses	**1,350**	1,305	1,273	1,282	1,291	1,242	1,170	1,141	832	688
Mainland of China and international subsidiaries	**180**	182	224	179	212	239	197	135	112	83
Offshore employees	**7,530**	7,078	6,955	6,851	6,672	7,059	1,646	1,311	733	486
Total	**24,154**	23,236	22,155	21,295	20,501	20,150	14,076	14,134	7,363	6,991

	2014	2013	2012	2011	2010	2009	2008	2007#	2006	2005
Hong Kong Transport Operations										
Revenue car-km operated *(thousand)*										
Domestic and Cross-boundary	**273,771**	269,141	260,890	254,407	253,067	247,930	245,856	128,041	115,784	114,449
Airport Express	**23,232**	23,216	23,134	19,603	19,833	19,643	19,891	19,956	20,077	17,122
Light Rail	**10,728**	10,554	10,453	10,166	9,586	8,950	8,984	755	–	–
Total number of passengers *(thousand)*										
Domestic Service	**1,547,757**	1,474,659	1,431,040	1,366,587	1,298,714	1,218,796	1,205,448	915,755	866,754	857,954
Cross-boundary Service	**113,049**	111,362	109,707	103,881	99,954	94,016	93,401	8,243	–	–
Airport Express	**14,881**	13,665	12,695	11,799	11,145	9,869	10,601	10,175	9,576	8,493
Light Rail	**174,199**	171,652	167,210	161,289	154,522	143,489	137,730	11,100	–	–
Bus	**50,404**	47,738	45,962	43,956	40,883	37,522	34,736	2,757	–	–
Intercity	**4,348**	4,324	4,028	3,787	3,244	2,921	3,220	285	–	–
Average number of passengers *(thousand)*										
Domestic Service – weekday average	**4,490**	4,297	4,148	3,968	3,770	3,544	3,514	2,662§	2,523	2,497
Cross-boundary Service – daily average	**310**	305	300	285	274	258	255	–@	–	–
Airport Express – daily average	**41**	37	35	32	31	27	29	28	26	23
Light Rail – weekday average	**487**	482	466	451	433	402	385	–@	–	–
Bus – weekday average	**144**	137	131	126	118	107	99	–@	–	–
Intercity – daily average	**12**	12	11	10	9	8	9	–@	–	–
Average passenger km travelled										
Domestic and Cross-boundary	**11.0**	11.0	10.9	10.9	10.9	10.7	10.4	7.9	7.7	7.6
Airport Express	**28.6**	29.0	29.0	29.4	29.4	29.5	29.4	29.5	29.7	30.4
Light Rail	**2.7**	2.8	2.8	2.8	2.8	2.9	3.0	3.0	–	–
Bus	**4.5**	4.5	4.5	4.5	4.5	4.6	4.6	4.6	–	–
Average car occupancy *(number of passengers)*										
Domestic and Cross-boundary	**67**	65	65	63	60	57	55	58	58	57
Airport Express	**18**	17	16	18	17	15	16	15	14	15
Light Rail	**45**	45	45	45	45	46	46	45	–	–
Proportion of franchised public transport boardings *(%)*	**48.1**	46.9	46.4	45.4	44.3	42.6	42.0	26.7	25.0	25.2
HK$ per car-km operated (Hong Kong Transport Operations)										
Total revenue	**51.0**	48.4	47.6	45.9	43.2	40.8	40.9	47.9	48.3	48.1
Operating costs	**26.8**	24.9	24.2	23.1	21.5	21.5	21.2	21.6	22.1	22.8
Operating profit	**24.2**	23.5	23.4	22.8	21.7	19.3	19.7	26.3	26.2	25.3
HK$ per passenger carried (Hong Kong Transport Operations)										
Total revenue	**8.52**	8.31	8.20	7.99	7.86	7.74	7.83	7.55	7.48	7.31
Operating costs	**4.47**	4.27	4.18	4.02	3.91	4.08	4.07	3.40	3.43	3.47
Operating profit	**4.05**	4.04	4.02	3.97	3.95	3.66	3.76	4.15	4.05	3.84
Safety Performance										
Domestic, Cross-boundary and Airport Express										
Number of reportable events ^	**1,327**	1,408	1,761	1,769	1,592	1,539	1,514	989	826	748
Reportable events per million passengers carried ^	**0.79**	0.88	1.13	1.19	1.13	1.16	1.16	1.05	0.94	0.86
Number of staff and contractors' staff accidents Δ	**57**	67	58	44	46	60	42	26	23	31
Light Rail										
Number of reportable events ^	**122**	118	151	164	165	146	136	6	–	–
Reportable events per million passengers carried ^	**0.70**	0.69	0.90	1.02	1.07	1.02	0.99	0.54	–	–
Number of staff and contractors' staff accidents Δ	**4**	4	2	7	5	11	5	0	–	–

\# *After the Rail Merger on 2 December 2007, our Domestic Service has comprised the Kwun Tong Line, Tsuen Wan Line, Island Line, Tung Chung Line, Tseung Kwan O Line, Disneyland Resort Line, as well as the East Rail Line excluding Cross-boundary Service, West Rail Line and Ma On Shan Line (which we gained after the Rail Merger). Also after the Rail Merger we gained new passenger services for the Cross-boundary Service, Light Rail, Bus and Intercity.*

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

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

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

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

Investor Relations

Investors and MTR Corporation

The Company has been active in the international capital markets for more than 30 years. Our corporate governance and disclosure practices have made us recognised as a leader in investor relations practices in Asia.

We engage actively with our wide base of institutional and retail investors, with whom we maintain good relations. This approach reflects our belief that shareholder value benefits from clearly communicating the Company's corporate strategies, business development and future outlook to stakeholders.

Communicating with Institutional Investors

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

Management makes sincere efforts to maintain an open dialogue with the investment community to ensure a thorough understanding of the Company and its business strategies. To this end, we participate regularly in investor conferences and roadshows. During 2014, about 400 meetings were held with institutional investors and research analysts in Hong Kong and internationally.

Access to Information

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

In addition to the shareholder services offered by Computershare, the Company's dedicated hotline answered 38,209 enquiries from individual shareholders in 2014.

Index and Recognition

Since 2002, our achievements in the fields of sustainability and corporate responsibility have been recognised by both the Dow Jones Sustainability Index Asia Pacific and the FTSE4GOOD Index Series. Since 2010, MTR has been included in the Hang Seng Corporate Sustainability Index. In 2014, MSCI ESG Research granted the Company an "AA" rating in its Intangible Value Assessment. This is the second highest rating under MSCI and puts MTR in the top three companies globally within the Roads and Rail Transport Industry.

Market Recognition

For the 26th consecutive year, our Annual Report also achieved recognition in the Hong Kong Management Association ("HKMA") Annual Report Awards, with the 2013 report winning the Silver Award under the "General Category" in the 2014 Best Annual Reports Awards Competition. The report also won an award at the 2014 International Annual Reports ("ARC") Awards organised by MerComm, Inc. in New York on 25 September 2014.

Key Shareholder Information

Financial Calendar 2015

Announcement of 2014 annual results	16 March
Annual General Meeting	20 May
Last day to register for 2014 final dividend	26 May
Book closure period	27 May to 1 June (both dates inclusive)
2014 final dividend payment date	on or about 17 July
Announcement of 2015 interim results	August
2015 interim dividend payment date	October
Financial year end	31 December

Principal Place of Business and Registered Office

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

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

Share Information

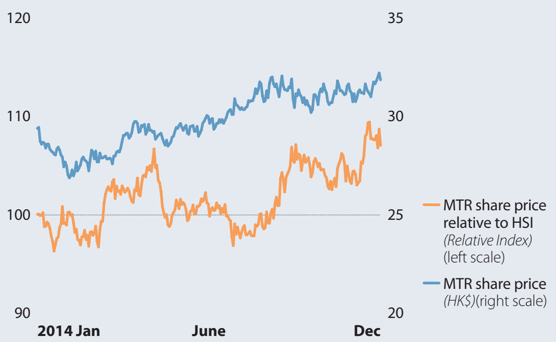
Listing

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

Ordinary Shares *(as at 31 December 2014)*

Shares outstanding	5,826,534,347 shares
Hong Kong SAR Government Shareholding	4,434,552,207 shares (76.1%)
Free float	1,391,982,140 shares (23.9%)

Market Capitalisation *(as at 31 December 2014)* HK$185,284 million



Dividend Policy

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

Dividend per Share *(in HK$)*

2013 Total Dividend	0.92
2014 Interim Dividend	0.25
2014 Final Dividend	0.80

ADR Level 1 Programme

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

Stock Codes

Ordinary Shares

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

ADR Level 1 Programme MTRJY

Annual Report 2014

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

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

Shareholder Services

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

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

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

Shareholder Enquiries

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

Our enquiry hotline is operational during normal office hours:

Telephone: (852) 2881 8888.

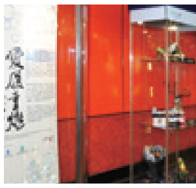
Investor Relations

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

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

Email: investor@mtr.com.hk

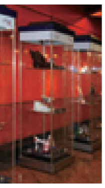
Creating a Sustainable Future



150 Apprentices and Technician Associates Recruited

Community Projects Organised by Staff Volunteers with

75 NGOs



55 Community Art Galleries

in Stations

Corporate Responsibility

Corporate responsibility is integral to the long-term success of the Company and society. We aim to contribute to the sustainable development of the Company and communities by operating on the basis of meeting the needs of stakeholders today while looking ahead to ensure that we can meet the needs of stakeholders to come.

We strive to achieve this by ensuring our customers' needs are met, treating employees with respect, using natural resources efficiently, managing our impact on the environment and contributing positively to the communities in which we have operations. Underpinning this is our sustainable financial model, which allows us to provide reasonable returns to capital providers while achieving our goals in a responsible and sustainable manner. This approach is integral to maintaining the Company's position as a competitive and profitable enterprise that builds and connects communities.

Governance and Policies

Our corporate responsibility efforts are reinforced by MTR's Vision, Mission, Values ("VMV"), and a strong corporate governance framework that articulates and incorporates our values into our daily operations and across subsidiaries and associate companies. All entities adhere to a series of management directives that provide the necessary practices, policies and procedures to ensure the integrity of business and operations.

Our corporate governance framework includes a Corporate Responsibility Policy and a Corporate Sustainability Policy. The Corporate Responsibility Board Committee monitors and provides guidance on the implementation of these policies, assists in the identification of emerging social and environmental issues, and provides regular updates to the Board on the Corporation's performance. The committee is supported by the Corporate Responsibility Steering Committee, which is chaired by the Legal Director and Secretary, a member of the Executive Directorate reporting directly to the CEO. Sustainability and corporate responsibility issues are discussed at the Steering Committee, whose members are responsible for leading the implementation of initiatives that support our corporate responsibility vision across the Corporation.

How we Operate as a Business

Safety

Maintaining high safety standards across our operations and new developments is the bedrock of our operations. Our obligations extend not only to our own employees but also to our customers, partners, contractors, and anyone who legitimately enters our facilities.

Our Corporate Strategic Safety Plan comprises three strategic approaches, namely fostering a Safety-First culture, driving continuous improvement and engaging stakeholders to achieve our safety goals.

Our efforts in reinforcing our Safety-First culture and continuous improvement in safety management secured us three awards in the 13th Hong Kong Occupational Safety & Health Award, jointly organised by the Occupational Safety and Health Council, the Labour Department and 13 other organisations.

An external review of the Safety Management System for our railway operations led by the American Public Transportation Association and representatives from the UK Office of Rail Regulation and Transport for London concluded that MTR has an excellent Safety Management System. The group identified 29 Industry Leading Effective Practices in safety management as well as several areas to further enhance overall safety management.

We work in partnership with contractors to enhance the safety standards in construction sites. For railway extension projects, Det Norske Veritas conducted bi-annual safety audits on all major contractors. For property development projects, in addition to our Safety Incentive Scheme, in 2014 we launched a Safety Hero Award Scheme to encourage our contractors' frontline worker to carry out all construction works in a safe and sound manner.

We also conducted an Integrated Safety and Operations Review in our Beijing operation to assess the implementation of safety, asset management and operating systems/procedures, staff knowledge and competence and asset condition. This new approach in evaluating the robustness of existing operations and readiness for network expansion of hubs outside Hong Kong is integral to supporting our growth plans as we strive for excellence and continuous service improvement across all business areas.

Last, but not least, our annual escalator safety campaign used multiple mediums to relay safety messages to passengers as they use the nearly 1,000 escalators in our network.

Environment and Natural Resources

We understand the interdependency between our operations and the natural environment. Our aim is to become one of the most resource-efficient and ecologically sustainable railways and property service providers in the world.

In addition to the Corporate Sustainability Policy, our environmental principles are outlined in our Climate Change and Corporate Biodiversity policies. These commit us to reducing carbon emissions, increasing energy efficiency, protecting important natural habitats and taking steps to mitigate any negative impacts of our operations. For instance, we found ways to preserve and monitor the biodiversity of ecologically-sensitive wetlands impacted by our Lok Ma Chau Spur Line and West Rail Line.

Environmental Impact Assessments are conducted before we embark on new projects. Our Environmental Management

System helps us track our impact and identify and manage material environmental risks throughout the lifecycle of our assets. The independently-audited ISO 14001 certification process also offers us a continuous improvement opportunity and fosters accountability among our employees and partners.

In 2014, we continued to implement staff-generated ideas from an Energy Savings Competition in our railway operations. We also continued to support Government's Energy Saving Charter on Indoor Temperature in MTR Headquarters Building, MTR managed shopping malls and office buildings. Energy saving equipment was installed and energy saving initiatives, such as advanced air conditioning systems with demand management controls and energy efficient lighting, were extensively explored during the design of the Maritime Square Extension.

Recognising growing concerns over food waste and landfill capacity, as part of the Central Food Waste Recycling for Improving Estate Environment initiative, we worked with the Heng Fa Chuen Owners' Committee to separate food waste. Under the "MTR Malls Food Waste Reduction Pledge", we worked with our food and beverage tenants to minimise potential waste at source and promote food waste reduction practices.

During the construction of the Western extension of Island Line, we undertook measures to conserve the historic tree walls near Kennedy Town Station, a success celebrated with the publication of a book "Conservation of Stonewall Trees" in July 2014.

Our people

Recognising the importance of human capital in supporting our operations and achieving our expansion goals, we invest in attracting the right calibre of employees, developing and nurturing talent. Various communication channels are also in place for the Corporation and our colleagues to discuss, respond to and resolve issues of concern.

We inspire, engage and develop our people through a range of programmes to support our colleagues' professional development. Our career development programmes focus on skills and knowledge development so that our colleagues are ready for future challenges. For instance, our MTR Advanced Management Programme enhances leadership and management capabilities for senior managers from Hong Kong, the Mainland of China and overseas.

We hold bi-monthly seminars to enhance our colleagues' knowledge on wellness as well as making available facilities in our offices to encourage physical activities.

With our business success predicated on a clear VMV, we reinforce the application of our VMV through company-wide workshops and seminars, supplemented by awards. In 2014, a comprehensive review of the Code of Conduct was carried out and it will be released in the first half of 2015. By combining the Code and Corporate Guidelines into a single document, the revised Code is more user-friendly and easy to comprehend. In addition to highlighting key principles, the updated Code includes real-life examples demonstrating how staff can contribute to the Company's reputation for being fair and ethical.

In response to the two reports by the Independent Board Committee on the Hong Kong section of Guangzhou-Shenzhen-Hong Kong Express Rail Link, we reviewed our corporate culture, identifying strengths to build on and areas for improvement. The aim is to achieve a work environment that encourages healthy debate and constructive challenge, openness to new ideas, and ownership of decision making by all team members. Cultural-shift initiatives will be rolled out in 2015 to support the achievement of our corporate strategy and vision.

Our Customers

Further enhancing our consistently high standards of customer service and delivery, we are committed to making journeys more convenient and comfortable. This is reflected in initiatives such as increasing train frequencies, recruiting additional staff on platforms, modification of door bottom guides on certain trains, new lifts and new toilets, as well as upgrading the ticketing systems and our mobile app.

How we Contribute to Society

We recognise our role in contributing to enhancing the quality of life of the communities we serve, and we leverage our network, skills and resources to support the collective effort in addressing societal challenges.

As a company, we support various youth-related efforts and the arts. Our staff volunteers are also actively engaged in various community initiatives to serve those in need. Through this multipronged approach, we aim to build relationships and trust and to empower young people so that they have the skills, motivation, perspectives and opportunities to create a secure future for themselves and for their communities.

Youth

In 2014 our colleagues continued to donate their time and skills to support the "'Train' for Life's Journeys" and "'Friend' for Life's Journeys" programmes, which brought encouragement and new experiences to 220 students from 63 schools in Hong Kong.

Our Customer Service Ambassador Internship Programme, now in its ninth year, offered job experience opportunities to 200 students from five tertiary institutions. Participants indicated that the programme offered practical customer-service knowledge, strengthened their communication and interpersonal skills and contributed to their personal development.

For the sixth year, the "Student Quality Circle Programme" saw our colleagues bringing MTR's Work Improvement Team concept to primary school students. This focuses on problem identification, information gathering and analysis, and solution generation skills. We also continued our collaboration with the Young Entrepreneurs Development Council and held workshops, mock job-interview sessions and company visits for secondary school students.

In support of the Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme initiated by the Labour and Welfare Bureau, we collaborated with the Hong Kong Council of Social Service and local universities to offer summer internship opportunities for university students with disabilities or special educational needs. The Company was awarded the "Talent-Wise Employment Charter – Outstanding Inclusive Organisation" in September 2014 for promoting the employment of persons with disabilities. We also maintained our support for the Hong Kong Athletes Career & Education Programme, which gives retired athletes job opportunities and life skills training.

With youth being the focus of our corporate responsibility efforts in the community, we strengthened our employee engagement to enhance our internal understanding of young people through seminars and movie screenings, with over 900 staff participated. Over 75% of movie participants indicated that the screening enhanced their understanding of young people and influenced their perception of young people.

Arts

Now in its 16th year, our "art in mtr" initiative continues to delight our passengers as they journey across our network. Marking our 35th Anniversary, we showcased the evolution of MTR tickets and specially-designed tickets commemorating important Hong Kong occasions in the "MTR Ticket Collection – 35 Years of Tickets to Ride" exhibition in Central Station. Performances under the "living art" programme ranged from dance to traditional Chinese music, held each week. Our 55 community art galleries as well as our "art in station architecture" programme continue to enrich the MTR travelling environment.

In caring for the community, we place particular emphasis on helping young people

Supporting our communities

The MTR HONG KONG Race Walking 2014, a charity event that has been held every year since 2005, was cancelled after a careful assessment of the prevailing situation. Nevertheless, we used our own resources to donate HK$10 million to the Hospital Authority via the Hospital Authority Charitable Foundation to express our appreciation to the public. This donation was in addition to the over HK$15.5 million given by the Company and staff to charitable and other organisations during the year.

We help foster a vibrant civil society by offering non-profit organisations advertising space in our stations to promote their work and raise awareness of societal issues. In 2014, we offered space to 49 organisations supporting causes ranging from volunteerism to elderly support services.

Our employees also reach out to the community in a variety of ways. With the Company's support and encouragement, our "More Time Reaching Community" scheme organised 245 community projects for 75 non-governmental organisations involving over 6,000 volunteers.

Recognition for Corporate Responsibility

We continued to receive wide recognition for the Company's corporate responsibility efforts in 2014.

MTR has been listed on the Asia ex-Japan Climate Disclosure Leadership Index since 2011. We have maintained our presence on the Dow Jones Sustainability Index Asia Pacific and the FTSE4Good Index Series since 2002, and on the Hang Seng Corporate Sustainability Index since its inception in 2010. MTR is a constituent of the MSCI Global Sustainability Indexes and in 2014, MSCI ESG Research granted the Company an "AA" rating in its Intangible Value Assessment. This is the second highest rating and puts MTR in the top three companies globally within the Roads and Rail Transport Industry.

During 2014, we also gained a number of awards and certifications for our practices. These included a "Platinum Award in the Category of Eco Transportation Services" in the "Prime Awards for Eco-Business 2014" from *MetroBox* magazine, for the seventh consecutive year. There was a "Gold Award", the highest honour in the "Best Landscape Award for Private Property Development 2014 (Large Scale Residential Property – Properties up to 5 years of age)", given by the Leisure and Cultural Services Department. We also won Gold Awards in the "Public Organization, Utility, University" and "Property Management–Residential" categories in the CLP GREEN^{PLUS} Recognition Awards 2014. Our workplace learning and talent development efforts were recognised internationally with the Association for Talent Development recognising our Integrated Staff Development Programme with an Excellence in Practice Award.

Risk Management

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 aid business units across the organisation to identify and review risks and prioritise resources to manage those risks that arise. It also provides management with a clear view of the significant risks facing the Company and is used to support decision making and project execution, in turn helping to deliver better business performance.

The Board oversees the Company's top risks and emerging risks and, with a view to enhancing its oversight, established a Risk Committee in August 2014. The Risk Committee comprises Non-Executive Directors and Independent Non-Executive Directors of the Company, and is mandated by the Board to review the ERM framework effectiveness, top risks and emerging risks, to commission "deep dive" reviews on key risk areas, as needed, and also to review the Company's crisis management arrangements. The Risk Committee meets quarterly and reports to the Board.

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

Management of key risks

The Company takes proactive measures to manage risks arising from its recurrent and growth businesses, as well as from the constantly changing business environment. Some key risks currently being managed include:

- The impact to the Company's reputation from various events in 2014, including programme slippage and cost overrun of the Company's new railway projects, and a number of longer train service delays. In response to this issue, the Company has taken swift action to:
  - strengthen its project governance framework, adopting the recommendations of the Independent Board Committee ("IBC") appointed by the Board in relation to the Express Rail Link, including the establishment of a Capital Works Committee to oversee major capital works of the Company; and
  - formulate a comprehensive communication plan with a view to providing more timely and transparent information to stakeholders and the public on key issues, for example, by organising regular media briefings by the Executives.
- The challenges being faced by the five major new railway projects in Hong Kong, such as the general shortage of workers, geotechnical difficulties, and the carrying out of construction activities in close proximity to the operational railway and urban developments. Programme slippage and cost overrun on these projects remain among the top risks in the Company's enterprise risk profile. In relation to the Express Rail Link, the Board commissioned the IBC in April 2014 to review the Company's management of the project. Following the release of the IBC's first and second reports, enhancements to the Company's project management, budget control and reporting processes and procedures have been identified, and implementation is now in progress.
- Our heavy rail service experienced more incidents that caused service disruptions of 31 minutes or more in 2014 than in 2013 (12 in 2014 with over 1.8 million train trips operated). The root causes of the delays vary from product quality to isolated system issues. Enhancements to the Company's supply chain quality assurance process for service critical equipment have been implemented since May 2014. In addition, cross-divisional expert groups and specialist consultants have been engaged to conduct technical studies and identify areas for improvement.
- Workforce transition and increased manpower needs. The Company will have a number of staff reaching retirement age in the next few years leading to a retirement wave. This, together with the additional demand required for opening the new extension lines to be commissioned over the next few years, are putting pressure on human resources management. Various measures for recruitment, staff development and succession planning are in progress to mitigate the possible impact.

Continuous improvement of the risk management process

Consistent with our strong desire to improve the Company's systems and tools, and after reflecting on business challenges faced, in mid-2014, the ERC conducted a thorough review of the ERM framework and identified a number of enhancement initiatives. These included the launch of the first "Risk Awareness Week" in October 2014 to raise risk awareness across all levels of the organisation, the launch of a computer based ERM training programme for managers, regular discussion by the Executive Committee of top risks and emerging risks, as well as more frequent reporting by the ERC to the Executive Committee and to the Board. These enhanced ERM processes are helping to reinforce a risk-informed and risk-aware culture.

We also keep ourselves abreast of the latest developments in risk management through reviews with users, cross-industry benchmarking and experience sharing. As part of the Risk Awareness Week 2014 event, we engaged external risk experts to share best practices on risk management with executives, senior managers, members of the ERC and divisional risk co-ordinators.

Key activities undertaken in 2014 include:

- Sharing and learning of best practice in ERM implementation through the seventh UK ERM Roundtable and the sixth HK ERM Roundtable meetings;
- Cross-learning among risk managers from different business units, including subsidiaries and associates in the Mainland of China and overseas, through an in-house "Audit and Risk Forum" held in Hong Kong in April 2014 and two other webinars in November 2014; and
- Conducting regular meetings with our insurance consultant for risk analysis.

Corporate Governance Report

Corporate Governance Practices

The Board recognises that corporate governance is the collective responsibility of all Members of the Board and firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interests of all of its stakeholders. Hence, the Board will continue to seek to identify and formalise best practices for adoption by the Company.

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

Corporate Governance Code Compliance

During the year ended 31 December 2014, the Company has complied with the Code.

As reported in last year's Annual Report, the Company had started reviewing the impact of the new Companies Ordinance (the "New CO") in 2012 and before it came into effect on 3 March 2014, separate briefings were arranged for Members of the Board, Members of the Executive Directorate, and relevant departments of the Company. To ensure full compliance with the New CO, the Directors' Manual, which sets out amongst other things, the nature of Directors' duties and the relevant requirements they have to comply with, and the Company's Articles of Association, have been updated/amended for aligning with the New CO. The amended Articles of Association have also been approved by shareholders by way of a special resolution at the Annual General Meeting of the Company held on 8 May 2014. In addition and for further enhancements in corporate governance, the Company keeps on reviewing areas where the New CO may have impact on its shareholders and other stakeholders.

Corporate Governance Enhancements

As mentioned in the Company's Interim Report 2014, the Company is fully aware of the public's concern about the revised schedule (the "Revised Timeline") for the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") project. Hence, the Board established an Independent Board Committee (the "IBC") in April 2014 to review the background of and reasons for the Revised Timeline.

The IBC was chaired by Professor Frederick Ma Si-hang and initially consisted of the following Independent Non-executive Directors of the Company – Dr. Dorothy Chan Yuen Tak-fai, Mr. Edward Ho Sing-tin, Mr. Alasdair George Morrison, Mr. Abraham Shek Lai-him and Mr. T. Brian Stevenson. Mr. Stevenson resigned from the IBC shortly after the publication of the first report by the IBC (the "First IBC Report") due to conflicting time commitments.

In addition, the IBC appointed two independent experts who had specific expertise in relation to management of projects similar to that of the XRL, to assist it in the preparation of its second report (the "Second IBC Report").

The IBC held 21 meetings altogether and issued the First IBC Report and the Second IBC Report in July and October 2014 respectively, containing a number of findings and recommendations.

Implementation of IBC Enhancements

The Board accepted the recommendations in both the First IBC Report and the Second IBC Report in their entirety; and the following key recommendations have been implemented:

(a) The Board established a Capital Works Committee, comprising six members, five of whom are Independent Non-executive Directors (the "INEDs"). The Capital Works Committee is mandated to oversee the implementation of enhancements to project reporting and management systems and processes, including adoption and maintaining of key milestones and key performance indicators, as recommended by the independent experts.

(b) The format of monthly project progress and cost reports submitted to the Board, the Capital Works Committee and the Executive have also been enhanced to provide improved clarity on the overall programme and cost positions of all ongoing projects, with traffic light indicators showing the status at one glance.

Other Corporate Governance Enhancements

In seeking continuously to strengthen its corporate governance, the Board has implemented additional enhancements, including:

(a) The Board, to strengthen its oversight in managing the risks of the Company while pursuing continuous business growth, has established a Risk Committee, comprising seven members, five of whom are INEDs, to monitor the Company's risk profile and to review the Company's top risks (including, without limitation, operational, service performance, regulatory, financial and organisational risks), enterprise risk management framework and effectiveness.

The establishment of the Risk Committee is ahead of the Hong Kong Stock Exchange's consultation conclusions on risk management and internal control: review of the Corporate Governance Code and Corporate Governance Report.

(b) Interactions between Audit Committee, Capital Works Committee and Risk Committee

With the establishment of the Capital Works Committee and the Risk Committee, the Board has considered the interactions between the Audit Committee, the Capital Works Committee and the Risk Committee and recognised the need for the three Committees to work in collaboration to ensure adequate information sharing, while avoiding duplication of efforts. All three Committees, via their Chairmen and (where applicable) common Committee members/attendees, will share information on any major issues identified during the course of performing their respective duties which could have an impact on the work of the other Committee(s).

(c) The Company has formulated a new strategic communications plan to enhance internal and external communications in a more open and transparent manner, to ensure adequate information flows in a timely manner.

The Board believes that the implementation of the above enhancements will further strengthen the Company's corporate governance.

Board Evaluation

In October 2014, with a view to continuously strengthening the corporate governance of the Company, the Board appointed Egon Zehnder, international experts on board consulting, to undertake a Board evaluation exercise. Egon Zehnder conducted its evaluation based on detailed questionnaires completed by Board Members, interviews with individual Board Members, observation at a Board meeting and benchmarking with other comparable boards. The scope of the evaluation included Board structure, roles and responsibilities, Board meeting processes and dynamics, alignment, information flow and reporting, the decision making process at Board level and Board Committees.

A report was presented to the Board in mid-December 2014 setting out key findings and recommendations from the exercise. The Board is in the course of carefully considering the recommendations with a view to further improving the effectiveness of the Company's Board.

The Board of Directors

Overall Management

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

Board Composition

The Company currently has 14 INEDs out of 20 Members of Board. The Chief Executive Officer of the Company ("CEO") is the only executive Director on the Board.

Chairman and Chief Executive Officer

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

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

Dr. Raymond Ch'ien Kuo-fung, a Member of the Board and the non-executive Chairman of the Company since 1998 and 2003 respectively, was re-appointed by the Government in October 2012 as the non-executive Chairman with effect from 1 January 2013 until 31 December 2015.

As head of the Executive Directorate and chairman of the Executive Committee (which comprises seven other Members of the Executive Directorate, and General Manager – Corporate Relations), the CEO is responsible to the Board for managing the business of the Company, as well as performing a bridging function between the Board and the Executive Directorate.

Mr. Jay Herbert Walder stepped down as the Company's CEO on 15 August 2014. His position as a Member of the Board and a Member of the Executive Directorate also ended on that date.

As announced on 12 March 2015, Mr. Lincoln Leong Kwok-kuen, formerly the Acting CEO, was appointed as the CEO for a term of three years commencing from 16 March 2015. He was also appointed as a member of the Board and a member of the Corporate Responsibility Committee of the Company with effect from the same date, and continues to be a member of the Executive Directorate of the Company.

During the period from 16 August 2014 to 15 March 2015, Mr. Leong assumed the role of Acting CEO, to manage the duties and responsibilities of the CEO. He also acted as the chairman of the Executive Committee in his capacity as Acting CEO. As an interim arrangement and to ensure the smooth operation of the China & International Business, an area which used to be under Mr. Leong's scope of responsibility, Dr. Jacob Kam Chak-pui (Operations Director), supported by the Chief Executive Officer –

China Business, oversees the China Mainland railway operations, and Mr. Morris Cheung Siu-wa (Human Resources Director), supported by the Chief Executive Officer – European Business, oversees the European Business and resourcing for the China & International Business, while Mr. Leong continues to directly oversee the China Property business, the Company's operations and business development in Australia and the corporate finance and development function, pending further rearrangement of work responsibilities among Members of the Executive Directorate.

Independent Non-executive Directors

Following the appointments of Mr. James Kwan Yuk-choi, Mrs. Lucia Li Li Ka-lai, Mr. Benjamin Tang Kwok-bun and Dr. Eddy Fong Ching as additional INEDs in October 2014 and January 2015 respectively, the Company has 14 INEDs.

Government's Representatives

The Chief Executive of the HKSAR, in the exercise of his right under Section 8 of the MTR Ordinance, has appointed three persons as "additional directors" (the "Additional Directors") of the Company. The Additional Directors are:

1. The office of the Secretary for Transport and Housing ("S for T&H", held by Professor Anthony Cheung Bing-leung);
2. The office of the Permanent Secretary for Development (Works) ("PS for D (Works)", held by Mr. Wai Chi-sing) (appointed with effect from 14 October 2014); and
3. The office of the Commissioner for Transport ("C for T", held by Mrs. Ingrid Yeung Ho Poi-yan).

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

Another NED, Professor Chan Ka-keung, Ceajer, is Secretary for Financial Services & Treasury ("S for FS&T"). The Government, through The Financial Secretary Incorporated, holds approximately 76.11% of the issued shares of the Company as at 31 December 2014.

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

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

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

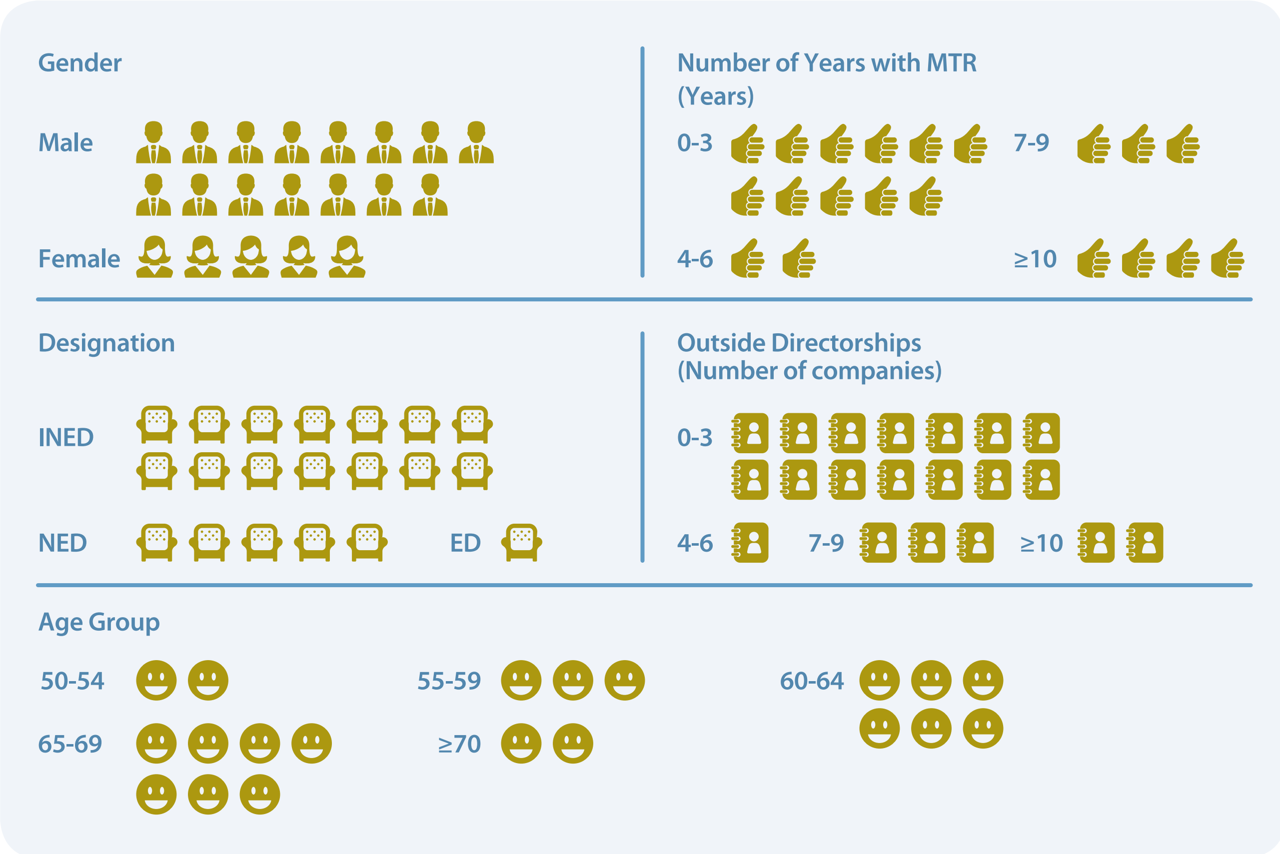
The Additional Directors may not be removed from office except by the Chief Executive of the HKSAR and are not subject to any requirement to retire by rotation.

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

At the 2014 Annual General Meeting held on 8 May 2014 (the "2014 AGM"), Mr. Alasdair George Morrison, Mr. Ng Leung-sing, Mr. Abraham Shek Lai-him, Mrs. Pamela Chan Wong Shui, Dr. Dorothy Chan Yuen Tak-fai and Professor Frederick Ma Si-hang retired from office pursuant to the Articles 87 and 88 of the then Articles of Association, and were re-elected and elected as Members of the Board at the 2014 AGM.

For details of the Members of the Board who will retire from office at the 2015 annual general meeting (the "2015 AGM") pursuant to the Articles of Association, please refer to the 2015 AGM Circular dated 16 April 2015 to the Company's shareholders – Proposed General Mandates to Issue and Repurchase Shares, Proposed Re-election/election of Directors, and Notice of 2015 AGM.

Board Diversity



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

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

In March 2014, the Committee conducted:

(i) the Annual Review;

(ii) a review of the achievement of objectives pursuant to the Policy; and

(iii) the review of a list of desirable skills/experience/perspectives for the Board (the "List").

At the meeting, it was noted that the Board was well composed from a diversity perspective and operated ahead of or in line with best practice from a structure perspective. The List was also updated in light of the Company's overseas businesses.

The Policy was taken into account by the Committee and the Board in the appointments of Mr. James Kwan Yuk-choi, Mrs. Lucia Li Li Ka-lai, Mr. Benjamin Tang Kwok-bun and Dr. Eddy Fong Ching as the Company's new INEDs in October 2014 and January 2015 respectively. The diversity of the Board has been further enhanced in terms of balance of skills and experience, genders, range of ages and professional backgrounds.

Following the appointments of the four new INEDs, the number of INEDs has increased from 10 to 14 and the INEDs now comprise more than two-thirds of the Company's Board. This ratio exceeds the Listing Rules requirement to have independent non-executive directors representing at least one-third of the board. The number of female Board Members has also increased from four to five.

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

A list of Members of the Board and the Executive Directorate and their roles and functions is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange. Biographical details of each of the Members of the Board and the Executive Directorate are set out in the "Board and Executive Directorate" section on pages 128 to 135 of this Annual Report.

Statutory Confirmations

For the year ended 31 December 2014, the Company has received confirmation from each INED about his/her independence under the Listing Rules. As part of its duties set out in its Terms of Reference, the Nominations Committee has reviewed these confirmations and assessed the independence of the INEDs, and continues to consider each of them to be independent.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Company and make contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. In light of the Code provision on directors' time commitments, the Chairman held a private Board meeting (without the presence of the CEO and other Members of Executive Directorate) in March 2014 to review the contribution required from a director to perform his/her responsibilities to the Company, and whether he/she is spending sufficient time in performing them.

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

Apart from the three Additional Directors and Professor Chan Ka-keung, Ceajer (S for FS&T), Mrs. Pamela Chan Wong Shui, Dr. Dorothy Chan Yuen Tak-fai, Ms. Christine Fang Meng-sang, Mr. Vincent Cheng Hoi-chuen, Mr. James Kwan Yuk-choi, Mrs. Lucia Li Li Ka-lai, Mr. Alasdair George Morrison and Mr. Benjamin Tang Kwok-bun sit on various government advisory committees.

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

Model Code for Securities Transactions by Directors of Listed Issuers

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

Directors' Insurance

As permitted under the Company's 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 2014 was that the level of cover was adequate and, given this limit, together with the indemnity provided by the Company to Members of the Board, the broad policy wording and the financial strength of the insurance panel, no additional cover was required.

Corporate Governance Functions Review

In March 2014, the Board conducted an annual review of its Corporate Governance duties in accordance with its Terms of Reference on Corporate Governance Functions, and considered that the Company's (i) policies and practices on corporate governance; (ii) approach to the continuous professional development of Directors and senior management; (iii) policies and practices on compliance with legal and regulatory requirements; and (iv) Code of Conduct and Directors' Manual, are adequate and appropriate for the Company in light of its current corporate strategy. They will be kept under review in light of the changing legal and regulatory environment and any changes to the Company's business.

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

Board Proceedings

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

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

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

At regular Board meetings, Members of the Executive Directorate together with senior managers report to the Board on their respective areas of business, including the railway operations, station commercial and retail related business, progress of projects, property and other businesses, financial performance, legal issues, safety governance, risk management and internal control systems, corporate governance, human resources, sustainability, corporate responsibility and outlook. As part of the enhanced reporting (described in the Corporate Governance Enhancements section on pages 102 to 103 of this Annual Report), the CEO Executive Summary now includes a specific section on the overall progress status of the five new railway projects and their respective cost, with traffic light indicators, in addition to the overall strategies, principal issues and key events of the Company. The CEO Executive Summary was provided to the Board on a monthly basis. These reports, together with the discussions at Board meetings, ensure that Members of the Board have a general understanding of the Company's business and provide information to enable them to make informed decisions for the benefit of the Company.

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

Material Interests and Voting

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

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

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

There are a number of contractual arrangements that have been entered into between the Company and Government (and its related entities), some of which are continuing in nature. As Government is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The sections headed "Connected Transactions" and "Continuing Connected Transactions" on pages 148 to 164 of this Annual Report explains how, in accordance with the Listing Rules, these transactions are treated.

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

Board and Board Committee Meetings

The Board held 30 meetings in 2014 (including seven regular Board meetings, 15 Special Board meetings and eight Private Board meetings), well exceeding the requirement of the Code which requires every listed issuer to hold board meetings at least four times a year.

Regular Board Meetings

The Board held seven regular meetings in 2014. At each of these regular meetings, the Board reviewed and discussed matters relating to the Company's different businesses and financial performance. In addition, other key matters discussed at these Board meetings included:

- Directors' Manual update;
- Dividend Policy;
- MTR Corporate Strategy;
- Strategic Communications Plan;

- Review of improvement actions taken following several train service incidents;
- Principles for revising MTR fares under the Fare Adjustment Mechanism in 2014;
- Report on Internal Control System for the year ended 31December 2013;
- Annual review of Corporate Governance Functions;
- Annual review of size, structure and composition of the Board;
- New Board Members and Board Committees;
- Progress and cost for new railway projects;
- Express Rail Link updates;
- West Island Line and South Island Line (East) updates;
- Contract awards relating to railway projects;
- Railway development strategy 2014 update;
- Replacement of M-trains;
- China and International Businesses update;
- New project opportunities outside Hong Kong;
- New property development initiatives update;
- Property development tenders;
- Election / re-election of Directors at the 2014 AGM;
- 2014 AGM;
- 2014 annual pay review;
- 2013 Annual Report and Accounts;
- Sustainability Report 2013;
- Corporate Safety Governance Annual Report 2013;
- Ngong Ping 360 Limited 2013 Annual Result;
- 2014 Interim Report and Accounts;
- 2014 Share Incentive Scheme;
- 2015 Budget and Longer Term Forecast;
- Amendments to the Company's Memorandum & Articles of Association;
- Amendments to the Terms of Reference of Audit Committee; and
- Proceedings of meetings of Audit Committee, Corporate Responsibility Committee and Capital Works Committee.

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

Members of the Board approved by circulation an increase in the total investment in a overseas project and the award of a property development tender. Neither the substantial shareholder nor a Member of the Board has any interest in these projects, and briefings on the projects were provided to all Members of the Board.

Special Board Meetings

The Chairman held 15 Special Board meetings during the year, nine of which were to discuss updates on the XRL project and the First and Second Reports by the IBC on the XRL project, and also to discuss the following:

- Project updates on new railway lines;
- Contracts awards – West Island Line and Shatin to Central Link;
- Property development tenders;
- Tender submission for overseas projects;
- Updates on Beijing investment;
- Proposed cap on investment in international business and way forward of China and International Businesses;
- Programmes to shift morning peak traffic;
- Train service performance update;
- 2014 Share Incentive Scheme;
- New Board Members and Board Committees;
- Octopus group 2013 and Year-to-June 2014 business update;
- Railway development strategy 2014 update; and
- Enterprise Risk Management Annual Report 2013/2014.

Private Board Meetings

The Chairman held eight private Board meetings during the year discussing the following:

- Evaluating Executive performance;
- Projects Director's retirement;
- Express Rail Link project;
- Communications plan;
- Step-down of Mr. Jay Herbert Walder;
- Appointment of new Projects Director and proposed nomination of new Board members;
- The senior organization structure of the Company and the issue of the Board succession; and
- Appointment of external consultant for the Board evaluation.

The attendance record of each Member of the Board (and relevant Members of the Executive Directorate) during the year is set out on page 109 of this Annual Report.

Meetings Held in 2014

	Regular Board	Special Board	Private Board	Audit Committee	Nominations Committee	Remuneration Committee	Capital Works Committee	Risk Committee	Corporate Responsibility Committee	Annual General Meeting
Number of Meetings	7	15	8	4	3	9	1	1	2	1
Members of the Board										
Non-executive Directors										
Dr. Raymond Ch'ien Kuo-fung (Chairman)	7/7	15/15 (Note 1)	8/8		3/3				2/2	1/1
Professor Chan Ka-keung, Ceajer	4/7 (Note 2)	6/15 (Note 2)	0/8 (Note 2)		1/3 (Note 2)	5/9 (Note 2)				0/1
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)	5/7 (Note 3)	11/15 (Note 3)	7/8		3/3	(Note 3)			1/2 (Note 3)	0/1
Permanent Secretary for Development (Works) (Wai Chi-sing) (since 14 October 2014)	2/2	0/1 (Note 4)	1/2 (Note 4)				1/1 (Note 4)	1/1 (Note 4)		
Commissioner for Transport (Ingrid Yeung Ho Poi-yan)	6/7 (Note 5)	12/15 (Note 5)	5/8 (Note 5)	4/4				1/1 (Note 5)		0/1
Independent Non-executive Directors										
Pamela Chan Wong Shui	7/7	15/15	8/8		(Note 6)				2/2	1/1
Dr. Dorothy Chan Yuen Tak-fai	6/7	12/15 (Note 7)	8/8			9/9 (Note 7)	1/1 (Note 7)			1/1
Vincent Cheng Hoi-chuen	7/7 (Note 8)	14/15 (Note 8)	8/8 (Note 8)			8/9 (Note 8)			2/2	1/1
Christine Fang Meng-sang	6/7	12/15 (Note 9)	6/8		2/3				2/2	1/1
Edward Ho Sing-tin	7/7	12/15	8/8		3/3 (Note 10)	9/9 (Note 10)	1/1 (Note 10)			1/1
James Kwan Yuk-choi (since 14 October 2014)	1/1	1/1	1/1				1/1 (Note 11)	1/1 (Note 11)		
Lucia Li Li Ka-lai (since 14 October 2014)	1/1	1/1	1/1	1/1 (Note 12)				1/1 (Note 12)		
Professor Frederick Ma Si-hang	6/7 (Note 13)	13/15 (Note 13)	6/8 (Note 13)	4/4 (Note 13)	2/3 (Note 13)					1/1
Alasdair George Morrison	7/7	14/15 (Note 14)	7/8 (Note 14)	3/4		8/9 (Note 14)		1/1 (Note 14)		1/1
Ng Leung-sing	5/7	9/15	6/8	3/3 (Note 15)	2/3			1/1 (Note 15)		1/1
Abraham Shek Lai-him	7/7 (Note 16)	14/15 (Note 16)	7/8 (Note 16)		3/3 (Note 16)		1/1 (Note 16)		2/2	1/1
T. Brian Stevenson	6/7	9/15	5/8	4/4		7/9 (Note 17)				1/1
Benjamin Tang Kwok-bun (since 14 October 2014)	1/1	1/1	1/1				1/1 (Note 18)	1/1 (Note 18)		
Executive Director										
Jay Herbert Walder (CEO) (stepped down with effect from 15 August 2014)	4/4	12/13 (Note 19)	2/2 (Note 19)						0/1	1/1
Members of the Executive Directorate										
Gillian Elizabeth Meller (LD&S)								1/1	2/2	
Morris Cheung Siu-wa (Human Resources Director, "HRD")									1/2	

Notes:

1 *Dr. Raymond Ch'ien Kuo-fung attended six Special Board meetings by teleconference.*

2 *The alternate director of Professor Chan Ka-keung, Ceajer attended three Regular Board meetings, seven Special Board meetings, seven Private Board meetings, a Nominations Committee meeting, and three Remuneration Committee meetings.*

3 *The alternate directors of Professor Anthony Cheung Bing-leung attended two Regular Board meetings, two Special Board meetings and a Corporate Responsibility Committee meeting. Professor Cheung was appointed as a member of the Remuneration Committee; and ceased to be a member of the Corporate Responsibility Committee, both effective from 14 October 2014.*

4 *The alternate director of Mr. Wai Chi-sing attended a Special Board meeting and a Private Board Meeting. Mr. Wai was appointed as a member of the Capital Works Committee; and the Risk Committee, both effective from 14 October 2014.*

5 *The alternate director of Mrs. Ingrid Yeung Ho Poi-yan attended a Regular Board meeting, a Special Board meeting and a Private Board meeting. Mrs. Yeung was appointed as a member of the Risk Committee effective from 14 October 2014.*

6 *Mrs. Pamela Chan Wong Shui was appointed as a member of the Nominations Committee effective from 14 October 2014.*

7 *Dr. Dorothy Chan Yuen Tak-fai attended a Special Board meeting by teleconference. Dr. Chan was appointed as the chairman of the Remuneration Committee; and a member of the Capital Works Committee, both effective from 14 October 2014.*

8 *Mr. Vincent Cheng Hoi-chuen attended three Regular Board meetings, five Special Board meetings, three Private Board meetings and four Remuneration Committee meetings by teleconference.*

9 *Ms. Christine Fang Meng-Sang attended a Special Board meeting by teleconference.*

10 *Mr. Edward Ho Sing-tin was appointed as the chairman and a member of the Capital Works Committee; ceased to be the chairman but remained a member of the Remuneration Committee; and ceased to be the chairman and a member of the Nominations Committee, all effective from 14 October 2014.*

11 *Mr. James Kwan Yuk-choi was appointed as a member of the Capital Works Committee; and the Risk Committee, both effective from 14 October 2014.*

12 *Mrs. Lucia Li Li Ka-lai was appointed as a member of the Audit Committee; and the Risk Committee, both effective from 14 October 2014.*

13 *Professor Frederick Ma Si-hang attended two Regular Board meetings, six Special Board Meetings, two Private Board meetings, an Audit Committee meeting and a Nominations Committee meeting by teleconference. Professor Ma was appointed as the chairman of the Nominations Committee effective from 14 October 2014.*

14 *Mr. Alasdair George Morrison attended four Special Board meetings, three Private Board meetings and three Remuneration Committee meetings by teleconference. Mr. Morrison was appointed as the chairman and a member of the Risk Committee; and ceased to be a member of the Remuneration Committee, all effective from 14 October 2014.*

15 *Mr. Ng Leung-sing was appointed as a member of the Risk Committee; and ceased to be a member of the Audit Committee, both effective from 14 October 2014.*

16 Mr. Abraham Shek Lai-him attended three Regular Board meetings, three special Board meetings, two Private Board meetings and two Nominations Committee meetings by teleconference. Mr. Shek was appointed as a member of the Capital Works Committee; and ceased to be a member of the Nominations Committee, both effective from 14 October 2014.
17 Mr. T. Brian Stevenson attended a Remuneration Committee meeting by teleconference.
18 Mr. Benjamin Tang Kwok-bun was appointed as a member of the Capital Works Committee; and the Risk Committee, both effective from 14 October 2014.
19 Mr. Jay Herbert Walder attended a Special Board meeting by teleconference. The three Private Board meetings that Mr. Walder did not attend were held by the Chairman with non-executive Directors only.

Board Committee Meetings

Two meetings of the Board committee, with a quorum of two, were also held on 11 March and 25 August 2014 respectively to:

- consider the final dividend for the year ended 31 December 2013 and the 2013 Annual Report and Accounts and recommend the same for shareholders' approval at the 2014 AGM, and approve the Preliminary Announcement of Results; and
- approve the interim dividend for the half year ended 30 June 2014, the 2014 Interim Report and Accounts, and the Preliminary Announcement of Unaudited Results.

Induction Programme and Other Training

Induction Programme

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

A tailor-made training programme covering the roles of a director from the strategic, planning and management perspective, as well as the essence of corporate governance and the trends in these areas, was therefore arranged for the new Members of the Board (Mr. James Kwan Yuk-choi, Mrs. Lucia Li Li Ka-lai, Mr. Benjamin Tang Kwok-bun, the PS for D (Works) (Mr. Wai Chi-sing) and Dr. Eddy Fong Ching), a new Alternate Director (Mr. Chan Chi-ming) and Dr. Philco Wong Nai-keung (Projects Director), all of whom were appointed in 2014, save for Dr. Fong who was appointed in January 2015. Relevant training material was also provided to those who were not able to attend all parts of the programme.

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

All Members of the Board (including their Alternate Directors) are also given a Directors' Manual on their appointment which sets out, amongst other things, directors' duties, and the Terms of Reference of the Board on its Corporate Governance Functions and of its Board Committees. The Directors' Manual is updated from time to time to reflect developments in those areas, following a report on the same at relevant Board meeting(s). The latest update to the Directors' Manual was approved on 13 January 2015.

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

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

In December 2014, a site visit to the Island Line Extension to the Western District Stations was arranged for Members of the Board to give a first-hand opportunity to Members to understand readiness preparatory works and the station operations before the opening of the Island Line Extension to the Western District in late December 2014.

Directors' site visit to the Island Line Extention

The Company's external legal advisor gave two briefings to Members of the Board and the Executive Directorate on legal and regulatory issues in May 2014 and January 2015 respectively, covering the following subjects:

(1) Appointment of Directors; and

(2) Directors' disclosure obligations, the Stock Exchange's consultation conclusions on risk management and internal control, and the Competition Ordinance.

Save for the above, materials on the subject of corporate governance are also provided to Members of the Board, their Alternate Directors and Members of the Executive Directorate from time to time to keep them abreast of latest developments on this front. During the year, a copy of the research on "Board Diversity in Hong Kong: Directors' Perspective 2013" and information on the new connected transactions regime and dealing in the Company's securities by Members of the Board were circulated.

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

In 2014, the Members of the Board and the Executive Directorate received training in the following areas:

Directors	Induction Training*	Board Briefings on Company's Businesses / Site Visits	Reading Regulatory Updates and / or attending relevant training sessions
Non-executive Directors			
Dr. Raymond Ch'ien Kuo-fung (Chairman)	N/A	√	√
Professor Chan Ka-keung, Ceajer (S for FS&T)	N/A	√	√
S for T&H (Professor Anthony Cheung Bing- leung)	N/A	√	√
PS for D (Works) (Wai Chi-sing)	√	√	√
C for T (Ingrid Yeung Ho Poi-yan)	N/A	√	√
Independent Non-executive Directors			
Pamela Chan Wong Shui	N/A	√	√
Dr. Dorothy Chan Yuen Tak-fai	N/A	√	√
Vincent Cheng Hoi-chuen	N/A	√	√
Christine Fang Meng-sang	N/A	√	√
Edward Ho Sing-tin	N/A	√	√
James Kwan Yuk-choi	√	√	√
Lucia Li Li Ka-lai	√	√	√
Professor Frederick Ma Si-hang	N/A	√	√
Alasdair George Morrison	N/A	√	√
Ng Leung-sing	N/A	√	√
Abraham Shek Lai-him	N/A	√	√
T. Brian Stevenson	N/A	√	√
Benjamin Tang Kwok-bun	√	√	√
Executive Director			
Jay Herbert Walder (CEO (stepped down with effect from 15 August 2014))	N/A	√	√
Other Members of the Executive Directorate			
Lincoln Leong Kwok-kuen (Acting CEO^ (from16 August 2014 to 15 March 2015))	N/A	√	√
Morris Cheung Siu-wa (HRD)	N/A	√	√
Jacob Kam Chak-pui (Operations Director)	N/A	√	√
Stephen Law Cheuk-kin (Finance Director)	N/A	√	√
Gillian Elizabeth Meller (LD&S)	N/A	√	√
David Tang Chi-fai (Property Director)	N/A	√	√
Philco Wong Nai-keung (Projects Director (since 28 October 2014))	√	√	√
Jeny Yeung Mei-chun (Commercial Director)	N/A	√	√
Chew Tai Chong (Projects Director (retired on 28 October 2014))	N/A	√	√

* *Applicable to new Directors who were appointed in 2014.*

^ *Appointed as the CEO from 16 March 2015.*

Training and Continuous Professional Development – Senior Executives

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

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

To benchmark and learn from other leading businesses in Hong Kong, senior executives from leading companies in different industries are invited to share their success stories, management practices, personal wisdom and insights in the Company's in-house seminars. Besides, the Executive Excellence Consortium, that was established with five other founding organisations, provides Senior Executives with a platform for cross-organisational learning and benchmarking of best business practices. Senior Executives had active participation in the in-house seminars and the Executive Excellence Consortium.

Accountability

The Members of the Board are responsible for preparing the accounts of the Company and of the Group. The accounts are prepared on a going concern basis and give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2014, the Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the accounts for the year ended 31 December 2014, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the External Auditor are set out on page 119 of this Annual Report.

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

Board Committees

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

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

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 122 to 123) of this Annual Report.

Remuneration Committee

Members of the Remuneration Committee:

INEDs
Dr. Dorothy Chan Yuen Tak-fai (Chairman) (since 14 October 2014) Mr. Vincent Cheng Hoi-chuen Mr. Edward Ho Sing-tin (cessation as the Chairman since 14 October 2014 and remaining as a member) Mr. T. Brian Stevenson Mr. Alasdair George Morrison (up to 13 October 2014)

NEDs
Professor Chan Ka-keung, Ceajer (S for FS&T) Secretary for T&H (Professor Anthony Cheung Bing-leung) (since 14 October 2014)

Duties of Remuneration Committee

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

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

Work Performed by Remuneration Committee

In 2014, the Remuneration Committee held nine meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Approved the 2013 Remuneration Report as incorporated in the 2013 Annual Report;
- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2013 performance period;
- Reviewed and approved share option awards for eligible employees under the 2007 Share Option Scheme;
- Conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2014;
- Reviewed and approved the detailed design of the 2014 Share Incentive Scheme, the scheme documentation and the appointment of the scheme trustee and administrator;
- Determined and approved the separation arrangement of Mr. Jay Herbert Walder from the post of CEO (from 15 August 2014);
- Determined and approved the remuneration packages for the following Members of the Executive Directorate:
  - Mr. Lincoln Leong Kwok-kuen as Acting CEO^ (from 16 August 2014); and
  - Dr. Philco Wong Nai-keung as Projects Director (from 28 October 2014);
- Reviewed the performance management and remuneration framework for senior executives; and
- Reviewed the fee arrangements for non-executive Directors.

^ *Appointed as the CEO from 16 March 2015*

The Remuneration Committee also met on 10 March 2015 to approve the 2014 Remuneration Report, which is set out on pages 124 to 127 of this Annual Report and includes a description of the remuneration policy of the Company.

The attendance record of each Committee Member is shown on page 109 of this Annual Report.

Nominations Committee

Members of the Nominations Committee:

INEDs
Professor Frederick Ma Si-hang (Chairman) (since 14 October 2014) Mrs. Pamela Chan Wong Shui (since 14 October 2014) Ms. Christine Fang Meng-sang Mr. Ng Leung-sing Mr. Edward Ho Sing-tin (up to 13 October 2014) Mr. Abraham Shek Lai-him (up to 13 October 2014)

NEDs
Dr. Raymond Ch'ien Kuo-fung Professor Chan Ka-keung, Ceajer (S for FS&T) S for T&H (being Professor Anthony Cheung Bing-leung)

Duties of Nominations Committee

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

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

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

Work Performed by Nominations Committee

In 2014, the Nominations Committee held three meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Recommendation to the Board on:
  - Effectiveness of the Board Diversity Policy;
  - Re-appointment of Board Members retiring at the 2014 AGM and offering themselves for re-election/election, and endorsement of the independence confirmation of each INED;
  - Nomination of new INEDs; and
- Annual review of the size, structure and composition of the Board and reporting of the review results to the Board.

The attendance record of each Committee Member is shown on page 109 of this Annual Report.

Capital Works Committee

Members of the Capital Works Committee (all appointed on 14 October 2014):

INEDs
Mr. Edward Ho Sing-tin (Chairman) Dr. Dorothy Chan Yuen Tak-fai Mr. James Kwan Yuk-choi Mr. Abraham Shek Lai-him Mr. Benjamin Tang Kwok-bun

NED
PS for D (Works) (Mr. Wai Chi-sing)

Duties of Capital Works Committee

The principal duties of the Capital Works Committee predominantly are to oversee any project involving design and/or construction with a capital value in excess of a value as assessed by the Board and to report to the Board on the progress of the relevant projects, from both a programme and cost perspective.

Work Performed by Capital Works Committee

In 2014, the Capital Works Committee held one meeting. In accordance with its Terms of Reference, the Committee performed the following work:

- Recommendation to the Board on amendment to its Terms of Reference;
- Update on progress and cost for new railway projects; and
- Update on Express Rail Link project status and budget review.

The attendance record of each Committee Member is shown on page 109 of this Annual Report.

Risk Committee

Members of the Risk Committee (all appointed on 14 October 2014):

INEDs
Mr. Alasdair George Morrison (Chairman) Mr. James Kwan Yuk-choi Mrs. Lucia Li Li Ka-lai Mr. Ng Leung-sing Mr. Benjamin Tang Kwok-bun

NEDs
PS for D (Works) (Mr. Wai Chi-sing) C for T (Mrs. Ingrid Yeung Ho Poi-yan)

Duties of Risk Committee

The principal duties of the Risk Committee include reviewing the Company's Enterprise Risk Management ("ERM") framework, guidelines, policy and procedures for risk assessment and risk management; reviewing the Company's top risks and key emerging risks and the controls in place to mitigate such risks; monitoring the Company's risk profile; conducting "deep dive" reviews on selected key risk areas; reviewing the effectiveness of the enterprise risk management function; and reviewing the Company's crisis management arrangements.

Work Performed by Risk Committee

The Risk Committee held its first meeting on 10 December 2014. In accordance with its Terms of Reference, the Committee performed the following work:

- Reviewed the set-up and implementation of the Company's ERM framework, guidelines, policy and procedures for risk assessment and risk management;
- Reviewed the Company's top risks and key emerging risks;
- Agreed on topics for "deep dive" reviews;
- Reviewed the enterprise risk management function; and
- Reviewed the collaboration arrangements with Capital Works Committee and Audit Committee.

The attendance record of each Committee Member is shown on page 109 of this Annual Report.

Corporate Responsibility Committee

Members of the Corporate Responsibility Committee:

NEDs
Dr. Raymond Ch'ien Kuo-fung (Chairman) S for T&H (being Professor Anthony Cheung Bing-leung) (up to 13 October 2014)

INEDs
Mrs. Pamela Chan Wong Shui Mr. Vincent Cheng Hoi-chuen Ms. Christine Fang Meng-sang Mr. Abraham Shek Lai-him

Members of the Executive Directorate
Mr. Lincoln Leong Kwok-kuen (CEO, (since 16 March 2015)) Mr. Morris Cheung Siu-wa (HRD) Ms. Gillian Elizabeth Meller (LD&S) Mr. Jay Herbert Walder (CEO) (up to 15 August 2014)

Duties of Corporate Responsibility Committee

The duties of the Committee are to recommend a corporate responsibility policy to the Board for approval, monitor and oversee the implementation of the Company's corporate responsibility policy and initiatives, identify emerging corporate responsibility issues arising from external trends, review the Company's annual Sustainability Report and recommend endorsement by the Board, and provide updates to the Board as required. Please also refer to the "Corporate Responsibility" section on pages 98 to 100 of this Annual Report.

Work Performed by Corporate Responsibility Committee

In 2014, two Corporate Responsibility Committee meetings were held. The major work performed by the Committee in 2014 included:

- Reviewed the implementation of the Company's community and staff engagement programme and the Company's approach in managing environmental and social impacts of our operations;
- Reviewed the updated corporate responsibility vision and strategy, new approach to Sustainability Reporting, and the direction of flagship youth programme;
- Reviewed the direction of the Company's corporate responsibility activities; and
- Reviewed and recommended the Board to approve the 2013 Sustainability Report.

The attendance record of each Committee Member is shown on page 109 of this Annual Report.

Company Secretary

Ms. Gillian Elizabeth Meller, LD&S and a Member of the Executive Directorate, reports to the CEO. All Members of the Board have access to the advice and services of LD&S, who is responsible for ensuring that the correct Board procedures are followed and advises the Board on all corporate governance matters. On appointment to the Board, LD&S has arranged for each of the Directors (including Alternate Directors) to receive a comprehensive, formal and tailored induction programme on key areas of business operations and practices of the Company, as well as the general and specific duties of directors under general law (common law and legislation) and the Listing Rules. To assist Directors' continuing professional development, LD&S recommends Directors to attend relevant seminars and courses and arranges for training on relevant new or amended legislation or other regulations to be provided at Board meetings. The costs for such training are borne by the Company. During 2014, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

Internal Controls

The Board is responsible for the internal control systems of the Company and its subsidiaries, setting appropriate policies and reviewing the effectiveness of the internal control systems. An internal control is defined as a process effected by the Board, Management and other personnel, designed to provide reasonable assurance 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 functions

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

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

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

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

The Executive Committee is responsible for implementing the Board's policies on risk and control. In fulfilling its responsibilities, the Executive Committee identifies and evaluates the risks faced by the Company for consideration by the Board, and designs, operates and monitors a suitable internal control system which implements the policies adopted by the Board. The Executive Committee is accountable to the Board for monitoring the internal control system and providing assurance to the Board that it has done so. Additionally, all employees have responsibility for internal controls within their areas of accountability.

Various risk management strategies have been established by the Board as advised by the Executive Committee to identify, assess and reduce risks, including in the areas of construction, business operations, finance, treasury, safety and enterprise risks. The Executive Committee also ensures that the Company has appropriate insurance coverage in place to transfer risks, where it is effective and cost efficient to do so.

Risk Assessment and Management

The ERM framework 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 is 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 responsibilities.

More details of the ERM framework and process are given in the section headed Risk Management on page 101 of this Annual Report.

Control Activities and Processes

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

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

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

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.

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

On behalf of the Board, the Audit Committee evaluates the effectiveness of the internal control system of the Company, including the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's internal audit, accounting and financial reporting function. This is achieved primarily through approving the scope of the annual internal audit plan, reviewing the findings of internal audit work, the annual and interim financial statements, and the nature, scope of work, and report of the external auditors.

As mentioned before, the Board has established the Risk Committee in August 2014. The Risk Committee, on behalf of the Board, evaluates the effectiveness of risk management which was previously reviewed by Audit Committee.

The annual review of the effectiveness of the internal control and risk management systems of the Company has considered the following:

- the changes in the nature and extent of significant risks since the previous review and the Company's ability to respond to changes in its business and external environment;

- the scope and quality of management's ongoing monitoring of risks and the internal control system, the work of the Internal Audit Department, and the assurance provided by the Executive Committee;
- the extent and frequency with which the results of monitoring are communicated, enabling the Audit Committee to build up a cumulative assessment of the state of control in the Company and the effectiveness with which risk is being managed;
- the incidence of any significant control failings or weaknesses that have been identified during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance.

The processes for assessing internal controls by the Audit Committee include:

- regular interviews with members of the Executive Committee in relation to key business operations, internal control and compliance issues, both financial and non-financial;
- review of significant issues arising from internal audit reports and the external audit report;
- private sessions with internal and external auditors; and
- review of annual assessment and certification of internal controls from members of the Executive Committee, management of overseas subsidiaries and Department Heads in their areas of responsibility.

The Audit Committee has also reviewed papers prepared by the Executive Committee and Internal Audit Department covering:

- Periodic Financial Reports and Accounts;
- Preview of Annual Accounting and Financial Reporting issues;
- Annual Internal Audit Plan;
- Internal Audit Department's Half-yearly Reports;
- Whistle-blowing Reports;
- Report on the Company's Internal Control System;
- Report on Evaluation of Effectiveness of Internal Audit Department; and
- Reporting of Outstanding Litigation and Compliance Issues.

The chairman of the Committee meets on an ad hoc basis with the Head of Internal Audit, representatives of the External Auditor and Management of the Company as appropriate. He summarizes activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee meeting.

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

In terms of internal audit, the Company is also committed to recruit, train and develop a team of qualified and competent internal auditors to provide independent and objective assurance and consulting services designed to add value and improve the Corporation'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.

The Board has, through the Audit Committee and the Risk Committee (on risk management), conducted the review of the effectiveness of the Company's internal control system for the year ended 31 December 2014, covering all material financial, operational and compliance controls, and the risk management function, and concluded that an adequate and effective internal control system is maintained to safeguard the shareholders' investment and the Company's assets. There were no significant control failings, weaknesses or significant areas of concern identified during the year which might affect shareholders.

Crisis Management

To uphold the reputation of being one of the world's leading railway operators and in order to help ensure that the Company will respond to and recover from crises in an organised and highly effective manner, including timely communication with principal stakeholders such as Government departments and shareholders, the Company has an established mechanism since 1995 to activate the formation of the Crisis Management Team in the event of a crisis. The Crisis Management Team comprises relevant Members of the Executive Directorate and Executive Managers, and its operation is governed by a Crisis Management Plan which, among other things, sets out the duties of respective members. The Crisis Management Plan is kept in line with world-class standards and up-to-date through regular reviews. The operation of the Crisis Management Team is aided by an information system to keep track of the latest crisis situation, issues and strategic actions and to disseminate crisis related information. The Crisis Management Team conducts regular exercises to validate the crisis management organisation and arrangements and to provide practices for members. In addition, two exercises for the shadow team of the Crisis Management Team were conducted in December 2014 for better preparation of the crisis management.

Continuous Disclosure Obligations regarding Inside Information

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

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

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

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

Governance of Subsidiaries and Affiliated Companies

The Company has a number of subsidiaries and affiliated companies which operate independent businesses in Hong Kong, the Mainland of China and overseas. Notwithstanding these subsidiaries and affiliated companies 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 affiliated companies.

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

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

Business Ethics

Practising integrity and respectable business ethics is paramount to the Company's continued success. The Company's Code of Conduct lays down the requirements of the Company's ethical practices and forms the basis of efforts to make the Company's business sustainable.

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

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

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

External Auditor

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

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

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of KPMG nationally or internationally) are set out in note 9D to the accounts on page 186 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 Company at least once every seven years.

Communication with Shareholders

Annual General Meeting (the "AGM")

The Company's AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to communicate face to face with the Directors about the Company's performance and operations. It has been the practice for the Chairman of the Company, the chairmen of

2014 AGM

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

The 2014 AGM was held on 8 May 2014 at Rotunda 3 (6/F), Kowloonbay International Trade & Exhibition Centre, Kowloon Bay, Hong Kong. To facilitate the Company's shareholders who did not attend the AGM, the whole proceeding was webcast and posted on the Company's website in the same evening.

The 2015 AGM has been scheduled for 20 May 2015 and it is planned to continue providing simultaneous interpretation to facilitate smooth and direct communication between shareholders of the Company and the Company's Directors and Management.

Resolutions passed at the 2014 AGM

The Chairman proposed separate resolutions for each substantially separate issue at that 2014 AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the 2014 AGM under Article 67 of the former Articles of Association to call a poll on all resolutions conducted by electronic means.

A total of 14 resolutions were passed at the 2014 AGM (with resolution no. 3 comprising six separate resolutions), each by over 93% of the votes cast at the AGM. The full text of the resolutions is set out in the 2014 AGM Circular (which comprised Notice of the 2014 AGM) to the Company's shareholders dated 3 April 2014. For the benefit of those shareholders who did not attend the 2014 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 2013;

(2) Declaration of a final dividend of HK$0.67 per share for the year ended 31 December 2013;

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

(b) Re-election of Mr. Ng Leung-sing as a Member of the Board of Directors of the Company;

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

(d) Election of Mrs. Pamela Chan Wong Shui as a Member of the Board of Directors of the Company;

(e) Election of Dr. Dorothy Chan Yuen Tak-fai as a Member of the Board of Director of the Company; and

(f) Election of Professor Frederick Ma Si-hang as a Member of the Board of Director of the Company;

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

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

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

(7) Conditional on the passing of resolutions 5 and 6, to authorise the Board of Directors to exercise the powers to allot, issue, grant, distribute and otherwise deal with additional number of shares in the Company under resolution 5 as is equal to the aggregate number of shares in the Company purchased by the Company*;

(8) Authorisation for the Members of the Board to offer a scrip dividend alternative in respect of some or all of the dividends declared or paid in the period up to and including the company's annual general meeting which is held in the fifth year after the date on which the resolution is passed (i.e. in 2019); and

(9) Adoption of the new amended and restated Articles of Association.

* *(The full text of the resolution is set out in the Notice of the 2014 AGM.)*

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

The Company may also communicate with its shareholders through other general meetings if and when appropriate.

Calling General Meetings

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

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

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

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 updated "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 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, available on the website of the Company (www.mtr.com.hk) 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 on pages 94 to 95 of this Annual Report on other means of communication with shareholders.

Constitutional Documents

As mentioned above, the Company's shareholders approved and adopted at the 2014 AGM the Company's Articles of Association which is available on both the websites of the Company (www.mtr.com.hk) and the Stock Exchange.

For and on behalf of the Board

Gillian Elizabeth Meller
Secretary to the Board
Hong Kong, 16 March 2015

Audit Committee Report

The Audit Committee (the "Committee") consists of six non-executive Directors, five of whom are Independent Non-executive Directors ("INEDs").

Members of the Audit Committee

INEDs
Mr. T. Brian Stevenson[1] (chairman)
Dr. Eddy Fong Ching[2] (since 13 January 2015)
Mrs. Lucia Li Li Ka-lai (since 14 October 2014)
Professor Frederick Ma Si-hang
Mr. Alasdair George Morrison
Mr. Ng Leung-sing (up to 13 October 2014)

Non-executive Director
Commissioner for Transport (Mrs. Ingrid Yeung Ho Poi-yan)

Notes:

1. *Mr. T. Brian Stevenson will not stand for re-election at the 2015 Annual General Meeting of the Company and will retire as an INED, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company with effect from the conclusion of the Company's 2015 Annual General Meeting to be held on 20 May 2015 (the "2015 AGM").*
2. *Dr. Eddy Fong Ching, an INED of the Company will, subject to his election by the shareholders at the 2015 AGM as a member of the Board, be appointed as the chairman of the Audit Committee of the Company with effect from the conclusion of the 2015 AGM.*

None of the Committee Members is a partner or former partner of KPMG, the Company's external auditor. The Finance Director (the "FD"), the Head of Internal Audit (the "Head of IA") and representatives of the external auditor are expected to attend meetings of the Committee. At the discretion of the Committee, others may also be invited to attend meetings. The Committee meets regularly, and the external auditor or the FD may request a meeting if they consider it necessary.

Duties of Audit Committee

In December 2014, the Terms of Reference (available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange) of the Committee were amended, whereby the duty to review the effectiveness of the Company's risk management system was excluded from the Committee's scope of work given such duty is covered by the Company's Risk Committee established in August 2014.

Under its updated Terms of Reference, the duties of the Committee include the financial and efficiency aspects as described below. Amongst other things, the Committee is required to oversee the relationship with the external auditor, to review the financial information of the Company, and to oversee the Company's financial reporting system and internal control procedures.

The Committee discusses with the external auditor the nature and scope of audit and reporting obligations before the audit commences. Apart from giving pre-approval of all audit services, the Committee also pre-approves any non-audit services and ensures that the external auditor's provision of non-audit services does not impair its independence or objectivity. The Committee is primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor, and approving the remuneration and terms of such engagement.

With respect to the financial information of the Company, the Committee monitors the integrity of financial statements, interim and annual reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public. In dealing with the financial information, the Committee liaises with the Board and the Executive Directorate, and the chairman of the Committee further meets on an ad hoc basis with the Head of IA, representatives of the external auditor, and Management, as and when required. Apart from considering issues arising from audits, the Committee discusses any matters that the Head of IA or external auditor may wish to raise, either privately or together with Members of the Executive Directorate and any other person.

The Committee reviews, at least annually, the effectiveness of the Company's financial controls and internal control systems and reports to the Board that such a review has been carried out. These controls and systems allow the Board to monitor the Company's overall financial position and to protect its assets. The Committee's review also covers its role in overseeing the Management's review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Committee reviews and approves the annual Internal Audit Plan which includes audits on the efficiency of chosen activities or operations of the Company. In addition, the Committee reviews periodic reports from the Head of IA and the follow-up of major action plans recommended, and puts forward recommendations to the Board, where appropriate. The Committee, ahead of the upgraded Corporate Governance Code provisions of the Listing Rules which will become effective on 1 January 2016, has, for some time, reviewed the annual assessment conducted by the Head of IA on the adequacy of resources, qualifications and experience of staff of the Company's internal audit function, and its training programmes and budget. Please refer to the "Internal Controls" section of the Corporate Governance Report on pages 115 to 118 of this Annual Report.

During 2014 and in addition to the abovementioned duties, the Committee had also reviewed the financial impact on the Company's 2014 Interim Accounts in light of the development of the Express Rail Link project, and had discussed the audit related areas in Second Report by the Independent Board Committee on the Express Rail Link project ("Second IBC Report").

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

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

In January each year, the Secretary of the meetings pre-agrees key agenda items for the year with the chairman of the Committee who makes a final determination on the agenda for the regular Committee meetings. A total of four meetings have been scheduled to be held in 2015.

Work Performed by Audit Committee in 2014

In 2014, the Committee held four meetings. The attendance record of each Committee Member is shown on page 109 of this Annual Report under the "Board Meetings" section of the Corporate Governance Report.

Among the four meetings, the Committee had two separate meetings for reviewing the annual results for the year ended 31 December 2013. The first meeting concentrated on business operations, internal control and internal audit related items, as well as outstanding litigation, compliance and enterprise risk management issues, while the second meeting focused on accounting and financial reporting matters.

The major work performed by the Committee in 2014 included:

Financial

- Review of and recommendation for the Board's approval of the draft 2013 Annual Report and Accounts and 2014 Interim Report and Accounts;
- Review of Management Letter, tax issues, compliance and salient features of 2013 Annual Accounts and 2014 Interim Accounts presented by KPMG;
- Review of KPMG's Audit Plan and Preview of 2014 annual accounting and financial reporting issues; and
- Review of the financial impact on 2014 Interim Accounts in light of the development of the Express Rail Link project.

Auditing / Internal Controls

- Approval of the 2015 Internal Audit Plan;
- Review of two Half-yearly Reports prepared by the Internal Audit Department;
- Review of the Report on the Company's Internal Control system for the year ended 31 December 2013;
- Review of two Half-yearly Reports on Whistle-blowing prepared by the Internal Audit Department for July to December 2013 and for January to June 2014;
- Review of the Report on Evaluation of Effectiveness of Internal Audit Department for 2013;
- Pre-approval of audit and non-audit services provided by KPMG;
- Review of KPMG's fees proposal for the 2014 audit; and
- Holding of private sessions with Head of IA and representatives of KPMG without the presence of Management.

Operations Review and Others

- Review of outstanding litigation, and compliance with statutes and regulations, Operating Agreement and Rail Merger Agreements;
- Review of the Enterprise Risk Management Annual Report for 2013;
- Review of an Update on the Management Governance Framework which is set out on page 118 of this Annual Report under the Corporate Governance Report;
- Confirmation of the financial figures for the 2013 payout under "2008 Variable Incentive Scheme";
- Review of the Audit/Governance Committees Minutes of MTR's wholly owned subsidiaries;
- Review of operations' IT security systems;
- Discussion of the Second IBC Report relating to internal audit, project quality assurance and the Audit Committee;
- Receipt of updates on "Project Cost and Claims Position" relating to the five new lines; and
- Receipt of report on "Claims Management and Dispute Avoidance" for the five new lines.

Representatives of the external auditor, the FD and the Head of IA attended all four meetings for reporting and answering questions about their work. Further to that and by invitation, the then Acting Chief Executive Officer (formerly Deputy Chief Executive Officer), the Operations Director, the Commercial Director, the Projects Director, the Property Director and the Legal Director & Secretary (or their representatives) had respectively provided an overview of the Company's business development and expansion outside of Hong Kong, railway operations, non-fare businesses, new railway projects, property business as well as outstanding litigation, compliance and enterprise risk management matters to the Members at the meetings.

Re-appointment of External Auditor

The Committee was satisfied with KPMG's work, its independence, and objectivity, and therefore recommended the re-appointment of KPMG (which has indicated its willingness to continue in office) as the Group's external auditor for 2015 for Shareholders' approval at the 2015 Annual General Meeting.

T. Brian Stevenson
Audit Committee Chairman
Hong Kong, 16 March 2015

Remuneration Report

Introduction

The Remuneration Committee has been delegated the authority to consider and recommend to the Board the Company's remuneration policy and the remuneration packages of the non-executive Directors, as well as to review and determine the remuneration packages for the Chief Executive Officer and other Members of the Executive Directorate.

Throughout the year, the Committee met regularly to discuss and approve remuneration issues pertaining to the Company's variable incentive scheme, share option 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 six non-executive Directors, four of whom are independent non-executive Directors. The Chairman of the Remuneration Committee is an independent non-executive Director. As necessary and with the agreement of the Chairman, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues. No individual Director or any of his associates is involved in deciding his own remuneration.

A summary of the work performed by the Remuneration Committee during 2014 is set out in the "Corporate Governance Report" on page 113.

This Remuneration Report has been reviewed and authorised by the Remuneration Committee of the Company.

Remuneration policy

It is the Company's policy to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. To achieve this, the Company has taken into consideration a number of relevant factors such as salaries paid by comparable companies, job responsibilities, duties and scope, employment conditions elsewhere in the Company and its subsidiaries, market practices, financial and non-financial performance, and desirability of performance-based remuneration.

The Company is committed to effective corporate governance and employing and motivating top quality personnel. The Company also recognises the importance of a formal and transparent remuneration policy covering its Board and Executive Directorate.

Remuneration for Non-Executive Directors

The Remuneration Committee makes recommendations to the Board from time to time on the remuneration of the Members of the Board who are non-executive Directors. The remuneration of non-executive Directors is in the form of annual director's fees.

To ensure that non-executive Directors are appropriately remunerated for their time and responsibilities devoted to the Company, the Committee undertakes periodic reviews and considers the following factors as they put forward recommendations to the Board:

- Fees paid by comparable companies;
- Time commitment;
- Responsibilities of the non-executive Directors; and
- Employment conditions elsewhere in the Company.

Details of remuneration for non-executive Directors are set out in note 10 to the accounts.

Remuneration for Employees

The Company's remuneration structure for its employees, including the Chief Executive Officer and other Members of the Executive Directorate, comprises:

- Fixed compensation – base salary, allowances and benefits-in-kind (e.g. medical);
- Variable incentives – discretionary award; performance-based payment and other business-specific cash incentive plans;
- Long-term incentives – e.g. share-related awards and share options; and
- Retirement schemes.

The specifics of these components are described below.

Fixed Compensation

Base salary and allowances are set and reviewed annually. The annual review process takes into consideration the Company's remuneration policy, competitive market positioning, market practice, as well as the Company's and individuals' performance. Benefits-in-kind are reviewed as and when appropriate taking into consideration market practices.

Variable Incentives

The Chief Executive Officer, other Members of the Executive Directorate and selected management of the Company are eligible to receive an annual cash incentive under the Company's Variable Incentive Scheme, the rules of which are regularly reviewed by the Remuneration Committee.

Under the current scheme rules, the payouts are based on the performance of the Company and individual performance. The Company's performance is measured by both financial and non-financial factors including:

- Return on fixed assets;
- Rolling three-year operating profit;
- Fulfillment of the Customer Service Pledges; and
- Fulfillment of Performance Requirements in relation to "Train Service Delivery", "Passenger Journeys on Time" and "Train Punctuality" as defined in Schedule 2, Part 1 of the Operating Agreement.

Payouts will be automatically reduced if the Company does not achieve any one or more of the Performance Requirements. They will also be adjusted subject to the Company's achievement of all the Customer Service Pledges.

Following the end of each year, the Company engages an independent expert to conduct a review and audit of its performance versus the Performance Requirements and Customer Service Pledges. The results of this audit are shared with the Remuneration Committee to determine if adjustments to the payouts under the scheme are appropriate.

Individual performance ratings are part of the thorough annual performance assessment process that is applied throughout the Company. The performance ratings and assessments reflect the full range of factors over which the individual has accountability, including operational, other non-financial and financial factors. Individual performance ratings for the Members of the Executive Directorate are determined by the Chief Executive Officer, and the performance for the Chief Executive Officer is assessed by the Chairman.

A portion of the target incentive levels under the scheme was originally funded by participants by foregoing their 13th month pay and portions of their fixed allowances. If performance exceeds pre-defined threshold standards, then payouts under the scheme are made annually. Target incentive levels for the Chief Executive Officer and other Members of the Executive Directorate represent approximately 15-30% of total cash compensation.

In addition, the Company operates other business-related incentive schemes to motivate the staff concerned to reach specific business targets of the Company.

Discretionary Awards

In 2014, special discretionary awards were provided to staff, including the Members of the Executive Directorate, with competent or above performance, as a recognition of their contribution to the Company's good performance and achievements in the past year and to motivate staff to strive for continuous business growth.

Long-Term Incentives

During 2014, the Company maintained two share option schemes, namely the New Joiners Share Option Scheme (the "New Option Scheme") and the 2007 Share Option Scheme (the "2007 Scheme").

There are no outstanding options under the New Option Scheme as of 31 December 2014 and no new grants were made under this Scheme since the adoption of the 2007 Scheme.

The 2007 Scheme was approved and adopted by shareholders at the Company's Annual General Meeting on 7 June 2007. The 2007 Scheme is intended to provide employees of the Company and its subsidiaries the opportunity to participate in the growth and success of the Company. Awards under this Scheme were granted to selected employees of the Company in 2014. The Scheme continues to include 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 2014 under the two Schemes are set out under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board. Under the terms of the 2007 Scheme, no new grants of options can be made thereunder after 5 p.m. on 6 June 2014 ("2007 Scheme Expiry").

Details of the two Schemes and options granted to Members of the Executive Directorate and selected employees of the Company under the Schemes are set out in notes 10 and 49 to the accounts.

On 15 August 2014, the Board approved the adoption of the 2014 Share Incentive Scheme (the "2014 Scheme"), following the expiry of the 2007 Scheme on 6 June 2014. The Scheme took effect on 1 January 2015 for a term of 10 years (unless terminated earlier by the Company).

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The purposes of the 2014 Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the 2014 Scheme as award holders in accordance with the rules of the 2014 Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares.

Restricted Shares are awarded on the basis of the individual performance of the relevant eligible employee. Performance Shares are awarded which vest subject to the performance of the Company, assessed by reference to such Board-approved performance metric and in respect of such performance period, and any other performance conditions, as determined by the Remuneration Committee from time to time.

In general, the Company will pay to the third party trustee (the "Trustee") monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from shares held as part of the funds of the trust to acquire existing shares from the market. Such shares will be held on trust by the Trustee for the relevant award holder. The Trustee shall not exercise any voting rights in respect of any shares held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested award shares. An award holder shall have no right to any dividend held under the trust.

Mr. Jay H Walder, the Company's Chief Executive Officer until 15 August 2014, did not participate in the New Option Scheme. He was entitled to receive an equivalent value in cash of 300,000 shares in the Company on 30 June 2014 and a payment of HK$8,805,000 was paid to him on 2 July 2014.

Mr. Walder's employment contract was renewed with effect from 1 July 2014 until 31 August 2015. He was entitled to receive an equivalent value in cash of 230,000 Shares upon completion of his extended term of office on 31 August 2015.

On 15 August 2014, Mr. Walder stepped down as the Chief Executive Officer of the Company and an amount of HK$725,428 being the equivalent value in cash of 24,378 shares was paid to him. Mr. Walder's remaining derivative interest of 205,622 shares in the Company lapsed on 15 August 2014.

On 12 March 2015 and following a worldwide search for Mr. Walder's replacement, the Company announced the appointment of Mr. Lincoln Leong Kwok-kuen, previously Acting Chief Executive Officer, as Chief Executive Officer with effect from 16 March 2015. Mr. Lincoln Leong did not participate in the New Option Scheme. He received options under the 2007 Scheme and is eligible to participate in the 2014 Scheme.

Retirement Schemes

In Hong Kong, the Company operates five retirement schemes under trust, the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Retention Bonus Scheme (the "MTR RBS"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund Schemes (the "MTR MPF Scheme" and the "KCRC MPF Scheme") with details as follows:

(a) MTR Retirement Scheme

The MTR Retirement Scheme is a registered scheme under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted an MPF Exemption by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions to the MTR Retirement Scheme are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

(b) MTR RBS

The MTR RBS is a registered scheme under the ORSO. It is a top-up scheme to supplement the MTR Retirement Scheme for employees who are classified by the Company as staff working on designated projects and who are not on gratuity terms. It provides eligible members with benefits only in the event of redundancy for service accrued up to 31 December 2002, offset by any benefits payable from the MTR Retirement Scheme and other applicable schemes. Members are not required to contribute while the Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm. According to the

Trust Deed of the MTR RBS, membership of the MTR RBS shall automatically cease either upon termination of employment or if earlier, after 16 years' service when the members have no further interest in the MTR RBS. Since all the members in the MTR RBS have attained 16 years' service by the end of July 2014, the MTR RBS has been dissolved effective 7 September 2014 as endorsed by the Board of Trustees.

(c) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a registered scheme under the Occupational Retirement Schemes Ordinance and has been granted an MPF Exemption by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

(d) MTR MPF Scheme

The MTR MPF Scheme, which has been registered with the MPFA, covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance ("the MPF Ordinance"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

(e) KCRC MPF Scheme

The KCRC MPF Scheme, which has been registered with the MPFA, covers those former KCRC employees who were previously members of the KCRC MPF scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPF Ordinance.

The executive Directors who were hired by the Company before 1 April 1999 are eligible to join the MTR Retirement Scheme. Other executive Directors are eligible to join either the MTR Provident Fund Scheme or the MTR MPF Scheme.

Mr. Walder, the Company's Chief Executive Officer until 15 August 2014, participated in the MTR MPF Scheme. Both the Company and Mr. Walder each contributed to the MTR MPF Scheme at the mandatory levels as required by the MPF Ordinance.

Mr. Lincoln Leong, the Company's Chief Executive Officer effective from 16 March 2015, participates in the MTR Provident Fund Scheme.

For subsidiary companies in Hong Kong, the Mainland of China, United Kingdom, Sweden and Australia, the Group operates retirement schemes established in accordance with, in the case of subsidiaries in Hong Kong, the MPF Ordinance and, in the case of subsidiaries in the Mainland of China and overseas, their respective local regulations.

Remuneration of Non-Executive and Executive Directors

The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 10 to the accounts.

in HK$ million	**2014**	2013
Fees	**5.7**	4.7
Base salaries, allowances and other benefits-in-kind	**44.0**	43.2
Variable remuneration related to performance	**10.8**	17.5
Retirement scheme contributions	**5.2**	4.6
	65.7	70.0

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 2014.

Dr Dorothy Chan Yuen Tak-fai
Chairman, Remuneration Committee
Hong Kong, 10 March 2015

Board and Executive Directorate

From left to right: (1st row) Dr. Raymond Ch'ien Kuo-fung *(Chairman)*, Lincoln Leong Kwok-kuen *(Chief Executive Officer)*, Pamela Chan Wong Shui, Dr. Dorothy Chan Yuen Tak-fai, Vincent Cheng Hoi-chuen; (2nd row) Professor Frederick Ma Si-hang, Alasdair George Morrison, Ng Leung-sing, Abraham Shek Lai-him, T. Brian Stevenson

Members of the Board

Dr. Raymond Ch'ien Kuo-fung 63, was appointed Non-Executive Chairman in July 2003. He has been a Member of the Board since 1998. Dr. Ch'ien is chairman and an independent non-executive director of Hang Seng Bank Limited. He is an independent non-executive director of each of The Wharf (Holdings) Limited, Swiss Re Ltd and China Resources Power Holdings Company Limited, and a member of the board of The Hongkong and Shanghai Banking Corporation Limited. In addition, Dr. Ch'ien is a member of the Economic Development Commission of the Hong Kong SAR Government, a member of the Standing Committee of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference and the honorary president and past chairman of the Federation of Hong Kong Industries. He was a member of the Executive Council of Hong Kong, then under British Administration, from 1992 to 1997, and a member of the Executive Council of the Hong Kong SAR from 1 July 1997 to June 2002. Dr. Ch'ien was appointed a Justice of the Peace in 1993. He was made a Commander in the Most Excellent Order of the British Empire in 1994 and awarded the Gold Bauhinia Star medal in 1999. In 2008, Dr. Ch'ien was conferred the honour of Chevalier de l'Ordre du Merite Agricole of France. He received a doctoral degree in economics from the University of Pennsylvania in 1978 and became a Trustee of the University in 2006. Dr. Ch'ien was an independent non-executive director of Convenience Retail Asia Limited, and UGL Limited (until 30 October 2014), a non-executive director of Inchcape plc., a Hong Kong member of APEC Business Advisory Council, non-executive chairman of HSBC Private Equity (Asia) Limited, and chairman of the Hong Kong/European Union Business Cooperation Committee.

Lincoln Leong Kwok-kuen 54, has been the Chief Executive Officer ('CEO') and a Member of the Board of Directors since 16 March 2015 and a Member of the Executive Directorate since 2002. Mr. Leong joined the Company in February 2002 as the Finance Director, and was re-titled as the Finance & Business Development Director in May 2008. He was appointed as the Deputy CEO in July 2012 and the Acting CEO in August 2014. As the CEO, Mr. Leong is responsible for the Company's overall performance in and outside of Hong Kong. Prior to joining the Company, he worked in the accountancy and investment banking industries in London, Vancouver and Hong Kong. Mr. Leong is chairman of the Quality Assurance Council (a semi-autonomous body under the University Grants Committee), vice-chairman of The Hong Kong Housing Society, a member of the Board of Governors of the Chinese International School, and a member of the Executive Committee of The Community Chest of Hong Kong. He is an independent non-executive director of Hong Kong Aircraft Engineering Company Limited and a non-executive director of Mandarin Oriental International Limited. Mr. Leong obtained a Bachelor of Arts (subsequently a Master of Arts) from the University of Cambridge in 1982 and later qualified as a chartered accountant in England in 1985 and Canada in 1986. He is also a director of some of the members of the Company's group.

From left to right: (1st row) Christine Fang Meng-sang, Dr. Eddy Fong Ching, Edward Ho Sing-tin, James Kwan Yuk-choi, Lucia Li Li Ka-lai; (2nd row) Benjamin Tang Kwok-bun, Professor Chan Ka-keung, Ceajer *(Secretary for Financial Services and the Treasury)*, Professor Anthony Cheung Bing-leung *(Secretary for Transport and Housing)*, Wai Chi-sing *(Permanent Secretary for Development (Works))*, Ingrid Yeung Ho Poi-yan *(Commissioner for Transport)*

Pamela Chan Wong Shui 68, joined the Board as an independent non-executive Director since July 2013. Mrs. Chan is chairman of Hong Kong Deposit Protection Board, deputy chairman of the Hong Kong Baptist University Council, the executive committee of The Boys' and Girls' Clubs Association of Hong Kong and an independent director of the Travel Industry Council of Hong Kong. She had served on the board of The Community Chest of Hong Kong for many years, and is currently its vice-patron. Mrs. Chan is also currently patron of Consumers International. She was a member of the Law Reform Commission of Hong Kong and the HKSAR Government Scholarship Fund Steering Committee. Mrs. Chan is a graduate and an Honorary Fellow of The Chinese University of Hong Kong. She holds an LLB degree from Peking University.

Dr. Dorothy Chan Yuen Tak-fai 65, joined the Board as an independent non-executive Director since July 2013. Dr. Chan is currently the Deputy Director (Administration and Resources), Head of Centre for Logistics & Transport, and advisor of Centre for Degree Programmes of HKU School of Professional and Continuing Education. She is an independent non-executive director of AMS Public Transport Holdings Limited, a board member and the Chair of the Finance and Administration Committee of the Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies Limited, an advisor to the Serco Group (HK) Limited (from 1 January 2015) and a member of its Road Tunnel and Bridge Advisory Board and the Board of Governors of the Hong Kong Institute for Public Administration. Dr. Chan is also a Fellow of the Chartered Institute of Logistics and Transport ("CILT"). She was a member of the Social Welfare Advisory Committee (until 30 November 2014), the Advisory Council on Environment of the HKSAR Government (until 31 December 2014), and the International President of CILT (until 31 December 2014). Dr. Chan was previously the Deputy Commissioner for Transport of the Government from 1995 to 2002. From 2000 to 2002, she was the Alternate Director to the office of the Commissioner for Transport, a Non-executive Director of the Company. Dr. Chan holds a Bachelor of Social Sciences degree, a Master of Social Sciences degree in Public Administration and a Doctor of Philosophy degree from The University of Hong Kong.

Vincent Cheng Hoi-chuen 66, joined the Board as an independent non-executive Director since July 2009. Mr. Cheng is an independent non-executive director of CLP Holdings Limited, Great Eagle Holdings Limited, Hui Xian Asset Management Limited, China Minsheng Banking Corp., Ltd., Shanghai Industrial Holdings Limited, Wing Tai Properties Limited and Hutchison Whampoa Limited. He was an executive director of HSBC Holdings plc and the Advisor to its Group Chief Executive, and a non-executive director of Swire Properties Limited. In public service, Mr. Cheng was vice chairman of the China Banking Association, and is a member of the Advisory Committee on Post-service Employment of Civil Servants. He was chairman of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR Government, and a member of the

Board and Executive Directorate

Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. In 2008, Mr. Cheng was appointed a member of the National Committee of the 11th Chinese People's Political Consultative Conference (the 'CPPCC') and a senior adviser to the 11th Beijing Municipal Committee of the CPPCC. In 2005, Mr. Cheng was conferred the degree of Doctor of Social Science, *honoris causa*, by The Chinese University of Hong Kong and the degree of Doctor of Business Administration, *honoris causa*, by The Open University of Hong Kong. He was also awarded the Gold Bauhinia Star medal in 2005. Mr. Cheng holds a Bachelor of Social Science degree in Economics from The Chinese University of Hong Kong and a Master of Philosophy degree in Economics from The University of Auckland.

Christine Fang Meng-sang 56, is an independent non-executive Director and has been a Member of the Board since 2004. By training, Ms. Fang is a social worker and has a strong background in community service. She is a member of the Law Reform Commission of Hong Kong and a Professor of Practice at the Faculty of Social Sciences of The University of Hong Kong. Ms. Fang served on various government advisory committees, including The Hong Kong Housing Authority, the Steering Committee on Population Policy (until 30 November 2014), and the Independent Police Complaints Council (until 31 December 2014). She was also the former chief executive of The Hong Kong Council of Social Service.

Dr. Eddy Fong Ching 68, joined the Board as an independent non-executive Director on 13 January 2015. He is currently the chairman of the Council of The Open University of Hong Kong and the Process Review Panel in relation to the Regulation of Mandatory Provident Fund Intermediaries, and an independent non-executive director of Standard Chartered Bank (Hong Kong) Limited and Standard Chartered Bank (China) Limited. Dr. Fong was the non-executive chairman of the Securities and Futures Commission from 2006 to 2012. His past public duties included director of The Hong Kong Mortgage Corporation Limited, the Mandatory Provident Fund Schemes Authority and the Exchange Fund Investment Limited, and member of The Hong Kong Housing Authority, the Greater Pearl River Delta Business Council and the council of The Hong Kong Academy for Performing Arts. Dr. Fong was also a senior audit partner with PricewaterhouseCoopers specializing in capital markets work in Hong Kong and the Mainland until his retirement in 2003. He is a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. Dr. Fong graduated from the University of Kent in United Kingdom with a Bachelor degree in Social Science and was awarded an Honorary Doctor of Civil Law by University of Kent. He was appointed as a Justice of the peace in 1996 and was awarded Gold Bauhinia Star medal in 2008.

Edward Ho Sing-tin 76, is an independent non-executive Director and has been a Member of the Board since 1991. He is an architect and the Group Chairman of Wong Tung Group of companies. Mr. Ho was an elected member of the Legislative Council of Hong Kong, representing the architectural, surveying and planning functional constituency. He was also president of The Hong Kong Institute of Architects, and chairman of The Hong Kong Industrial Estates Corporation, the Antiquities Advisory Board, and the Hong Kong Philharmonic Society. He was also a member of The Hong Kong Housing Authority, the Town Planning Board, and the Hospital Authority respectively.

James Kwan Yuk-choi 63, joined the Board as an independent non-executive Director on 14 October 2014. Mr. Kwan is currently a non-executive director of Towngas China Company Limited. He was a senior adviser (until 31 January 2015), an executive director and the chief operating officer (until January 2013) of The Hong Kong and China Gas Company Limited and a director of Shenzhen Gas Corporation Limited (until September 2013). Mr. Kwan was the President of The Institution of Gas Engineers (currently known as The Institution of Gas Engineers and Managers) ('IGEM') in the United Kingdom in 2000/2001 and The Hong Kong Institution of Engineers ('HKIE') in 2004/2005. He was also a former member of the Construction Industry Council, the Transport Advisory Committee, the Vocational Training Council, and the Standing Committee on Disciplined Services Salaries and Conditions of Service of the Government of the HKSAR (until 31 December 2014). Mr. Kwan is a graduate of The University of Hong Kong and holds a Bachelor degree of Science in Engineering, and also a graduate of The Chinese University of Hong Kong and holds a Master degree in Business Administration. He was awarded an Honorary Fellowship by The Hong Kong University of Science and Technology in 2011 and is a Registered Professional Engineer (Gas), a Chartered Engineer, Honorary Fellow of the HKIE, Fellow of the Institution of Mechanical Engineers, Fellow of the IGEM, Fellow of the Energy Institute and Fellow of the Chartered Institution of Building Services Engineers of the United Kingdom.

Lucia Li Li Ka-lai 60, joined the Board as an independent non-executive Director on 14 October 2014. Mrs. Li is a retired civil servant. She was Director of Accounting Services of the Government of HKSAR from October 2003 to January 2009. Mrs. Li has been a member of the Public Service Commission since February 2012, a member of the Communications Authority since April 2012 and a member of a task force formed by the Commissioner for Innovation and Technology to follow up the Director of Audit's Report No. 61 with regard to the Small Entrepreneur Research Assistance Programme since 15 July 2014. She serves as a board member and treasurer of Chung Ying Theatre Company (HK) Limited. Mrs. Li is a Fellow member of the Hong Kong Institute of Certified Public Accountants. She holds a Master degree of Arts from The Chinese University of Hong Kong. Mrs. Li was awarded the Silver Bauhinia Star medal in 2009.

Professor Frederick Ma Si-hang 63, joined the Board as an independent non-executive Director since July 2013. Professor Ma has extensive experience in banking and the financial sector. He is currently an independent non-executive director and the chairman of the audit committee of Agricultural Bank of China Limited and Aluminum Corporation of China Limited, and an independent non-executive director of Hutchison Port Holdings Management Pte. Limited and FWD Group. Professor Ma is also a director of Husky Energy Inc., a non-executive director of COFCO Corporation and China Mobile Communications Corporation. He was previously the Secretary for Financial Services and the Treasury of the HKSAR Government and a Non-executive Director of the Company from 2002 to 2007. Professor Ma held the position of the Secretary for Commerce and Economic Development of the HKSAR Government from 2007 to July 2008. He was appointed as a member of the International Advisory Council of China Investment Corporation in July 2009. In January 2013, Professor Ma was appointed as a member of the Global Advisory Council of the Bank of America. He was appointed as an Honorary Professor of the School of Economics and Finance at The University of Hong Kong in October 2008, a Professor of Finance Practice of the Institute of Advanced Executive Education at The Hong Kong Polytechnic University in July 2012 and an Honorary Professor of Business Administration at The Chinese University of Hong Kong in August 2013. 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. Professor Ma was awarded the Gold Bauhinia Star medal in 2009 and was appointed a Justice of the Peace in 2010.

Alasdair George Morrison 66, joined the Board as an independent non-executive Director since July 2010. Mr. Morrison is also an independent non-executive director of Pacific Basin Shipping Limited. He was Senior Advisor of Citigroup Asia Pacific (until 16 January 2015), a member of the Financial Services Development Council of the HKSAR Government (until 16 January 2015), and a member of the Board of Grosvenor Group Limited in the United Kingdom, the Operations Review Committee of the Independent Commission Against Corruption, and the Hong Kong/European Union Business Cooperation Committee. From 1971 to 2000, he worked for the Jardine Matheson Group, where he was Group Managing Director from 1994 to 2000. Subsequently, Mr. Morrison was Chairman of Morgan Stanley Asia, based in Hong Kong, until April 2007, and he was also a member of Morgan Stanley's Management Committee and Chief Executive Officer of Morgan Stanley Asia. He is a graduate of Eton College and obtained a Bachelor of Arts (subsequently Master of Arts) from the University of Cambridge in 1971. Mr. Morrison also attended the Program for Management Development at Harvard Business School in 1983.

Ng Leung-sing 65, joined the Board as an independent non-executive Director since December 2007. Mr. Ng is vice chairman of Chiyu Banking Corporation, chairman of Bank of China (Hong Kong) Trustees Limited, a director of the BOCHK Charitable Foundation and a director of The Hong Kong Mortgage Corporation Limited. He is also an independent non-executive director of SmarTone Telecommunications Holdings Limited, Nine Dragons Paper (Holdings) Limited and Hanhua Financial Holding Co., Ltd.. Mr. Ng was a member of the Court of Lingnan University and general manager, Bank-wide Operation Department of Bank of China (Hong Kong) Limited. He is also a Hong Kong Deputy to the 10th, 11th and 12th National People's Congress, People's Republic of China, and a member of the Legislative Council of the Hong Kong Special Administrative Region. Mr. Ng is a graduate of University of East Asia, Graduate College, Macau and holds a diploma in Chinese Law.

Abraham Shek Lai-him 69, joined the Board as an independent non-executive Director since December 2007. Mr. Shek is an independent non-executive director and an audit committee member of each of Midas International Holdings Limited, Paliburg Holdings Limited, Lifestyle International Holdings Limited, Chuang's Consortium International Limited, NWS Holdings Limited, Regal Portfolio Management Limited, Eagle Asset Management (CP) Limited, ITC Corporation Limited, Country Garden Holdings Company Limited, SJM Holdings Limited, Dorsett Hospitality International Limited, China Resources Cement Holdings Limited and Cosmopolitan International Holdings Limited. He is also an independent non-executive director of Hop Hing Group Holdings Limited and Lai Fung Holdings Limited. Mr. Shek is chairman and an independent non-executive director of Chuang's China Investments Limited. He is also vice chairman, an independent non-executive director and a member of the audit committee of ITC Properties Group Limited. Mr. Shek was an independent non-executive director and an audit committee member of Titan Petrochemicals Group Limited and an independent non-executive director of Hsin Chong Construction Group Ltd. He was also vice chairman of the Independent Police Complaints Council (until 31 December 2014). Mr. Shek was appointed as Justice of the Peace in 1995 and was awarded the Gold Bauhinia Star medal in 2013. He is a graduate of The University of Sydney and holds a Bachelor of Arts degree and a Diploma in Education.

T. Brian Stevenson 70, is an independent non-executive Director and has been a Member of the Board since October 2002. He is an Advisor to BT Asia Pacific, Vice-President of the Sports Federation & Olympic Committee of Hong Kong, China and a director of The Hong Kong Mortgage Corporation Limited. Mr. Stevenson was a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, and Chairman of The Hong Kong Jockey Club (until 11 September 2014). He is a chartered accountant and holds law degrees from Glasgow and Hong Kong Universities. Mr. Stevenson was awarded the Silver Bauhinia Star medal in 1998. He is also a Justice of the Peace.

Board and Executive Directorate

Benjamin Tang Kwok-bun 63, joined the Board as an independent non-executive Director on 14 October 2014. Mr. Tang joined the Hong Kong Civil Service in 1974. From the late 1990s to early 2000s, he served as the Government Printer and the Commissioner of Insurance. Mr. Tang was appointed by the Central Government of the People's Republic of China as the Director of Audit of the HKSAR in December 2003. He retired from this post in July 2012 and was awarded the Gold Bauhinia Star medal by the Chief Executive of the HKSAR. He was appointed a Commissioner of the Commission of Inquiry Into the Collision of Vessels Near Lamma Island in 2012 and the Commission's report was presented to the Chief Executive in April 2013. Mr. Tang's current public services include member of the Centennial College Council and The University of Hong Kong's Audit Committee. He is also a member of the Operations Review Committee of the Independent Commission Against Corruption and Audit Committee of the Croucher Foundation. He is an independent non-executive director of Principal Insurance Company (Hong Kong) Limited and BE Reinsurance Limited. Mr. Tang graduated from The University of Hong Kong in Economics and Sociology. He also studied at the University of Oxford, London Business School and Toronto International Leadership Centre for Financial Sector Supervision.

Professor Chan Ka-keung, Ceajer 58, joined the Board as a non-executive Director since July 2007 after his appointment as the Secretary for Financial Services and the Treasury of the Government of the HKSAR with effect from 1 July 2007. He received his Bachelor's degree in economics from Wesleyan University in the US and both his M.B.A. and Ph.D. in finance from The University of Chicago. Professor Chan sits on the boards of several public bodies including the Airport Authority Hong Kong, Mandatory Provident Fund Schemes Authority, The Hong Kong Mortgage Corporation Limited and West Kowloon Cultural District Authority, and is the Chairman of the Kowloon-Canton Railway Corporation, and an ex-official member of the Financial Services Development Council in his official capacity. Professor Chan is also, in his official capacity, a director of Hongkong International Theme Parks Limited. Before joining the Government, Professor Chan was Dean of Business and Management of The Hong Kong University of Science and Technology from 1 July 2002.

Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung 62, joined the Board as a non-executive Director appointed by the Chief Executive of the HKSAR pursuant to the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) on 1 July 2012. Professor Cheung is also the Chairman of The Hong Kong Housing Authority, Board Member of Airport Authority Hong Kong and a director of The Hong Kong Mortgage Corporation Limited. Before joining the Government of the HKSAR, Professor Cheung held a number of public service positions including non-official member of the Executive Council, Chairman of the Consumer Council, member of The Hong Kong Housing Authority and Chairman of its Subsidised Housing Committee, member of the Greater Pearl River Delta Business Council and member of the Disaster Relief Fund Advisory Committee. He was also the President of The Hong Kong Institute of Education and Chair Professor of Public Administration until June 2012. Prior to 2008, he was a Professor at the Department of Public and Social Administration of the City University of Hong Kong, and was a member of the Legislative Council from 1995 to 1997. Professor Cheung is a graduate of The University of Hong Kong and holds a Bachelor degree in Social Sciences. He was further awarded a Master of Science degree in Public Sector Management by Aston University, the United Kingdom and a Doctor of Philosophy degree in Government by the London School of Economics and Political Science of the University of London, the United Kingdom.)

Permanent Secretary for Development (Works) ('PS for D') (Wai Chi-sing 59, joined the Board as a non-executive Director appointed by the Chief Executive of the HKSAR pursuant to the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) on 14 October 2014. Mr. Wai joined the Hong Kong Government in 1980 and has served in various bureaux and departments since then. Before being appointed to the post of the PS for D, he was the Director of the Highways Department. Mr. Wai obtained a degree in Civil Engineering from The University of Hong Kong in 1977, and a Master degree in Transportation Engineering in 1986 from Purdue University in the United States. He has professional qualifications in both civil and geotechnical engineering.)

Commissioner for Transport (Ingrid Yeung Ho Poi-yan 50, joined the Board as a non-executive Director appointed by the Chief Executive of the HKSAR pursuant to the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) on 8 October 2012. She joined the Hong Kong Government in June 1986 and has served in various bureaux and departments. Before joining the Transport Department, she was the Deputy Secretary for the Civil Service. As Commissioner for Transport, Mrs. Yeung is also a director of several transport-related companies including The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, New World First Bus Services Limited, New Lantao Bus Company (1973) Limited, Citybus Limited, The "Star" Ferry Company, Limited, New Hong Kong Tunnel Company Limited, Western Harbour Tunnel Company Limited, Tate's Cairn Tunnel Company Limited and Route 3 (CPS) Company Limited. She is a graduate of The University of Hong Kong and holds a Bachelor of Arts degree. She was further awarded a Doctor of Philosophy degree by The University of Hong Kong.)

Members of the Executive Directorate

Lincoln Leong Kwok-kuen Biographical details are set out on page 128.

Morris Cheung Siu-wa 53, has been the Human Resources Director and a Member of the Executive Directorate since 17 July 2012. He joined the Company in November 1983 as a Graduate Engineer, and has progressed over the years to senior and responsible positions in Operations and Projects Divisions. Mr. Cheung was seconded to Ngong Ping 360 Limited as its Managing Director from 2007 to 2009. In July 2009, he was appointed Chief of Operating and in January 2011, he took up the position of Chief of Operations Engineering. On 17 October 2011, Mr. Cheung was appointed as Human Resources Director – Designate. He has a wide range of management experience and deep knowledge of the Company. Mr. Cheung graduated from The University of Hong Kong with a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering. He was further awarded a Master of Business Administration degree by the City Polytechnic of Hong Kong (now called City University of Hong Kong) and a Master of Science degree in Financial Analysis by The Hong Kong University of Science and Technology. Mr. Cheung also completed the Advanced Management Programme at the Harvard Business School. He is a Fellow of The Hong Kong Institution of Engineers, The Institution of Engineering and Technology and The Chartered Institute of Logistics and Transport in Hong Kong, and the Chairman of the Asia Pacific Division of the International Association of Public Transport (UITP). Mr. Cheung is also a director of some of the members of the Company's group.

Dr. Jacob Kam Chak-pui 53, has been the Operations Director and a Member of the Executive Directorate since 1 January 2011. Dr. Kam joined the Company in 1995. During his service, he gained both technical and business experience through taking up different managerial positions in Operations, Projects and China & International Business Divisions. Dr. Kam is a member of Vocational Training Council. He holds a Bachelor of Science degree in Civil Engineering from the University of Southampton, and a doctoral degree in Mechanical Engineering from the University of London (University College London), both in United Kingdom. Dr. Kam also attended the Wharton Advanced Management Programme at the University of Pennsylvania, U.S.A. in 2005. He qualified as a chartered engineer in the United Kingdom in 1989. Dr. Kam is a member of both the Institution of Mechanical Engineers, United Kingdom, and The Hong Kong Institution of Engineers. He is also a chartered fellow of The Institution of Occupational Safety and Health, United Kingdom, and of The Chartered Institute of Logistics and Transport in Hong Kong. Dr. Kam is also a director of some of the members of the Company's group.

Stephen Law Cheuk-kin 52, has been the Finance Director and a Member of the Executive Directorate since 2 July 2013. Mr. Law is responsible for the financial management of all of the Company's affairs, including financial planning and control, budgeting, accounting and reporting, and the treasury function. He also leads the Company's information technology, investor relations as well as materials & stores functions. Prior to joining the Company, Mr. Law was the chief financial officer of the Guoco Group Limited, Hong Kong. Prior to that, he also held various senior positions in TPG Growth Capital (Asia) Limited, the Morningside Group and the Wheelock Group. Mr. Law was previously, until 30 September 2012, a non-executive director of China NT Pharma Group Company Limited and an alternate director in MIE Holdings Corporation. He is currently a council member and a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. Mr. Law holds a Bachelor degree in Science (Civil Engineering) from the University of Birmingham, the United Kingdom and also received a Master degree in Business Administration from the University of Hull, the United Kingdom. He is also a director of some of the members of the Company's group.

Gillian Elizabeth Meller 42, has been the Legal Director & Secretary and a Member of the Executive Directorate since 1 September 2011. She joined the Company in August 2004 as Legal Adviser and was appointed Deputy Legal Director in December 2010. Ms. Meller is responsible for the provision of commercial legal support and advice to all aspects of the Company's rail and property operations in Hong Kong, the Mainland of China and overseas, the Company's new rail and property projects in Hong Kong and its international growth business. She is also responsible for the strategic management of the Company's insurance programmes, its governance and risk management, and corporate responsibility functions and for overseeing the Company's procurement and contracts department. Before joining the Company, Ms. Meller was Director of Legal Services for Metronet Rail SSL Limited in London, the United Kingdom, and a solicitor at CMS Cameron McKenna in London, the United Kingdom. She graduated from Hertford College, University of Oxford in the United Kingdom and holds a Master of Arts degree in Geography. Ms. Meller then obtained her postgraduate qualifications in law from The College of Law in Guildford, the United Kingdom. She also completed the Senior Executive Programme in Asia offered by the University of Michigan in 2009 and the Stanford Executive Programme at Stanford University, United States of America in 2010. Ms. Meller is qualified to practise as a solicitor in Hong Kong and England and Wales. She is also a director of some of the members of the Company's group.

Board and Executive Directorate

David Tang Chi-fai 50, has been the Property Director and a Member of the Executive Directorate since 1 October 2011. Mr. Tang joined the Company in August 2004 as Contracts & Commercial Manager – China Business and was appointed Deputy Property Director on 1 July 2011. He is responsible for all of the property development projects of the Company in Hong Kong from layout planning, scheme design through to project construction completion, as well as asset and leasing management of investment properties (including shopping malls and offices) and property management of office buildings and residential units. During his service with the Company, he held senior management positions in the Legal and Procurement Division, and the China and International Business Division before he was transferred to Property Division in 2009. Before joining the Company, Mr. Tang was Commercial Manager – Hong Kong & China Region, and Deputy General Manager – Hong Kong & China Region for Acciona, S.A. He had almost 20 years' working experience in contract administration, project management and quantity surveying in the United Kingdom and Hong Kong after starting his career as a Group Trainee of George Wimpey Plc. Mr. Tang graduated from the University of the West of England (formerly Bristol Polytechnic) in the United Kingdom and holds a Bachelor of Science (Honours) degree in Quantity Surveying. He also completed the International Executive Programme at INSEAD (an executive business school), France in 2006. Mr. Tang is a Chartered Surveyor and a member of the Royal Institution of Chartered Surveyors and The Hong Kong Institute of Surveyors. He is a non-executive director of the Urban Renewal Authority of the HKSAR Government, and also a director of some of the members of the Company's group and an alternate director of two members of the Company's group.

Dr. Philco Wong Nai-keung 60, has been the Projects Director and a Member of the Executive Directorate since 28 October 2014. He joined the Company in November 2011 as General Manager – Shatin to Central Link and was appointed as Projects Director – Designate on 18 August 2014. Dr. Wong has over 35 years of experience in business management, implementation and delivery of large-scale infrastructure projects in Hong Kong, the Mainland of China and overseas. He is the chairman of Engineering Discipline, Construction Collaborative Degree

From Left to Right:
Wong May-kay, Dr. Jacob Kam Chak-pui,
Stephen Law Cheuk-kin, Dr. Philco Wong Nai-keung,
Lincoln Leong Kwok-kuen, Jeny Yeung Mei-chun,
Morris Cheung Siu-wa, Gillian Elizabeth Meller,
David Tang Chi-fai

Programmes, Advisory Committee of Vocational Training Council and a member of each of Occupational Deafness Compensation Board, the Committee on Procurement and Subcontracting of Construction Industry Council, and Engineers Registration Board of The Hong Kong Institution of Engineers ('HKIE'). Dr. Wong is an Adjunct Professor of School of Civil Engineering, Tsinghua University, Beijing and an External Academic Advisor of City University of Hong Kong for the Bachelor of Engineering programme in Building Engineering (Construction Engineering and Management). He is also the chairman of the Benevolent Fund Committee of The Lighthouse Club. Dr. Wong holds a Bachelor of Science degree in Civil Engineering from the University of Manitoba, Canada and a Master of Engineering degree in Construction Management and Engineering from the University of Toronto, Canada. He was awarded a Doctor of Business Administration degree by Curtin University, Australia. Dr. Wong is a fellow member of HKIE and the Institution of Civil Engineers in the United Kingdom. He is also a director of some of the members of the Company's group.

Jeny Yeung Mei-chun 50, has been the Commercial Director and a Member of the Executive Directorate since 1 September 2011. She joined the Company in November 1999 as the Marketing Manager and was then appointed as General Manager – Marketing & Station Commercial until August 2011. Ms. Yeung has been a member of the Company's Executive Committee since 2004. She is responsible for the marketing of the Company's railway services as well as managing and enhancing the MTR Brand. Ms. Yeung is also responsible for the management of the various non fare businesses within the stations. Before joining the Company, she held various marketing and business development positions in Standard Chartered Bank (Hong Kong) Limited and Citibank in Hong Kong. Ms. Yeung graduated from The University of Hong Kong and holds a Bachelor of Social Sciences degree majoring in Management Studies. In 2005, she completed the Oxford / HKU Senior Executive Programme in Corporate Leadership offered by the University of Oxford, United Kingdom and The University of Hong Kong, the Proteus Executive Education programme offered by London Business School, United Kingdom and the Senior Executive Programme in Asia offered by the University of Michigan, United States of America. Ms. Yeung is a fellow of The Chartered Institute of Marketing. She is also a Member of the Marketing Management Committee of The Hong Kong Management Association, the Advisory Committee on Publicity and Public Education in Innovation and Technology of the Innovation and Technology Commission of the Government of the HKSAR, and the Hong Kong Trade Development Council Infrastructure Development Advisory Committee. Ms. Yeung is a director of Hong Kong Cyberport Management Company Limited. She is also a director of some of the members of the Company's group.

Members of the Executive Committee

The Executive Committee comprises all Members of the Executive Directorate (whose biographies are on pages 133 to 135), and General Manager – Corporate Relations.

Wong May-kay 52, has been the General Manager – Corporate Relations and a Member of the Executive Committee since 10 January 2013. Before joining the Company for the first time in 1998, Ms. Wong had more than a decade of experience as a journalist in Hong Kong and in Canada. She was appointed Deputy General Manager – Corporate Relations in 2008. As General Manager – Corporate Relations, Ms. Wong is responsible for formulating and directing the implementation of corporate relations strategies and policies to enhance stakeholder and public understanding of the Company's commitment and efforts to provide world-class, sustainable services for the shared success of the communities it serves in and outside of Hong Kong. Her responsibilities include stakeholder communications, community and customer engagement and corporate events. Ms. Wong graduated from Carleton University in Ottawa, Canada with a Bachelor of Journalism degree.

Key Corporate Management

Jay Walder
Chief Executive Officer (up to 15 August 2014)

Lincoln Leong Kwok-kuen[1]
Chief Executive Officer (wef. 16 March 2015)

Operations

Jacob Kam Chak-pui
Operations Director

Adi Lau Tin-shing
Deputy Director – Operating

Tony Lee Kar-yun
Chief of Operations Engineering

Francis Li Shing-kee
Head of Operating – East Region

Alan Cheng Kwan-hing
Head of Operating – West Region

William Leung Hon-wai
Head of Operations Strategic Business Management

Philip Wong Wai-ming
General Manager – Technical & Engineering Services

Terry Wong Wing-kin
General Manager – Infrastructure Maintenance

Richard Keefe
General Manager – Rolling Stock Fleet

Chan Chi-kit
Head of Workshops

Nelson Ng Wai-hung
General Manager – Safety & Quality

Choi Tak-tsan
General Manager – Planning & Development

Carmen Li Wai-ching
General Manager – Intercity

China & International Business

Yi Min
Chief Executive Officer – China Business

Richard Wong Shiu-ki
General Manager – Beijing & Tianjin

Wilfred Lau Cheuk-man
General Manager – Hangzhou

John Woo Shui-wah
General Manager – Shenzhen Line 4

Victor Chan Hin-fu
General Manager – China Property

Andy Tong Sze-hang
General Manager – Tianjin Property

David Leung Chuen-choi
General Manager – Special Duties
(China & International Business/Operations)

Terry Wong Ping-sau
General Manager – Corporate Finance & Development

Wilson Shao Shing-ming
Deputy General Manager – China Hub

Oscar Ho Ka-wa
Deputy General Manager – China Property

John Kwok Chor-kwong
Deputy General Manager – Operations (Beijing)

Chan Keng-sam
Head of Engineering (Beijing)

Lawrence Chung Kwok-leung
Deputy General Manager – Projects (Beijing)
(wef. 19 January 2015)

Ivan Lai Ching-kai
Head of Operations – China & International Business

Jeremy Long
Chief Executive Officer – European Business

Steve Murphy
Managing Director (Crossrail Concession)

Ronald Cheng Kin-wai
Chief Executive Officer – Metro Trains Sydney

Tsui King-cheong
Trains and Systems Director
(North West Rail Link-Project)

Projects

Chew Tai-chong
Projects Director (up to 27 October 2014)

Philco Wong Nai-keung
Projects Director (wef. 28 October 2014)

James Chow So-hung
General Manager – KTE

Lee Tze-man
Acting General Manager – SCL

Aidan Rooney
Acting General Manager – SCL Civil – EWL

Clement Ngai Yum-keung
Chief Design Manager – SCL

David Salisbury
Project Manager – SCL Civil – EWL 1

Jason Wong Chi-chung
Project Manager – SCL Civil – EWL 2

Neil Ng Wai Hang
Project Manager – SCL Civil – NSL 1
(wef. 19 January 2015)

Brendan Reilly
Project Manager – SCL Civil – NSL 2

Mark Cuzner
General Manager – WIL/SIL

Dono Tong Kwok-wai
Project Manager – WIL/SIL E&M

Stephen Hamill
Project Manager – WIL Civil

Ken Wong Kin-wai
Project Manager – SIL Civil

Simon Tang Wai-yung
General Manager – XRL

Alvin Luk Wing-kwok
General Manager – XRL E&M

Andrew Watt
Lead Project Manager – XRL Civil (wef. 2 March 2015)

Tommy Lam Choi-fung
Project Manager – XRL E&M

Alan Boden
Project Manager – XRL Technical Support & Coordination

Mark Lomas
Project Manager – XRL Terminus (Controls)

Calum Smith
Project Manager – XRL Terminus (Production)

Bill Clowes
Project Manager – XRL Tunnels

Patrick Lun Tak-wo
General Manager – Projects Management Office

Henry Young
Chief Programming Engineer

Barry Hill
NRT Design & Delivery Manager

Chan Chun-sing
Project Manager – Rolling Stock

Terence Law Che-chung
Project Manager – Signalling

Gordon Lam Bik-shun
Deputy Project Manager – Signalling
(wef. 19 January 2015)

Stephen Chik Wai-keung
Head of Project Engineering

Andrew Mead
Chief Architect

Peter Leung Man-fat
Chief Civil & Planning Engineer

Wong Sha
Chief E&M Engineer

Leung Chi-lap
Project Manager – Operations Projects

Stephen Howarth
Head of Project Safety

Property

David Tang Chi-fai
Property Director

James Hor Wai-hong
Head of Property Development

Wilfred Yeung Sze-wai
Head of Property Project

Steve Yiu Chin
Head of Town Planning

Sammy Yu Ka-yin
Head of Property Management

Betty Leong Sin-ling
Head of Investment Property

Finance

Stephen Law Cheuk-kin
Finance Director

Lisa Seto Siu-wah
General Manager – Financial Control

Jeff Kwan Wai-hung
Treasurer

Ted Suen Yiu-tat
Head of Information Technology

Candy Ng Chui-lok
Head of Investor Relations and Retirement Benefits

Legal & Procurement

Gillian Meller
Legal Director & Secretary

Stephen Griffin
General Manager – Procurement & Contracts

Teresa Tang Sui-ching
Procurement & Contracts Manager –
Operations & General

Scott Mackenzie
Procurement & Contracts Manager – Projects

Raymond Au Koon-shan
Principal Contracts Administration Manager – SCL

Barry Melbourne
Principal Contracts Administration Manager – XRL

Cecilia Cheng Yuet-fong
General Manager – Governance & Risk Management

Brian Downie
Legal Manager – General

Linda Li Sau-lin
Legal Manager – Property

Human Resources & Administration

Morris Cheung Siu-wa
Human Resources Director

Alison Wong Yuen-fan
General Manager – Human Resources

Daniel Shim Ming-yi
General Manager – Human Resources
(China/International & Development)

Commercial & Marketing

Jeny Yeung Mei-chun
Commercial Director

Eddie So Chung-tat
General Manager – Special Projects (Marketing)
(up to 14 March 2015)

Raymond Yuen Lap-hang
General Manager – Marketing & Planning
(wef. 20 January 2015)

Jacqueline Tong Wai-Ling
General Manager – Branding and China & International
Business Marketing (wef. 1 February 2015)

Corporate Relations

May Wong May-kay
General Manager – Corporate Relations

Maggie So Man-kit
Deputy General Manager – Projects & Property
Communications

Internal Audit

Denise Ng Kee Wing-man
Head of Internal Audit

1 *Lincoln Leong Kwok-kuen was appointed as the Deputy Chief Executive Officer from 16 July 2012 to 15 August 2014 and as the Acting Chief Executive Officer from 16 August 2014 to 15 March 2015.*

Report of the Members of the Board

The Members of the Board have pleasure in submitting their Report and the audited statement of Accounts for the financial year ended 31 December 2014.

Principal Activities of the Group

The Group is principally engaged in the following core businesses – railway design, construction, operation, maintenance and investment in Hong Kong, the Mainland of China and a number of major overseas cities; project management in relation to railway and property development businesses; station commercial business including leasing of station retail space, leasing of advertising space inside trains and stations, and enabling of telecommunication services on the railway system in Hong Kong; property business including property development and investment, management and leasing management of investment properties (including shopping malls and offices) in Hong Kong and the Mainland of China; and investment in Octopus Holdings Limited.

The principal activities of the Company's subsidiaries and associated companies as at 31 December 2014 are set out in notes 28 and 29 to the accounts.

Dividend

The Board has recommended a final dividend of HK$0.80 per share to be payable to shareholders whose names appear on the Register of Members of the Company as at the close of business on 1 June 2015. Subject to approval by the shareholders at the forthcoming Annual General Meeting ("AGM"), the 2014 final dividend, with a scrip dividend option (except for shareholders with registered addresses in the United States of America or any of its territories or possessions), is expected to be distributed on 17 July 2015.

Members of the Board

Members of the Board who served during the year were and up to the date of this Report are:

Non-executive Directors
Dr. Raymond Ch'ien Kuo-fung (Chairman)
Professor Chan Ka-keung, Ceajer
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)
Permanent Secretary for Development (Works) (Mr. Wai Chi-sing) (from 14 October 2014)
Commissioner for Transport (Mrs. Ingrid Yeung Ho Poi-yan)

Independent Non-executive Directors
Mrs. Pamela Chan Wong Shui
Dr. Dorothy Chan Yuen Tak-fai
Mr. Vincent Cheng Hoi-chuen
Ms. Christine Fang Meng-sang
Dr. Eddy Fong Ching (from 13 January 2015)
Mr. Edward Ho Sing-tin
Mr. James Kwan Yuk-choi (from 14 October 2014)
Mrs. Lucia Li Li Ka-lai (from 14 October 2014)
Professor Frederick Ma Si-hang
Mr. Alasdair George Morrison
Mr. Ng Leung-sing
Mr. Abraham Shek Lai-him
Mr. T. Brian Stevenson
Mr. Benjamin Tang Kwok-bun (from 14 October 2014)

Executive Director
Mr. Lincoln Leong Kwok-kuen (Chief Executive Officer) (from 16 March 2015)
Mr. Jay Herbert Walder (Chief Executive Officer) (until 15 August 2014)

At the AGM on 8 May 2014 and pursuant to the Articles of Association, Mr. Alasdair George Morrison, Mr. Ng Leung-sing, Mr. Abraham Shek Lai-him, Mrs. Pamela Chan Wong Shui, Dr. Dorothy Chan Yuen Tak-fai and Professor Frederick Ma Si-hang retired under the Articles of Association and were re-elected/elected as Members of the Board.

At the 2015 AGM and in accordance with the Articles of Association, Dr. Raymond Ch'ien Kuo-fung, Mr. T. Brian Stevenson and Professor Chan Ka-keung, Ceajer will retire by rotation pursuant to Articles 91 and 92(a) of the Articles of Association. Dr. Eddy Fong Ching, Mr. James Kwan Yuk-choi, Mr. Lincoln Leong Kwok-kuen, Mrs. Lucia Li Li Ka-lai, and Mr. Benjamin Tang Kwok-bun, who were appointed by the Board after the 2014 AGM, will retire pursuant to Article 89 of the Articles of Association. Mr. Stevenson will not stand for re-election at the 2015 AGM. The other seven retiring Directors will offer themselves for re-election/election at the 2015 AGM. Please also refer to the Circular to be sent together with this Report.

Pursuant to Article 92(b) of the Articles of Association, the Permanent Secretary for Development (Works) (Mr. Wai Chi-sing), who was appointed to the Board pursuant to Section 8 of the MTR Ordinance, is not required to retire by rotation.

Biographical details for Board Members are set out on pages 128 to 132.

Alternate Directors

The Alternate Directors in office during the year were and up to the date of this Report are:

- For Professor Chan Ka-keung, Ceajer: (i) Ms. Mable Chan; and (ii) Ms. Elizabeth Tse Man-yee;
- For the office of the Secretary for Transport and Housing: (i) the Under Secretary for Transport and Housing (Mr. Yau Shing-mu); (ii) the Permanent Secretary for Transport and Housing (Transport) (Mr. Joseph Lai Yee-tak); and (iii) the Deputy Secretaries for Transport and Housing (Transport) (Ms. Rebecca Pun Ting-ting and Mr. Andy Chan Shui-fu);
- For the office of the Permanent Secretary for Development (Works): the Deputy Secretary for Development (Works) (Mr. Chan Chi-ming) (from 20 October 2014); and
- For the Commissioner for Transport: the Deputy Commissioner for Transport/Transport Services and Management (Miss Cinderella Law Fung-ping).

Executive Directorate

The Members of the Executive Directorate who served during the year were and up to the date of this Report are:

Mr. Lincoln Leong Kwok-kuen (Chief Executive Officer and a Member of the Board) (from 16 March 2015) (formerly Acting Chief Executive Officer (until 15 March 2015) and Deputy Chief Executive Officer (until 15 August 2014))

Mr. Jay Herbert Walder (Chief Executive Officer and a Member of the Board) (until 15 August 2014)

Mr. Morris Cheung Siu-wa (Human Resources Director)

Mr. Chew Tai Chong (Projects Director) (until 27 October 2014)

Dr. Jacob Kam Chak-pui (Operations Director)

Mr. Stephen Law Cheuk-kin (Finance Director)

Ms. Gillian Elizabeth Meller (Legal Director & Secretary)

Mr. David Tang Chi-fai (Property Director)

Dr. Philco Wong Nai-keung (Projects Director) (from 28 October 2014)

Ms. Jeny Yeung Mei-chun (Commercial Director)

Biographical details for Members of the Executive Directorate are set out on pages 133 to 135.

Internal Audit

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

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

The Head of Internal Audit reports directly to the Chief Executive Officer and the Audit Committee.

Business Ethics

Please refer to page 118.

Policies

The Board has adopted the following risk management strategies and policies:

A Construction and Insurance Risk Management Strategy;

B Finance Risk Management Strategy;

C Treasury Risk Management Strategy;

D Safety Risk Management Strategy;

E Enterprise Risk Management Strategy;

F Security Risk Management Policy; and

G Environmental Risk Management Policy.

In addition, the Board has also adopted a Shareholders' Communication Policy and a Board Diversity Policy.

Public Float

The Stock Exchange granted to the Company, at the time of its listing on the Main Board of the Stock Exchange 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 issued share capital 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.

Bank Overdrafts, Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2014 amounted to HK$20,507 million (2013: HK$24,511 million). Particulars of borrowings are set out in note 37 to the accounts.

Accounts

The state of affairs of the Company and the Group as at 31 December 2014 and of the Group's results, changes in equity and cash flows for the year are set out in the accounts on pages 167 to 254.

Ten-Year Statistics

A summary of the results and of the assets and liabilities of the Group together with some major operational statistics for the last ten years are set out on pages 92 to 93.

Fixed Assets and Railway Construction in Progress

Movements in fixed assets and railway construction in progress during the year are set out in notes 20 to 22 and 24 to the accounts respectively.

Movements in Reserves

Movements in reserves during the year are set out in the Consolidated Statement of Changes in Equity and notes 45 and 46 to the accounts.

Share Capital

As at 31 December 2013, the authorised share capital of the Company was HK$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,798,541,650 of which were issued and credited as fully paid.

During the year, the Company issued a total of 27,992,697 Ordinary Shares. Of this number:

A 84,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's New Joiners Share Option Scheme (as referred in note 49A(i) to the accounts). In respect of each Ordinary Share issued, the relevant exercise prices per share of options were HK$19.732 and HK$20.66 to the Company;

B 14,378,200 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's 2007 Share Option Scheme (as referred in note 49A(ii) to the accounts). In respect of each Ordinary Share issued, the relevant exercise prices per share of options were HK$18.30, HK$26.52, HK$26.85, HK$26.96, HK$27.48, HK$27.60, HK$27.73, HK$28.84 and HK$31.40 to the Company;

C 11,595,971 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the final dividend of the Company for the year ended 31 December 2013 (the relevant cash dividend was HK$0.67 per Ordinary Share); and

D 1,934,026 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the interim dividend of the Company for the six months' period ended 30 June 2014 (the relevant cash dividend was HK$0.25 per Ordinary Share).

As at 31 December 2014, a total of 5,826,534,347 Ordinary Shares were issued and credited as fully paid. The concepts of nominal value of a share and authorised share capital in respect of a Hong Kong incorporated company were abolished when the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) came into operation on 3 March 2014.

Details of the movements in the Company's share capital during the year ended 31 December 2014 are set out in note 45 to the accounts.

Purchase, Sale or Redemption of Listed Securities

The Company's wholly owned subsidiary redeemed its US$600 million bonds at par on 21 January 2014. The bonds were listed on the London Stock Exchange prior to the redemption.

Saved as disclosed above, the Group did not purchase, sell or redeem any of the Group's listed securities during the year ended 31 December 2014.

Properties

Particulars of the principal investment properties and properties held for sale of the Company are shown on pages 62 to 63.

Donations

During the year, the Company donated approximately HK$15.4 million (2013: approximately 6.7 million) to charitable and other organisations.

MTR Hong Kong Race Walking 2014 was cancelled, following a careful assessment of the uncertain situation caused by activities along the race circuit and in its vicinity. Nevertheless, the Company used its own resources to make a special donation of HK$10 million to the Hospital Authority to support community health projects. In addition, some organisations and donors continued to make donations, resulting in an additional HK$950,000 to be raised in the name of the event (including over HK$35,000 from MTR staff) for the Hospital Authority Health InfoWorld to promote good health.

The Company raised funds from staff for charitable causes with a total cash donation of over HK$239,000 (2013: over HK$363,000) through different activities:

- Over HK$198,000 was raised for the Community Chest through CARE Scheme, Green Day, Corporate Challenge, Skip Lunch Day and Dress Casual Day; and
- Over HK$41,000 was raised for Dress Pink Day for the Hong Kong Cancer Fund.

Reporting and Monitoring

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board. Monthly results of the Company's operations, businesses and projects are reported against the budget to the Board and updated forecasts for the year are prepared regularly.

Treasury Management

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt profile with reference to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debt, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's financing requirements and the market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's exposure to interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

Major financing transactions and guidelines for derivatives transactions, including the credit risk management framework, are approved at the Board level.

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.

Bonds and Notes Issued

The Group issued notes amounting to HK$550 million equivalent during the year ended 31 December 2014, details of which are set out in note 37C to the accounts. Such notes were issued in order to meet the Group's general corporate funding requirements, including the financing of new capital expenditure and the refinancing of maturing debts.

Computer Processing

There are defined procedures, controls and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2008. Disaster recovery rehearsal on critical applications is conducted annually. In addition, the Company has been certified with ISO 27001:2005 on the Information Security Management System that complies with the required standard for the comprehensive scope of IT services operation.

Interests in Contracts of Members of the Board and the Executive Directorate

There was no contract of significance, to which the Company or any of its subsidiaries was a party and in which a Member of the Board or a Member of the Executive Directorate had a material interest (whether direct or indirect), which subsisted at the end of the year or at any time during the year (except for those connected transactions and continuing connected transactions between the Company and the Government (and/or its associates) which are described on pages 148 to 164).

Board Members' and Executive Directorate's Interests in Shares

As at 31 December 2014, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in Shares and Underlying Shares of the Company

Member of the Board and/or the Executive Directorate	Number of Ordinary Shares held: Personal* interests	Family† interests	Other interests	Corporate interests	Derivatives – Share Options: Personal* interests	Derivatives – Other: Personal* interests	Total interests	Percentage of aggregate interests to total number of voting shares in issue
Raymond Ch'ien Kuo-fung	53,543	–	–	–	–	–	53,543	0.00092
Pamela Chan Wong Shui	9,002	1,675	–	–	–	–	10,677	0.00018
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	–	3,350	0.00006
Christine Fang Meng-sang	1,712	–	–	–	–	–	1,712	0.00003
Lucia Li Li Ka-lai (Note 2)	–	1,614 (Note 2)	2,215 (Note 2)	–	–	–	3,829	0.00007
Frederick Ma Si-hang	–	70,000 (Note 3)	70,000 (Note 3)	–	–	–	70,000	0.00120
T. Brian Stevenson	5,313	–	–	–	–	–	5,313	0.00009
Ingrid Yeung Ho Poi-yan	1,116	–	–	–	–	–	1,116	0.00002
Lincoln Leong Kwok-kuen	363,000	–	–	23,000 (Note 4)	797,000 (Note 1)	–	1,183,000	0.02030
Morris Cheung Siu-wa	13,705	–	–	–	467,500 (Note 1)	–	481,205	0.00826
Jacob Kam Chak-pui	2,283	–	–	–	659,500 (Note 1)	–	661,783	0.01136
Stephen Law Cheuk-kin	–	–	–	–	196,000 (Note 1)	–	196,000	0.00336
Gillian Elizabeth Meller	–	–	–	–	497,500 (Note 1)	–	497,500	0.00854
David Tang Chi-fai	617	–	–	–	497,000 (Note 1)	–	497,617	0.00854
Philco Wong Nai-keung (Note 5)	–	–	–	–	187,500 (Note 1)	–	187,500	0.00322
Jeny Yeung Mei-chun	13,400	–	–	–	543,000 (Note 1)	–	556,400	0.00955

Notes

1. *Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the 2007 Share Option Scheme.*
2. *Mrs. Lucia Li Li Ka-lai was appointed as an independent non-executive Director of the Company with effect from 14 October 2014. The 1,614 shares are held by her spouse and 2,215 shares are jointly held by Mrs. Li and her spouse.*
3. *The 70,000 shares are indirectly held by The Ma Family Trust established by Professor Frederick Ma Si-hang for himself and his family of which his spouse is also a beneficiary.*
4. *The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr. Lincoln Leong Kwok-kuen.*
5. *Dr. Philco Wong Nai-keung was appointed as the Projects Director and a Member of the Executive Directorate of the Company with effect from 28 October 2014.*

* *Interests as beneficial owner*

† *Interests of spouse or child under 18 as beneficial owner*

Options to subscribe for Ordinary Shares granted under the New Joiners Share Option Scheme, as referred to in Notes 10B(i) and 49A(i) to the Accounts

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2014	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2014	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
David Tang Chi-fai	15/5/2006	213,000	25/4/2007 – 25/4/2016	22,000	–	–	–	22,000	20.66	–	31.60
Other eligible employees	5/10/2006	94,000	29/9/2007 – 29/9/2016	62,500	–	–	–	62,500	19.732	–	31.20

Notes

1 *No option may be exercised later than ten years after its date of offer and no option may be offered to be granted more than five years after the adoption of the New Joiners Share Option Scheme ("New Option Scheme") on 16 May 2002.*

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 New 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 1% of the shares of the Company in issue at the date of offer in respect of such option under the New Option Scheme.*

3 *The proportion of underlying shares in respect of which the above share options will vest is as follows:*

Date	*Proportion of underlying shares in respect of which an option is vested*
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	*none*
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	*one-third*
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	*two-thirds*
From the third Offer Anniversary and thereafter	*all*

4. *All options granted under the New Option Scheme had either been exercised or lapsed as at 31 December 2014.*

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme, as referred to in Notes 10B(ii) and 49(A)(ii) to the Accounts

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2014	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2014	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Lincoln Leong Kwok-kuen	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	170,000	27.60	–	31.15
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–
	30/3/2012	201,000	23/3/2013 – 23/3/2019	201,000	–	67,000	–	–	27.48	201,000	–
	6/5/2013	256,000	26/4/2014 – 26/4/2020	256,000	–	85,500	–	–	31.40	256,000	–
Morris Cheung Siu-wa	11/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	21/7/2010	35,000	28/6/2011 – 28/6/2017	35,000	–	–	–	–	27.73	35,000	–
	20/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	–	28.84	65,000	–
	30/3/2012	122,000	23/3/2013 – 23/3/2019	122,000	–	41,000	–	–	27.48	122,000	–
	6/5/2013	180,500	26/4/2014 – 26/4/2020	180,500	–	60,500	–	–	31.40	180,500	–

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme, as referred to in Notes 10B(ii) and 49(A)(ii) to the Accounts *(continued)*

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2014	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2014	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Jacob Kam Chak-pui	13/12/2007	75,000	10/12/2008 – 10/12/2014	75,000	–	–	–	75,000	27.60	–	31.25
	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	21/7/2010	50,000	28/6/2011 – 28/6/2017	50,000	–	–	–	–	27.73	50,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–
	30/3/2012	172,000	23/3/2013 – 23/3/2019	172,000	–	57,500	–	–	27.48	172,000	–
	6/5/2013	202,500	26/4/2014 – 26/4/2020	202,500	–	67,500	–	–	31.40	202,500	–
Stephen Law Cheuk-kin	1/11/2013	196,000	25/10/2014 – 25/10/2020	196,000	–	65,500	–	–	29.87	196,000	–
Gillian Elizabeth Meller	12/12/2007	55,000	10/12/2008 – 10/12/2014	18,000	–	–	–	18,000	27.60	–	30.70
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	17/12/2010	90,000	16/12/2011 – 16/12/2017	90,000	–	–	–	–	28.84	90,000	–
	30/3/2012	158,500	23/3/2013 – 23/3/2019	158,500	–	53,000	–	–	27.48	158,500	–
	6/5/2013	184,000	26/4/2014 – 26/4/2020	184,000	–	61,500	–	–	31.40	184,000	–
David Tang Chi-fai	13/12/2007	65,000	10/12/2008 – 10/12/2014	65,000	–	–	–	65,000	27.60	–	31.60
	12/12/2008	65,000	8/12/2009 – 8/12/2015	43,000	–	–	–	22,000	18.30	21,000	31.60
	15/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	–	28.84	65,000	–
	30/3/2012	163,500	23/3/2013 – 23/3/2019	163,500	–	54,500	–	–	27.48	163,500	–
	6/5/2013	182,500	26/4/2014 – 26/4/2020	182,500	–	61,000	–	–	31.40	182,500	–
Philco Wong Nai-keung	30/3/2012	70,500	23/3/2013 – 23/3/2019	70,500	–	23,500	–	47,000	27.48	23,500	29.90
(Note 4)	6/5/2013	81,000	26/4/2014 – 26/4/2020	81,000	–	27,000	–	–	31.40	81,000	–
	30/5/2014	83,000	23/5/2015 – 23/5/2021	–	83,000	–	–	–	28.65	83,000	–
Jeny Yeung Mei-chun	12/12/2007	75,000	10/12/2008 – 10/12/2014	75,000	–	–	–	75,000	27.60	–	30.70
	10/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	–	–	–	18.30	65,000	–
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	–	28.84	65,000	–
	30/3/2012	161,000	23/3/2013 – 23/3/2019	161,000	–	54,000	–	–	27.48	161,000	–
	6/5/2013	187,000	26/4/2014 – 26/4/2020	187,000	–	62,500	–	–	31.40	187,000	–
Jay Herbert Walder	30/3/2012	391,500	23/3/2013 – 23/3/2019	391,500	–	130,500	–	–	27.48	391,500	–
(Note 5)	6/5/2013	497,000	26/4/2014 – 26/4/2020	497,000	–	166,000	–	–	31.40	497,000	–
Chew Tai Chong	18/6/2009	85,000	12/6/2010 – 12/6/2016	85,000	–	–	–	–	24.50	85,000	–
(Note 6)	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–
	30/3/2012	184,500	23/3/2013 – 23/3/2019	184,500	–	61,500	–	–	27.48	184,500	–
	6/5/2013	225,500	26/4/2014 – 26/4/2020	225,500	–	75,500	–	–	31.40	225,500	–

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme, as referred to in Notes 10B(ii) and 49(A)(ii) to the Accounts *(continued)*

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2014	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2014	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	12/12/2007	2,365,000	10/12/2008 – 10/12/2014	650,000	–	–	45,000	605,000	27.60	–	30.68
	13/12/2007	1,665,000	10/12/2008 – 10/12/2014	1,176,000	–	–	–	1,176,000	27.60	–	31.00
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	550,000	–	–	–	550,000	27.60	–	30.56
	15/12/2007	435,000	10/12/2008 – 10/12/2014	88,000	–	–	–	88,000	27.60	–	31.01
	17/12/2007	835,000	10/12/2008 – 10/12/2014	623,000	–	–	40,000	583,000	27.60	–	30.88
	18/12/2007	445,000	10/12/2008 – 10/12/2014	190,000	–	–	–	190,000	27.60	–	30.96
	19/12/2007	115,000	10/12/2008 – 10/12/2014	80,000	–	–	–	80,000	27.60	–	30.18
	20/12/2007	190,000	10/12/2008 – 10/12/2014	190,000	–	–	–	190,000	27.60	–	31.14
	24/12/2007	118,000	10/12/2008 – 10/12/2014	118,000	–	–	–	118,000	27.60	–	30.41
	28/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	–	–	35,000	27.60	–	31.70
	31/12/2007	130,000	10/12/2008 – 10/12/2014	130,000	–	–	–	130,000	27.60	–	31.08
	2/1/2008	75,000	10/12/2008 – 10/12/2014	35,000	–	–	–	35,000	27.60	–	31.20
	3/1/2008	40,000	10/12/2008 – 10/12/2014	40,000	–	–	–	40,000	27.60	–	31.30
	28/3/2008	255,000	26/3/2009 – 26/3/2015	139,000	–	–	–	85,000	26.52	54,000	31.17
	31/3/2008	379,000	26/3/2009 – 26/3/2015	192,000	–	–	–	111,000	26.52	81,000	30.65
	1/4/2008	261,000	26/3/2009 – 26/3/2015	164,000	–	–	–	37,000	26.52	127,000	30.30
	2/4/2008	296,000	26/3/2009 – 26/3/2015	219,000	–	–	–	60,000	26.52	159,000	29.84
	3/4/2008	171,000	26/3/2009 – 26/3/2015	75,000	–	–	–	20,000	26.52	55,000	31.60
	4/4/2008	23,000	26/3/2009 – 26/3/2015	23,000	–	–	–	23,000	26.52	–	31.00
	5/4/2008	17,000	26/3/2009 – 26/3/2015	17,000	–	–	–	17,000	26.52	–	31.50
	7/4/2008	390,000	26/3/2009 – 26/3/2015	236,000	–	–	–	106,000	26.52	130,000	31.18
	8/4/2008	174,000	26/3/2009 – 26/3/2015	69,000	–	–	–	69,000	26.52	–	31.00
	9/4/2008	85,000	26/3/2009 – 26/3/2015	43,000	–	–	–	20,000	26.52	23,000	30.40
	10/4/2008	58,000	26/3/2009 – 26/3/2015	58,000	–	–	–	–	26.52	58,000	–
	11/4/2008	134,000	26/3/2009 – 26/3/2015	89,000	–	–	–	19,000	26.52	70,000	31.35
	12/4/2008	48,000	26/3/2009 – 26/3/2015	31,000	–	–	–	–	26.52	31,000	–
	14/4/2008	40,000	26/3/2009 – 26/3/2015	40,000	–	–	–	–	26.52	40,000	–
	15/4/2008	34,000	26/3/2009 – 26/3/2015	34,000	–	–	–	17,000	26.52	17,000	31.50
	16/4/2008	57,000	26/3/2009 – 26/3/2015	40,000	–	–	–	–	26.52	40,000	–
	17/4/2008	147,000	26/3/2009 – 26/3/2015	107,000	–	–	–	17,000	26.52	90,000	31.95
	18/4/2008	32,000	26/3/2009 – 26/3/2015	15,000	–	–	–	–	26.52	15,000	–
	19/4/2008	25,000	26/3/2009 – 26/3/2015	25,000	–	–	–	25,000	26.52	–	31.30
	21/4/2008	66,000	26/3/2009 – 26/3/2015	66,000	–	–	–	8,000	26.52	58,000	31.75
	23/4/2008	34,000	26/3/2009 – 26/3/2015	19,000	–	–	–	–	26.52	19,000	–
	8/12/2008	90,000	8/12/2009 – 8/12/2015	20,000	–	–	–	–	18.30	20,000	–
	9/12/2008	1,293,000	8/12/2009 – 8/12/2015	257,000	–	–	–	–	18.30	257,000	–
	10/12/2008	2,046,400	8/12/2009 – 8/12/2015	826,400	–	–	–	406,700	18.30	419,700	30.79
	11/12/2008	2,394,200	8/12/2009 – 8/12/2015	1,047,500	–	–	–	677,500	18.30	370,000	30.50
	12/12/2008	1,416,500	8/12/2009 – 8/12/2015	658,000	–	–	–	215,500	18.30	442,500	30.30

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme, as referred to in Notes 10B(ii) and 49(A)(ii) to the Accounts *(continued)*

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2014	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2014	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	13/12/2008	84,500	8/12/2009 – 8/12/2015	40,500	–	–	–	–	18.30	40,500	–
	14/12/2008	88,200	8/12/2009 – 8/12/2015	45,000	–	–	–	45,000	18.30	–	29.80
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	468,200	–	–	–	239,500	18.30	228,700	29.84
	16/12/2008	581,500	8/12/2009 – 8/12/2015	289,000	–	–	–	155,000	18.30	134,000	30.18
	17/12/2008	513,500	8/12/2009 – 8/12/2015	260,500	–	–	–	89,000	18.30	171,500	30.33
	18/12/2008	611,500	8/12/2009 – 8/12/2015	126,500	–	–	–	107,500	18.30	19,000	29.85
	19/12/2008	198,000	8/12/2009 – 8/12/2015	63,000	–	–	–	19,000	18.30	44,000	31.15
	20/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	–	–	19,000	18.30	–	30.95
	22/12/2008	772,500	8/12/2009 – 8/12/2015	233,500	–	–	–	97,000	18.30	136,500	30.98
	23/12/2008	306,000	8/12/2009 – 8/12/2015	118,000	–	–	–	74,000	18.30	44,000	30.47
	24/12/2008	500,500	8/12/2009 – 8/12/2015	182,000	–	–	–	73,000	18.30	109,000	27.89
	25/12/2008	45,000	8/12/2009 – 8/12/2015	45,000	–	–	–	–	18.30	45,000	–
	29/12/2008	148,000	8/12/2009 – 8/12/2015	59,000	–	–	–	59,000	18.30	–	30.89
	18/6/2009	170,000	12/6/2010 – 12/6/2016	45,000	–	–	–	–	24.50	45,000	–
	6/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	–	–	–	24.50	45,000	–
	9/12/2009	670,000	8/12/2010 – 8/12/2016	520,000	–	–	–	–	26.85	520,000	–
	10/12/2009	2,381,000	8/12/2010 – 8/12/2016	1,369,000	–	–	–	175,000	26.85	1,194,000	29.72
	11/12/2009	2,297,000	8/12/2010 – 8/12/2016	1,718,000	–	–	–	467,000	26.85	1,251,000	30.61
	12/12/2009	610,000	8/12/2010 – 8/12/2016	385,000	–	–	–	95,000	26.85	290,000	30.96
	13/12/2009	19,000	8/12/2010 – 8/12/2016	12,500	–	–	–	12,500	26.85	–	29.55
	14/12/2009	2,443,000	8/12/2010 – 8/12/2016	1,826,500	–	–	25,000	469,500	26.85	1,332,000	30.81
	15/12/2009	2,773,000	8/12/2010 – 8/12/2016	1,892,500	–	–	–	700,000	26.85	1,192,500	30.58
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	941,500	–	–	–	360,000	26.85	581,500	30.29
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	615,000	–	–	–	325,000	26.85	290,000	30.96
	18/12/2009	389,000	8/12/2010 – 8/12/2016	280,000	–	–	–	51,500	26.85	228,500	29.68
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	–	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	329,000	–	–	–	50,000	26.85	279,000	30.73
	22/12/2009	256,000	8/12/2010 – 8/12/2016	172,000	–	–	–	25,000	26.85	147,000	29.95
	21/7/2010	270,000	28/6/2011 – 28/6/2017	90,000	–	–	–	45,000	27.73	45,000	29.28
	16/12/2010	194,000	16/12/2011 – 16/12/2017	194,000	–	–	–	90,000	28.84	104,000	31.62
	17/12/2010	4,737,000	16/12/2011 – 16/12/2017	4,068,000	–	–	15,000	760,000	28.84	3,293,000	30.68
	18/12/2010	673,000	16/12/2011 – 16/12/2017	673,000	–	–	–	65,000	28.84	608,000	31.70
	19/12/2010	174,000	16/12/2011 – 16/12/2017	98,000	–	–	–	–	28.84	98,000	–
	20/12/2010	4,789,500	16/12/2011 – 16/12/2017	3,798,000	–	–	80,000	632,000	28.84	3,086,000	30.99
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	2,477,000	–	–	80,000	468,000	28.84	1,929,000	30.70
	22/12/2010	975,000	16/12/2011 – 16/12/2017	913,000	–	–	25,000	206,000	28.84	682,000	30.28
	23/12/2010	189,000	16/12/2011 – 16/12/2017	119,000	–	–	–	–	28.84	119,000	–
	7/7/2011	215,000	27/6/2012 – 27/6/2018	163,000	–	70,000	–	40,000	26.96	123,000	30.83

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme, as referred to in Notes 10B(ii) and 49(A)(ii) to the Accounts *(continued)*

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2014	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2014	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	30/3/2012	15,292,500	23/3/2013 – 23/3/2019	14,326,000	–	4,914,500	271,000	2,068,500	27.48	11,986,500	30.51
	6/5/2013	19,609,000	26/4/2014 – 26/4/2020	19,276,000	–	6,474,500	890,500	70,500	31.40	18,315,000	31.42
	1/11/2013	188,500	25/10/2014 – 25/10/2020	188,500	–	63,500	–	–	29.87	188,500	–
	30/5/2014	19,812,500	23/5/2015 – 23/5/2021	–	19,812,500	16,000	261,500	–	28.65	19,551,000	–

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 ("2007 Option Scheme") on 7 June 2007. The 2007 Option Scheme expired at 5.00 p.m. on 6 June 2014.*

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 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 Option Scheme.*

3 *The proportion of underlying shares in respect of which the above share options will vest is as follows:*

Date	*Proportion of underlying shares in respect of which an option is vested*
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	*none*
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	*one-third*
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	*two-thirds*
From the third Offer Anniversary and thereafter	*all*

4 *Dr. Philco Wong Nai-keung became the Projects Director and a Member of the Executive Directorate of the Company on 28 October 2014.*

5 *Mr. Jay Herbert Walder stepped down as the Chief Executive Officer, a Member of the Board and a Member of the Executive Directorate of the Company on 15 August 2014.*

6 *Mr. Chew Tai Chong retired as the Projects Director and a Member of the Executive Directorate of the Company with effect from 28 October 2014.*

During the year ended 31 December 2014, 19,895,500 options to subscribe for shares of the Company were granted to 536 employees under the 2007 Share Option Scheme. Details of the grant are set out in the tables above. The closing price per share immediately before the date of grant of the options is set out below. 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. The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average fair value per option granted, estimated at the date of grant using the Black-Scholes option pricing model is as follows:

Date granted	Closing price per share immediately before the date of grant (HK$)	Exercise price (HK$)	Estimated risk-free interest rate (%)	Expected life (Years)	Estimated Volatility	Expected dividend per share (HK$)	Weighted average fair value per option granted (HK$)
30/5/2014	29.40	28.65	0.76	3.5	0.14	0.92	2.11

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and requires input of highly subjective assumptions, including the expected life and stock price volatility. Since the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Save as disclosed above:

A none of the Members of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the year ended 31 December 2014, 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.

2014 Share Incentive Scheme

The Company adopted the 2014 Share Incentive Scheme on 15 August 2014 ("2014 Scheme"), under which the Company may select any employee and any Director of the Company or its subsidiaries (excluding non-executive members of the Board but including members of the Executive Directorate of the Company) for participation in the 2014 Scheme. The 2014 Scheme took effect on 1 January 2015. Under the 2014 Scheme, shares are awarded on the basis of either individual performance ("Restricted Shares") or subject to the performance of the Company or any other performance conditions ("Performance Shares") to any eligible employee in accordance with the rules of the 2014 Scheme. The 2014 Scheme does not constitute a share option scheme within the meaning of Chapter 17 of the Listing Rules.

Details of the 2014 Scheme are set out in the Remuneration Committee Report (pages 124 to 127) and note 49A(iv) to the accounts.

Directors' Service Contracts

No Director proposed for election or re-election at the forthcoming AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

No Director has a service contract with the Company or any of its subsidiaries which is for a duration which may exceed three years or which requires the Company to, in order to terminate such contract, give a notice period in excess of one year or pay compensation or make other payments equivalent to more than one year's emoluments.

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 2014 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to all the voting shares in issue
The Financial Secretary Incorporated ("FSI") (in trust on behalf of the Government)	4,434,552,207	76.11

The Company has been informed by the Government that, as at 31 December 2014, approximately 0.39% of the shares of the Company (not included in the FSI shareholding set out in the above table) were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

Other Persons' Interest

Save as disclosed in the sections headed "Board Members' and Executive Directorate's interests in Shares" and "Substantial Shareholders' Interests", as at 31 December 2014, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO or otherwise notified to the Company and the HKSE.

Loan Agreements with Covenant Relating to Specific Performance of the Controlling Shareholder

As at 31 December 2014, the Group had borrowings of HK$14,066 million with maturities ranging from 2014 to 2043 and undrawn committed banking facilities of HK$7,300 million, which were subject to the condition that the 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.

Major Suppliers and Customers

Less than 30% in value of supplies (which were not of a capital nature) purchased during the year ended 31 December 2014 was attributable to the Group's five largest suppliers.

Approximately 33.81% in value of the Group's total turnover during the year ended 31 December 2014 was attributable to the Group's five largest customers combined by value. Approximately 15.65% of the Group's total turnover was attributable to the largest customer.

As at 31 December 2014, the Government, being one of the Group's five largest customers, through the FSI, the substantial shareholder of the Company, held approximately 76.11% of all the Company's voting shares in issue (see the section headed "Substantial Shareholders' Interests" above for further details).

As at 31 December 2014, the following Non-executive Directors*/Alternate Directors# of the Company were officials of the Government:

- Professor Chan Ka-keung, Ceajer* (Secretary for Financial Services and the Treasury)
- Secretary for Transport and Housing* (Professor Anthony Cheung Bing-leung)
- Permanent Secretary for Development (Works)* (Mr. Wai Chi-sing)
- Commissioner for Transport* (Mrs. Ingrid Yeung Ho Poi-yan)
- Ms. Mable Chan#
- Ms. Elizabeth Tse Man-yee#
- Under Secretary for Transport and Housing# (Mr. Yau Shing-mu)
- Permanent Secretary for Transport and Housing (Transport)# (Mr. Joseph Lai Yee-tak)
- Deputy Secretaries for Transport and Housing (Transport)# (Ms. Rebecca Pun Ting-ting and Mr. Andy Chan Shui-fu)
- Deputy Secretary for Development (Works)# (Mr. Chan Chi-ming)
- Deputy Commissioner for Transport/Transport Services and Management# (Miss Cinderella Law Fung-ping)

Save as disclosed above and as at 31 December 2014, no other Members of the Board or the Executive Directorate or any of their respective close associates or any Shareholder (which to the knowledge of the Members of the Board or the Executive Directorate, own more than 5% of all the Company's voting shares in issue) had any beneficial interests in the Group's five largest customers.

Going Concern

The accounts on pages 167 to 254 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2015, together with the longer-term forecast for the following five years and is satisfied that the Company has sufficient resources to continue as a going concern for the foreseeable future.

Connected Transactions

During the year under review, the transactions described below were entered into with the Government (which is a substantial shareholder of the Company as defined in the Listing Rules). The Government is therefore a "connected person" of the Company for the purposes of the Listing Rules, and each transaction described below is a connected transaction for the Company under the Listing Rules.

As disclosed in the announcement of the Company dated 13 January 2005, the Stock Exchange has granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and the 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 The Company entered into a Modification Letter of New Grant No.7040 dated 27 January 2014 with the Government which allowed the proposed commercial development on Tsing Yi Town Lot No.135 to proceed at the land premium assessed at HK$1,261,510,000.

B On 27 October 2014, the Company accepted an offer from the Government dated 16 September 2014 to allow the Company to proceed with the proposed development of Sha Tin Town Lot No. 520, Sha Tin, New Territories ("STTL No.520") at a land premium of HK$10,356,010,000 in respect of the non-railway portion of STTL No.520 and HK$1,000 in respect of the railway portion of STTL No.520 and on the terms and conditions of the land grant by private treaty of STTL No.520 to be entered into between the Company and the Government (the "Land Grant"). The payment of the non-railway portion of the land premium was funded by both Lucrative Venture Limited (the "Developer"), the successful tenderer in the tender to develop STTL No.520, and the Company, with HK$2,856,010,000 funded by the Developer and the remaining HK$7,500,000,000 funded by the Company. The payment of the railway portion of the land premium was funded by the Company. The Land Grant was executed on 26 January 2015.

C On 5 May 2014, the Company accepted an offer dated 28 March 2014 from the Government to allow the Company to proceed with the proposed development in respect of Site O of The Remaining Portion of Tseung Kwan O Town Lot No. 70 ("Site O") subject to the Company's acceptance of the Government's assessment of the land premium (being HK$2,710,000,000) (the "Site O Land Premium") and of the terms and conditions of a further lease modification in respect of Site O (the "Site O Lease Modification") of the Conditions of Grant of an Agreement for Lease for Tseung Kwan O Town Lot No. 70 registered in Land Registry as New Grant No.9689 as varied or modified by five modification letters. The payment of all the Site O Land Premium was funded by Globaluck Limited, the successful tenderer in the tender to develop Site O. The Site O Lease Modification was executed on 1 August 2014.

D On 3 December 2014, the Company accepted an offer dated 27 October 2014 from the Government to allow the Company to proceed with the proposed development in respect of Site G of The Remaining Portion of Tseung Kwan O Town Lot No. 70 ("Site G") subject to the Company's acceptance of the Government's assessment of the land premium (being HK$2,064,250,000) (the "Site G Land Premium") and of the terms and conditions of a further lease modification in respect of the Site G (the "Site G Lease Modification") of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant No.9689 as varied or modified by six modification letters. The payment of all the Site G Land Premium was funded by Leading Elite Limited, the successful tenderer in the tender to develop Site G. The Site G Lease Modification was executed on 5 January 2015.

E. On 23 January 2015, the Company accepted an offer dated 23 December 2014 from the Government to allow the Company to proceed with the proposed development in respect of Site N of The Remaining Portion of Tseung Kwan O Town Lot No. 70 ("Site N") subject to the Company's acceptance of the Government's assessment of the land premium (being HK$3,345,440,000) (the "Site N Land Premium") and of the terms and conditions of a further lease modification in respect of the Site N (the "Site N Lease Modification") of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant No.9689 as varied or modified by seven modification letters. The payment of the Site N Land Premium was funded by Great Team Development Limited, the successful tenderer in the tender to develop Site N. The Site N Lease Modification is expected to be executed within 3 calendar months from the acceptance date abovementioned.

F On 3 March 2015, the Company accepted an offer dated 6 February 2015 from the Government to allow the Company to proceed with the proposed Tin Wing Stop Property Development (previously referred to as "Tin Shui Wai Terminus, Light Rail") at Tin Shui Wai Town Lot No. 23 (the "Lot") at a land premium of HK$1,518,990,000 (the "Tin Wing Stop Land Premium"). The payment of the Tin Wing Stop Land Premium will be funded by the Company from the monies paid by Best Vision Development Limited, the successful tenderer for the Tin Wing Stop Development. The Conditions of Grant of the Lot is expected to be executed within 3 calendar months from the acceptance date abovementioned.

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 the 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", the Government is a substantial shareholder of the Company for the purposes of the Listing Rules. KCRC and the AA are both associates of the Company as defined in the Listing Rules. As explained under Section III below, UGL and John Holland Melbourne Rail Franchise Pty Ltd. ("John Holland") are substantial shareholders of a subsidiary of the Company and John Holland, JHL and LCAL are indirect wholly-owned subsidiaries of Leighton Holdings Limited. On this basis, JHL and LCAL are both associates of John Holland for the purposes of the Listing Rules. The Government, KCRC, the AA, UGL, LCAL and JHL are therefore each "connected persons" for the purposes of the Listing Rules and each transaction set out at paragraphs I, II and III below constitutes a continuing connected transaction for the Company under the Listing Rules.

I Merger-related Continuing Connected Transactions

Each of the transactions listed in paragraphs A to D below and which formed part of the Rail Merger, was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. These paragraphs should be read in conjunction with the paragraphs contained in the section below headed "Additional Information in respect of the Rail Merger".

As disclosed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to continuing connected transactions between the Company, the 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 the 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 151 to 152 and in paragraph D below);
- the allocation of liability for any Pre-Rail Merger and Post-Rail Merger claims by third parties; and
- the Company's retention of its English name and (pursuant to the Rail Merger Ordinance) the change of its Chinese name to "香港鐵路有限公司".

B West Rail Agency Agreement

The West Rail Agency Agreement and related agreements were entered into on 9 August 2007 between the Company, KCRC and certain KCRC subsidiary companies (the "West Rail Subsidiaries"). Pursuant to the terms of the West Rail Agency Agreement, the Company was appointed:

- to act as KCRC's agent, and donee under powers of attorney, to exercise certain rights and perform certain obligations relating to specified development sites along West Rail; and
- to act as agent for, and donee under powers of attorney from, each of the West Rail Subsidiaries to exercise certain rights and perform certain obligations relating to specified development sites along West Rail.

The Company will receive an agency fee of 0.75% of the gross sale proceeds in respect of the unawarded West Rail development sites and 10% of the net profits accrued to the West Rail Subsidiaries under the development agreements in respect of the awarded West Rail development sites. The Company will also recover from the West Rail Subsidiaries its costs (including internal costs) incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon.

C KCRC Cross Border Lease Agreements

US CBL Assumption Agreements

Separate US CBL Assumption Agreements were entered into on 30 November 2007 between the Company, KCRC and, variously, Wilmington Trust Company, Buoyant Asset Limited, BA Leasing & Capital Corporation, Utrecht-America Finance Co., Cooperatieve Cenrale Raiffeisen-Boerenleenbank B.A., Advanced Asset Limited, Washoe Asset Management Company, Quality Asset Limited, Kasey Asset Limited, Key Equipment Finance Inc., Mercantile Leasing Company (No. 132) Limited, Landesbank Sachsen Aktiengesellschaft, Barclays Bank PLC, Bayerische Landesbank Girozentrale, U.S. Bank National Association, Circuit Asset Limited, Citicorp USA Inc., Shining Asset Limited, Banc of America FSC Holdings Inc., Fluent Asset Limited, Anzef Limited, Societe Generale, Australia and New Zealand Banking Group Limited, Statesman Asset Limited, State Street Bank and Trust Company and Bowman Asset Limited and became effective on 3 December 2007, with respect to each of the US cross border leases originally entered into between KCRC and certain counterparties (each, a "CBL"). Pursuant to each US CBL Assumption Agreement, the Company undertakes to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs. As a result thereof, the Company is generally liable to the CBL counterparties in respect of KCRC's obligations under the CBLs and has the right to exercise certain of KCRC's rights under the CBLs.

US CBL Allocation Agreement

The US CBL Allocation Agreement was entered into between the Company, KCRC and the subsidiaries of KCRC (the "KCRC Subsidiaries") on 2 December 2007. Pursuant to the US CBL Allocation Agreement, rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between KCRC and the Company (each of which is jointly and severally liable to specified CBL counterparties, as referred to in the paragraph above headed "US CBL Assumption Agreements"). Under the terms of the US CBL Allocation Agreement, as between the Company and KCRC, the Company is responsible for specified obligations. The Company and KCRC each made representations under the US CBL Allocation Agreement, which include, in the case of those made by KCRC, representations with respect to the status of the CBLs. The Company and KCRC agreed to indemnify each other for certain losses in relation to the CBLs.

D Property Package Agreements

Category 2A Properties

On 9 August 2007, the Government entered into an undertaking that it would, within twelve months of the Merger Date or such further period of time as the Government and the Company may agree, issue to KCRC an offer for the grant at nil premium of Government leases in respect of the land upon which certain properties (the "Category 2A Properties") are situated (the "said Government Leases"). The Category 2A Properties were held by KCRC as vested land under the Kowloon-Canton Railway Corporation Ordinance (Cap. 372 of the Laws of Hong Kong) ("KCRC Ordinance"). On 9 August 2007, KCRC entered into an undertaking that it would, immediately after the grant of the said Government Leases referred to in the preceding sentence, enter into agreements for sale and purchase to sell the Category 2A Properties to the Company (the "said Agreements for Sale and Purchase"). Assignments of the Category 2A Properties to the Company shall then take place pursuant to the said Agreements for Sale and Purchase (the said "Assignments"). Pursuant to the KCRC undertaking and as interim arrangements until the grant of the Government leases, on 9 August 2007 the following agreements were entered into between KCRC and the Company:

- an agreement that KCRC (as lessor) shall enter into tenancy agreements with the Company (as lessee) at market rent in respect of the Category 2A Properties' vacant units (with the intention that the Company will then sub-let the vacant units to sub-tenants);
- two licence agreements in respect of the common areas within the Category 2A Properties, pursuant to which KCRC granted the Company the right to use certain common areas until the execution of the Category 2A Properties assignment referred to above;
- a lease enforcement agency agreement appointing the Company as its enforcement agent to enforce KCRC's current Category 2A Properties tenancy agreements against tenants; and
- an assignment of rental proceeds whereby the proceeds received under KCRC's current Category 2A Properties tenancy agreements with tenants are assigned to the Company.

The said Government Leases were issued to KCRC respectively on 27 March 2009 and 31 March 2009. The said Agreements for Sale and Purchase were entered into between KCRC and the Company on 27 March 2009 and 31 March 2009 respectively and the said Assignments to the Company were executed on 27 March 2009 and 31 March 2009 respectively. Deeds of Mutual Grant were also entered into between the Company and KCRC on 27 March 2009 and 31 March 2009 respectively setting out the easements, rights, entitlements, privileges and liberties of the Company and KCRC in the land on which the Category 2A Properties are situated.

Category 2B Property

On 9 August 2007, the Government entered into an undertaking that it would, within twenty four months of the Merger Date or such further period of time as the Government and the Company may agree, issue to the Company an offer for the grant of a Government Lease of a certain property (the "Category 2B Property") on terms to be agreed. The Category 2B Property is currently held by KCRC as vested land under the KCRC Ordinance for use as staff quarters and a recreational club.

On 9 August 2007, KCRC entered into an undertaking relating to interim arrangements to ensure that, as from the Merger Date, the Company shall be responsible for KCRC's obligations under licence agreements relating to the Category 2B Property, and for enforcing such agreements. The Company is entitled to proceeds received by KCRC in respect of those licence agreements. The interim arrangements include, inter alia, as from the Merger Date:

- an agreement that KCRC (as licensor) shall grant to the Company (as licensee) possession of the Category 2B Property (without payment of any licence fee or premium), subject to existing licences and the Second Schedule of the KCRC Ordinance, with the right of the Company to sublicense all or any part of the Category 2B Property (subject to it being used as staff quarters and a recreation club);
- until the grant of the Government lease of the Category 2B Property, KCRC has appointed the Company as its enforcement agent to enforce KCRC's current Category 2B Property licence agreements against licensees; and
- KCRC has assigned to the Company the proceeds received under KCRC's current Category 2B Property licence agreements with licensees.

The basic terms offer for the Category 2B Property (i.e. Trackside Villas) was issued and accepted by the Company on 31 December 2009 and the 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 163).

Pursuant to the terms of each Category 3 Agreement, the Company has been appointed to act as KCRC's agent, and donee under powers of attorney, to exercise rights and to perform obligations of KCRC which relate to the Category 3 Property (but excluding the right or obligation to dispose of the relevant Category 3 Property).

The Company is required at all times to comply with statutory restrictions and obligations binding on KCRC which relate to the Category 3 Properties, and shall pay all amounts due and payable from KCRC which have been incurred by KCRC as a result of the Company's actions.

In acting as KCRC's agent, the Company is required to act according to prudent commercial principles, and aim to maximise gross profits under the Category 3 Properties and to run a safe and efficient railway. In order to assist the Company in performing its agency functions, KCRC has granted powers of attorney to the Company. The Company may only use the powers of attorney to exercise rights and perform obligations conferred or undertaken by it under the relevant Category 3 Agreement. As well as acting as KCRC's agent, the Company has the right to give KCRC instructions in respect of any action or matter relating to each Category 3 Property (including its related development agreement) which the Company is unable to take by reason of the limitation of the scope of its agency powers. KCRC is required to comply promptly with those instructions provided that it is permitted under law, and under the relevant Government grant, to carry out those instructions.

KCRC is required to account for revenue received in respect of a Category 3 Property by way of balance sheet movement (rather under its profit and loss account), provided that such treatment is permitted under law and accounting principles and practices.

KCRC shall not take any action in respect of a Category 3 Property which is not carried out by the Company (acting as KCRC's agent), or according to the Company's instructions, or otherwise in accordance with the terms of the Category 3 Agreement.

As consideration for acting as KCRC's agent, the Company shall be paid a fee which is expected to be similar in quantum to the profits made by KCRC in respect of the relevant Category 3 Property (after deducting certain initial and upfront payments and consultant contribution costs, in each case paid or to be paid by the relevant developer to KCRC). Generally, the Company's fee shall be payable in instalments promptly following receipt of relevant funds by KCRC (but subject to specified deductions of amounts due from KCRC to the relevant Category 3 Property developer).

The Company has agreed to give certain indemnities to KCRC in respect of each Category 3 Property.

The Company shall be the first manager, or shall ensure that a manager is appointed in respect of, each Category 3 Property (once developed).

The Company's appointment as agent shall terminate when KCRC ceases to have any undivided share in the relevant Category 3 Property, other than concession property, and neither KCRC nor the developer nor the guarantors have any further rights to exercise, or obligations to perform, under the development agreement relating to the relevant Category 3 Property.

In relation to the Merger Framework Agreement, the West Rail Agency Agreement (and related powers of attorney), the US CBL Assumption Agreements, the US CBL Allocation Agreement and the agreements in relation to Category 2A, Category 2B and Category 3 Properties (together the "Merger-related Continuing Connected Transactions") and in accordance with paragraph B(I)(i) of the Merger-related Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Merger-related Continuing Connected Transactions and confirmed that the Merger-related Continuing Connected Transactions were entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to carry out a review of each of the Merger-related Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(I)(ii) of the Merger-related Waiver, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions have not been approved by the Board; and

(b) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

II Non Merger-related Continuing Connected Transactions with Government and / or its Associates

The following disclosures are made in accordance with the conditions of the Waiver and Rule 14A.71 of the Listing Rules.

A1 Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link

The Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link (the "First SCL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of the 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:

- the 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;
- the 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 the 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 the 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 the 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 the 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, the 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 the Government and prior to such agreement, the project management cost shall be paid by the Government to the Company on a provisional basis calculated in accordance with the Second SCL Agreement;
- the Company and the Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for the 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), the Government shall pay to the Company an amount to be agreed between the Company and the Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- the Government shall bear all of the "Works Cost" (as defined in the Second SCL Agreement). In this connection, the 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;
- the 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 the 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 the 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 the 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 the 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
- the 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 the 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, the 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 the Government to the Company on a quarterly basis;
- the Company and the Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for the 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), the Government shall pay to the Company an amount to be agreed between the Company and the Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- the Government shall bear certain "Third Party Costs", any "Interface Works Costs" and any "Direct Costs" (each as defined in the Third SCL Agreement);
- the 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 the 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 the 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 the 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 the 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 the 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 the 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
- the 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 (Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong 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 the 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:

- the 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;
- the 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 the 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 the 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 the 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 the 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, the Government shall pay to the Company HK$4,590 million, 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 the Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for the 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), the 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 the 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 the 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 the Government (or to a third party directed by the 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;
- the Government is required to bear (i) any costs payable to third parties, (ii) any charges, costs or amounts payable to any Government department, bureau, agency or body in relation to the activities to be carried out under the Second XRL Agreement, (iii) any and all amounts payable to the KCRC as compensation for damage arising as a result of the Company and/or a third party contractor carrying out activities under the Second XRL Agreement; and (iv) all land acquisition, clearance and related costs (including all amounts arising as a result of any claim for compensation by any third party) and those costs which are incurred by the Lands Department in connection with the Express Rail Link project; and
- the 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.

The Government has agreed that the Company has been asked to proceed with the construction, testing and commissioning of the Express Rail Link (pursuant to and on the terms of the Second XRL Agreement) on the understanding that the Company will be invited to undertake the operation of the Express Rail Link under the concession approach.

The Second XRL Agreement remains in full force and effect until the completion of the activities set out in the Second XRL Agreement or until terminated earlier in accordance with the terms of the Second XRL Agreement.

C Renewal of the existing Maintenance Agreement for the Automated People Mover System at the Hong Kong International Airport

The Company entered into a Maintenance Agreement with the AA for the maintenance of the Automated People Mover system at the Hong Kong International Airport since 2002. It was signed on 18 March 2002 for a period of three years, which expired on 6 July 2005. A Supplemental Agreement was agreed with the AA, and approved by the Board in June 2005, to extend the Maintenance Agreement for another three years until 6 July 2008, which also included options for the Automated People Mover serving the Sky Plaza and Sky Pier terminal buildings. Another Maintenance Agreement was then signed on 21 August 2008 for a period of 5 years, which expired on 5 July 2013 (the "Maintenance Agreement").

On 5 July 2013, the Company entered into a new Maintenance Contract with the AA for the renewal of the then expired Maintenance Agreement for the Automated People Mover system for a seven year period (the "New Maintenance Contract"), effective from 6 July 2013. It is expected that the highest amount per year receivable from the AA under the New Maintenance Contract will be HK$50 million.

The New Maintenance Contract contains provisions relating to the operation and maintenance by the Company of the Automated People Mover system installed at Hong Kong International Airport (the "System") and the carrying out by the Company of certain specified services in respect of the System, they including the following:

- provisions stating that the duration of the New Maintenance Contract shall be seven years from 6 July 2013 up to and including 5 July 2020;
- provisions relating to the performance of scheduled maintenance works and overhaul of the System by the Company;
- provisions relating to monitoring the System for any breakdown and the Company providing repair services where necessary;
- provisions relating to the standards to which the Company must operate the System;
- provisions relating to the carrying out by the Company (as additional services), in certain circumstances, of upgrade work on the System; and
- provisions relating to the operations of and maintenance for the extension of the System to the new Midfield Concourse.

D Project Agreement for the Financing, Design, Construction and Operation of the West Island Line

The Project Agreement for the Financing, Design, Construction and Operation of the West Island Line (the "WIL Project Agreement") was entered into on 13 July 2009 between the Company and the Secretary for Transport and Housing for and on behalf of the 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 the 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 the 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 the Government for the Company to implement the West Island Line project;
- within 24 months of commercial operations commencing on the West Island Line on a revenue earning basis and providing scheduled transport for the public, payment by the Company to the 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 the 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 the Government to the Company in relation to the West Island Line on 12 January 2009.

The construction of the West Island Line is scheduled to take place between the date of the WIL Project Agreement and 2015.

In relation to the First SCL Agreement, the Second SCL Agreement, the Third SCL Agreement, the First XRL Agreement, the Second XRL Agreement, the New Maintenance Contract and the WIL Project Agreement (together the "Non Merger-related Continuing Connected Transactions") and in accordance with paragraph B(I)(iii)(a) of the Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Non Merger-related Continuing Connected Transactions and confirmed that the Non Merger-related Continuing Connected Transactions were entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to carry out a review of each of the Non Merger-related Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(I)(iii)(b) of the Waiver, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions have not been approved by the Board; and

(b) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

III Non Merger-related Continuing Connected Transactions with parties other than Government and / or its Associates

The following disclosures are made in accordance with Rule 14A.71 of the Listing Rules.

A Pre-Existing UGL Contract and Pre-Existing Supplemental UGL Contract for the provision of maintenance and other services for certain trains

Metro Trains Melbourne Pty Ltd ("MTM") is a joint venture company incorporated in Australia. The Company controls 60% of the voting power at any general meeting of MTM and each of UGL and John Holland controls 20% of the voting power at any general meeting of MTM. Accordingly, subsequent to the Company entering into the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract (each, as defined below), UGL is treated as a substantial shareholder of MTM (a subsidiary of the Company) and therefore a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. The Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) is therefore a "continuing connected transaction" within the meaning of Rule 14A.31 of the Listing Rules.

On 11 January 2002, the Company entered into a contract with UGL for the provision of maintenance and other services in respect of trains at certain depots for a period of seven years commencing on or around 1 October 2002 to 30 September 2009 (the "Pre-Existing UGL Contract"). The commencement date was subsequently advanced by three months. On 14 April 2009, the Company entered into a supplemental agreement with UGL for the extension of the Pre-Existing UGL Contract for a further period of seven years from 1 August 2009 and for the transfer of the provision of certain services to the Kowloon Bay depot (the "Pre-Existing Supplemental UGL Contract").

The Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) provides for the provision of maintenance and other services by UGL in respect of 15 G/H stock trains used by the Company on the Kwun Tong Line, the Island Line, the Tsuen Wan Line and the Tseung Kwan O Line, in each case at the Tseung Kwan O depot and the Kowloon Bay depot, including provisions in relation to:

- payment by the Company of a total sum of approximately HK$171,966,450 to UGL (including for variations and additional works) in consideration of UGL providing certain services between 1 August 2002 and 31 July 2009 and payment by the Company of HK$152,940,000 to UGL for the extended term of seven years pursuant to the Pre-Existing Supplemental UGL Contract (which amount is to be paid on a scheduled basis), subject to certain adjustments, including for the level of performance by the relevant trains;
- indemnification by UGL of the Company against certain losses and expenses sustained by the Company arising out of or in connection with UGL carrying out its obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract);
- maintenance by UGL of insurance in relation to certain liabilities to the Company;
- the Company effecting and maintaining third party insurance covering the legal liability of both UGL and the Company for accidental death or injury to persons or accidental loss of or damage to property, in each case, arising

out of the UGL's obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract); and

- the Company maintaining "Contractors All Risks" insurance covering loss or damage to certain goods, equipment and temporary buildings at the Tseung Kwan O depot and the Kowloon Bay depot.

The terms of the Pre-existing UGL Contract were agreed upon subsequent to a tender process that invited submissions from a number of contractors, including UGL. UGL was selected by the Company in accordance with the Company's established procedures for the assessment of tenders.

The Company regularly outsources certain services to third parties that specialise in the type of work outsourced, thereby improving the efficiency of the Company's operations and allowing the Company to concentrate its resources on its core business areas. UGL is a specialist in the provision of construction, refurbishment and maintenance services to the railway industry.

B Supplemental Agreement for the extension of the Original Contract for the Mid-Life Refurbishment of Phase 1 Light Rail Vehicles

The Supplemental Agreement for the extension of the Original Contract (defined below) for the Mid-Life Refurbishment of Phase 1 Light Rail Vehicles (the "Phase 1 LRVs"), was entered into on 26 February 2010 between the Company and UGL (the "Supplemental Agreement").

On 30 November 2007, KCRC entered into the Original Contract with UGL (the "Original Contract"), for the refurbishment of the Phase 1 LRVs for a period of 45 months from 30 November 2007 to 31 August 2011. On 2 December 2007, the rights and obligations of KCRC under the Original Contract were vested in the Company pursuant to section 52(B) of the MTR Ordinance. The Supplemental Agreement extends the Original Contract for a further period of 16 months from 31 August 2011 until 31 December 2012. A second supplemental agreement was entered into by the Company and UGL on 21 December 2011 (the "Second Supplemental Agreement") which extended the Original Contract to 31 December 2013. A third supplemental agreement was entered into by the Company and UGL on 21 July 2014 (the "Third Supplemental Agreement") which extended the Original Contract to 17 February 2014. The Original Contract (as amended) is in substantially the same form as KCRC's standard conditions of contract for engineering works and contains the following provisions:

- in consideration of UGL providing the Refurbishment Works (defined below) under the Original Contract, the Company is obliged to pay UGL a total sum of approximately HK$48,260,000 (excluding amounts for variations and additional works). The Supplemental Agreement, inter alia, extended the scope of the Refurbishment Works of the Original Contract and the consideration payable by the Company to UGL for such extension is HK$83,736,143, which was further increased by the Second Supplemental Agreement by an additional HK$34,957,178 (the "Contract Sum"). The total sum under the Original Contract plus the Contract Sum is to be paid progressively based on materials delivered and on works completed as set out in the Supplemental Agreement, subject to adjustments to take account of variations made by the Company's Chief Electrical and Mechanical Engineer (the "Engineer") to the scope of the Refurbishment Works. The maximum aggregate amount payable annually by the Company under the Original Contract plus the Contract Sum is approximately HK$78,632,000;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$30 million;
- UGL shall carry out a carbody structure review to assess the mechanical condition of the Phase 1 LRVs; refurbish the drivers' consoles, the operators' seats and the passenger saloons of the Phase 1 LRVs; conduct a brake software upgrade of the Phase 1 LRVs; and carry out further miscellaneous repairs to the Phase 1 LRVs (together the "Refurbishment Works");
- UGL shall indemnify the Company against any certain losses or expenses which may arise out of or in connection with the Refurbishment Works, subject to any proportionate reduction in liability on account of any related negligence by the Company, its employees or agents, the Engineer or those appointed by the Engineer;
- UGL shall indemnify the Company against certain damages, compensation, costs and expenses in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any person in the employment of UGL arising out of and in the course of such employment;
- UGL shall effect and maintain insurance with a limit of not less than HK$100 million in relation to certain of its liabilities for the period commencing on 30 November 2007 until the date of the completion of the Refurbishment Works;
- UGL's liability to indemnify the Company is reduced proportionally to the extent that any act or omission of the Company, its employees or agents, the Engineer or those appointed by the Engineer, caused or contributed to the relevant death, illness, injury, loss or damage and the total liability of UGL shall not exceed 100% of the total sum payable under the Original Contract, save and except for

UGL's liability for death, personal injury, wilful misconduct, fraud and infringement of third party intellectual property rights; and

- the total liability of UGL to the Company for liquidated damages arising as a result of delay is limited to 10% of the total sum payable under the Original Contract and, subject to the provisions regarding liquidated damages, UGL is not liable for any kind of economic, financial, indirect or consequential loss or damage, including but not limited to loss of profit, loss of use, loss of production, loss of any contract and the like, suffered by the Company.

Pursuant to the Original Contract, a bank guarantee issued by HSBC Bank Australia Limited has been provided to the Company in respect of the obligations of UGL under the Original Contract.

If UGL fails to complete the Refurbishment Works within the contract period, the Engineer may terminate the contract by notice in writing to UGL.

C Contract 903 between the Company and LCAL relating to certain works on the South Island Line (East)

As mentioned above, MTM is a joint venture company incorporated in Australia. MTM is a non-wholly owned subsidiary of the Company and each of UGL and John Holland controls 20% of the voting power at any general meeting of MTM.

Accordingly, John Holland is treated as a substantial shareholder of MTM. John Holland, JHL and LCAL are indirect wholly-owned subsidiaries of Leighton Holdings Limited. On this basis, JHL and LCAL are both associates of John Holland under the Listing Rules. Therefore, each of John Holland, JHL and 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 (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 engineering works and contains the following provisions:

- the principal obligation of LCAL under Contract 903 is the construction of the Contract 903 Works;
- LCAL shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 903 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 903 Works, or the right of the Company to execute the Contract 903 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by LCAL;
- LCAL shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of LCAL or its sub-contractors or suppliers arising out of and in the course of such employment;
- LCAL shall effect and maintain insurance with a limit of not less than HK$200 million in relation to certain of its liabilities for the period commencing on 29 April 2011 until 30 June 2016;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of LCAL under Contract 903;
- LCAL's liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 903 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage. The total liability of LCAL to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the target cost plus fees as calculated under Contract 903;
- the total amount payable by the Company to LCAL under Contract 903 is HK$2,513,394,379, which includes the target cost for the Contract 903 Works and fees to LCAL. From time to time the scope of the Contract 903 Works may vary and the Company will be obliged to revise the fees payable to LCAL in accordance with the terms of the Contract;
- the Company is obliged to pay the target cost for the Contract 903 Works to LCAL on a scheduled basis set out in Contract 903. If the final total cost of the Contract 903 Works exceeds or is less than the target cost for the Works, the deficit or, as the case may be, the excess will be borne by or, as the case may be, distributed to the Company and LCAL on a basis calculated in accordance with Contract 903;

- the maximum aggregate amount payable annually by the Company under Contract 903 is approximately HK$1,400 million. As payments by the Company to LCAL are paid on a scheduled basis as set out in Contract 903, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$700 million; and
- the Company may at any time, by giving 30 days' notice in writing to LCAL, terminate Contract 903 but without prejudice to any claims by the Company for breach of contract.

D Contract 904 between the Company, LCAL and JHL relating to certain works on the South Island Line (East)

On 17 May 2011, the Company, LCAL and JHL (LCAL and JHL being "the Contractors") entered into Contract 904 (as amended by a supplemental agreement on 7 June 2013) (the "Contract 904") for the construction of certain works relating to Lei Tung Station and South Horizons Station in respect of the South Island Line (East) (the "Contract 904 Works").

As explained above, as the Contractors are "connected persons" under the Listing Rules, Contract 904 is a "continuing connected transaction" within the meaning of Rule 14A.31 of the Listing Rules.

Contract 904 is in substantially the same form as the Company's standard conditions of contract for engineering works and contains the following provisions:

- the principal obligation of the Contractors is the construction of the Contract 904 Works. The obligations of the Contractors under Contract 904 are joint and several;
- the Contractors shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 904 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 904 Works, or the right of the Company to execute the Contract 904 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by the Contractors;
- the Contractors shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of the Contractors or their subcontractors or suppliers arising out of and in the course of such employment;
- the Contractors shall effect and maintain insurance with a limit of not less than HK$200 million in relation to certain of its liabilities for the period commencing on 29 April 2011 until 30 June 2016;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of the Contractors under Contract 904;
- the Contractors' liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 904 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage;
- the total liability of the Contractors to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the contract sum under the Contract;
- the total amount payable by the Company to the Contractors under Contract 904 is the Contract Sum. From time to time the scope of Works may vary and the Company will be obliged to revise the Contract Sum in accordance with the terms of Contract 904;
- the maximum aggregate amount payable annually by the Company under Contract 904 is approximately HK$1,400 million. As payments by the Company to the Contractors are paid on a scheduled basis as set out in Contract 904, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$700 million. In addition, the Contractors have agreed to separately purchase additional cover for "Third Party Liability" insurance in the amount of AU$485 million; and
- the Company may at any time, by giving 30 days' notice in writing to the Contractors, terminate Contract 904 but without prejudice to any claims by the Company for breach of contract.

In relation to the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract, the Original Contract (as amended), Contract 903 and Contract 904 (together the "Continuing Connected Transactions with Parties other than Government and/or its Associates") and in accordance with Rule 14A.55 of the Listing Rules, the Company confirms that the Independent Non-executive Directors of the Company have reviewed the Continuing Connected Transactions with Parties other than Government and/or its Associates and confirmed that each of the Continuing Connected Transactions with Parties other than Government and/or its Associates was entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to carry out a review of the Continuing Connected Transactions with Parties other than Government and/or its Associates in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with Rule 14A.56 of the Listing Rules, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have not been approved by the Board;

(b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not, in all material respects, in accordance with the pricing policies of the Group;

(c) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(d) with respect to the aggregate amount of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have exceeded the maximum aggregate annual value disclosed in the previous announcements dated 1 September 2009, 26 February 2010, 18 May 2011 and 18 May 2011 made by the Company in respect of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates.

Additional Information in respect of the Rail Merger

The Rail Merger consisted of a number of separate agreements, each of which was detailed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, and which together formed a complete package deal which was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. The information set out at paragraph A below describes the payment framework adopted in respect of the Rail Merger and paragraphs B to E below set out, summaries of the various agreements entered into by the Company in respect of the Rail Merger in addition to those agreements disclosed above under the heading "Merger-related Continuing Connected Transactions".

A Payments in connection with Merger-related Agreements

In connection with the Rail Merger, the following initial payments were made by the Company to KCRC on 2 December 2007 (being the Merger Date):

- an upfront payment of HK$4.25 billion, payable under the Service Concession Agreement (as described in paragraph B below), being the upfront fee for the right to operate the Service Concession (as defined in paragraph B below) and the consideration for the purchased rail assets; and
- an upfront payment of HK$7.79 billion payable under the Merger Framework Agreement (as described on page 150) in consideration for the execution of the Property Package Agreements (as described on pages 151 to 152 and in paragraph E below) and the sale of the shares in the KCRC Subsidiaries (as defined on page 150) that were transferred to the Company under the Sale and Purchase Agreement which was entered into on 9 August 2007 between the Company and KCRC.

In addition to the initial payments above, the Company is also required to make the following payments to KCRC going forward:

- fixed annual payments of HK$750 million payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in arrears on the day immediately preceding each anniversary of the Merger Date which falls during the concession period in respect of the 12 month period up to and including the date on which such payment falls due; and
- variable annual payments payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in each case, calculated on a tiered basis by reference to the amount of revenue from the KCRC system (as determined in accordance with the Service Concession Agreement) for each financial year of the Company. No variable annual payment is payable in respect of the first 36 months following the Merger Date.

As a complete package deal, other than the payment elements described above and unless stated otherwise in the relevant paragraph below, no specific allocation was made between the various elements of the Rail Merger.

B Service Concession Agreement

The Service Concession Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Service Concession Agreement contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company (the "Service Concession"), including in relation to:

- the grant of the Service Concession to the Company to access, use and operate the concession property (other than KCRC railway land referred to immediately below) to certain specified standards;
- the grant of a licence to access and use certain KCRC railway land;
- the term (being an initial period of 50 years from the Merger Date) of the Service Concession and redelivery of the KCRC system upon expiry or termination of the concession period. The Service Concession will end if the Company's franchise relating to the KCRC railway is revoked;
- the payments of an upfront payment of HK$4.25 billion and fixed annual payments and variable annual payments (as described in paragraph A above);
- KCRC remaining the legal and beneficial owner of the concession property as at the Merger Date and the Company being the legal and beneficial owner of certain future concession property (the "Additional Concession Property");
- the regime for compensation payable by KCRC to the Company if Additional Concession Property is returned to KCRC at the end of the concession period;
- the rights and restrictions of the Company and KCRC in relation to the concession property; and
- subject to certain conditions, the Company bearing all risks, liabilities and/or costs whatsoever associated with or arising from the concession property and the land on which any of the concession property is located during the concession period.

C Sale and Purchase Agreement

The Sale and Purchase Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Sale and Purchase Agreement provides the terms pursuant to which the Company acquired certain assets and contracts (the "Purchased Rail Assets") from KCRC.

The consideration for the sale of the Purchased Rail Assets (excluding the shares in the KCRC Subsidiaries) formed part of the upfront payment of HK$4.25 billion. The consideration for the sale of the shares in the KCRC Subsidiaries (which own the Category 1A Properties referred to at paragraph E below and act as property managers) formed part of the payment of HK$7.79 billion for the property package (as described in paragraph A above and in paragraph E below).

D Operating Agreement

The Operating Agreement was entered into on 9 August 2007 between the Company and the Secretary for Transport and Housing for and on behalf of the Government as contemplated in the MTR Ordinance.

The Operating Agreement is based on the previous Operating Agreement which was signed on 30 June 2000. The Operating Agreement differs from the previous Operating Agreement to provide for, amongst other things, the nature of the combined MTRC railway and KCRC railway. The Operating Agreement includes terms relating to:

- the extension of the Company's franchise under the MTR Ordinance;
- the design, construction and maintenance of the railway;
- passenger services;

- a framework for the award of new projects and the operation and ownership structure of new railways;
- the adjustment mechanism to be applied to certain of the Company's fares; and
- compensation which may be payable under the MTR Ordinance to the Company in relation to a suspension, expiry or termination of the franchise.

Under the Operating Agreement, the fare adjustment mechanism is subject to review periodically. The first of such reviews was undertaken in 2013. The Company and the Government agreed on 16 April 2013 to amend the fare adjustment mechanism. In addition, the wider terms of the Operating Agreement are subject to review every five years and such a review was also undertaken in 2013. As a result of such reviews, the Company and the Government agreed measures in enhancing communication and liaison on operational arrangements.

E Additional Property Package Agreements

Category 1A Properties

The Category 1A Properties are held by the KCRC Subsidiaries. Under the terms of the Sale and Purchase Agreement, the Company acquired from KCRC the shares in the KCRC Subsidiaries (and thereby indirectly acquired the "Category 1A Properties").

Category 1B Properties

On 9 August 2007, KCRC and the Company entered into an agreement for sale and purchase under which KCRC agreed to assign certain properties (the "Category 1B Properties") to the Company on the Merger Date. The relevant assignment was executed between KCRC and the Company on 2 December 2007.

Category 4 Properties

On 9 August 2007, the Government entered into an undertaking that it would, within periods to be agreed between the Company and the 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 the 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.

Auditors

The retiring auditors, KPMG, have signified their willingness to continue in office. A resolution will be proposed at the forthcoming AGM to reappoint them and to authorise the Directors to fix their remuneration.

By order of the Board

Gillian Elizabeth Meller
Secretary to the Board
Hong Kong, 16 March 2015

Contents of Accounts and Notes

Independent Auditor's Report

Independent Auditor's Report to the Shareholders of MTR Corporation Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of MTR Corporation Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 167 to 254, which comprise the consolidated and company balance sheets as at 31 December 2014, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Accounts

The directors of the Company are responsible for the preparation of consolidated accounts that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit. This report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated accounts that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
16 March 2015

Consolidated Profit and Loss Account

for the year ended 31 December in HK$ million	Note	2014	2013
Revenue from Hong Kong transport operations	4	**16,223**	15,166
Revenue from Hong Kong station commercial businesses	5	**4,963**	4,588
Revenue from Hong Kong property rental and management businesses	6	**4,190**	3,778
Revenue from Mainland of China and international subsidiaries	7	**12,627**	13,246
Revenue from other businesses	8	**2,153**	1,929
		40,156	38,707
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses	9A	**(4,450)**	(4,198)
– Energy and utilities		**(1,409)**	(1,293)
– Operational rent and rates		**(269)**	(259)
– Stores and spares consumed		**(540)**	(514)
– Maintenance and related works	9B	**(1,361)**	(1,177)
– Railway support services		**(253)**	(246)
– General and administration expenses		**(640)**	(515)
– Other expenses		**(314)**	(247)
		(9,236)	(8,449)
Expenses relating to Hong Kong station commercial businesses		**(515)**	(464)
Expenses relating to Hong Kong property rental and management businesses		**(747)**	(673)
Expenses relating to Mainland of China and international subsidiaries	7	**(11,821)**	(12,455)
Expenses relating to other businesses		**(1,960)**	(1,781)
Project study and business development expenses	9C	**(454)**	(486)
Operating expenses before depreciation, amortisation and variable annual payment	9D,E&F	**(24,733)**	(24,308)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment			
– Arising from recurrent businesses		**15,478**	14,399
– Arising from Mainland of China property development		**(55)**	–
		15,423	14,399
Profit on Hong Kong property development	11	**4,216**	1,396
Operating profit before depreciation, amortisation and variable annual payment		**19,639**	15,795
Depreciation and amortisation	12	**(3,485)**	(3,372)
Variable annual payment		**(1,472)**	(1,247)
Operating profit before interest and finance charges		**14,682**	11,176
Interest and finance charges	13	**(545)**	(732)
Investment property revaluation	20	**4,035**	4,425
Share of profit or loss of associates	29	**121**	158
Profit before taxation		**18,293**	15,027
Income tax	14A	**(2,496)**	(1,819)
Profit for the year		**15,797**	13,208
Attributable to:			
– Equity shareholders of the Company	15	**15,606**	13,025
– Non-controlling interests		**191**	183
Profit for the year		**15,797**	13,208
Profit for the year attributable to equity shareholders of the Company:			
– Arising from underlying businesses before property development		**8,024**	7,437
– Arising from property development		**3,547**	1,163
– Arising from underlying businesses		**11,571**	8,600
– Arising from investment property revaluation		**4,035**	4,425
		15,606	13,025
Earnings per share:	17		
– Basic		**HK$2.69**	HK$2.25
– Diluted		**HK$2.68**	HK$2.24

The notes on pages 173 to 254 form part of the accounts.

Consolidated Statement of Comprehensive Income

for the year ended 31 December in HK$ million	Note	**2014**	2013
Profit for the year		**15,797**	13,208
Other comprehensive income for the year (after taxation and reclassification adjustments):	19		
Items that will not be reclassified to profit or loss:			
– Surplus on revaluation of self-occupied land and buildings		**116**	298
– Remeasurement of net liability of defined benefit plans		**(370)**	686
		(254)	984
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of overseas subsidiaries and associates		**(95)**	109
– non-controlling interests		**(26)**	(35)
– Cash flow hedges: net movement in hedging reserve		**37**	(61)
		(84)	13
		(338)	997
Total comprehensive income for the year		**15,459**	14,205
Attributable to:			
– Equity shareholders of the Company		**15,294**	14,057
– Non-controlling interests		**165**	148
Total comprehensive income for the year		**15,459**	14,205

The notes on pages 173 to 254 form part of the accounts.

Consolidated Balance Sheet

in HK$ million	Note	At 31 December 2014	At 31 December 2013
Assets			
Fixed assets			
– Investment properties	20	**65,679**	61,285
– Other property, plant and equipment	21	**78,279**	76,277
– Service concession assets	22	**26,698**	25,594
		170,656	163,156
Property management rights	23	**30**	31
Railway construction in progress	24	**16,229**	11,548
Property development in progress	26A	**7,490**	11,233
Deferred expenditure	27	**64**	4
Interests in associates	29	**5,797**	5,277
Deferred tax assets	44B	**50**	29
Investments in securities	30	**527**	472
Properties held for sale	31	**1,076**	1,105
Derivative financial assets	32	**105**	115
Stores and spares	33	**1,365**	1,281
Debtors, deposits and payments in advance	34	**3,797**	3,621
Amounts due from related parties	35	**1,073**	654
Cash, bank balances and deposits	36	**18,893**	17,297
		227,152	215,823
Liabilities			
Bank overdrafts	37A	**46**	47
Short-term loans	37A	**500**	–
Creditors and accrued charges	38	**16,421**	13,793
Current taxation	44A	**996**	349
Contract retentions	39	**1,094**	986
Amounts due to related parties	40	**1,607**	1,388
Loans and other obligations	37A	**19,961**	24,464
Obligations under service concession	41	**10,614**	10,658
Derivative financial liabilities	32	**565**	389
Loan from holders of non-controlling interests	42	**124**	135
Deferred income	43	**765**	623
Deferred tax liabilities	44B	**10,977**	10,289
		63,670	63,121
Net assets		**163,482**	152,702
Capital and reserves			
Share capital and other statutory capital reserves	45	**45,280**	44,442
Other reserves	46	**118,045**	108,115
Total equity attributable to equity shareholders of the Company		**163,325**	152,557
Non-controlling interests		**157**	145
Total equity		**163,482**	152,702

Approved and authorised for issue by the Members of the Board on 16 March 2015

Raymond K F Ch'ien
Chairman

Lincoln K K Leong
Chief Executive Officer

Stephen C K Law
Finance Director

The notes on pages 173 to 254 form part of the accounts.

Balance Sheet

in HK$ million	Note	**At 31 December 2014**	At 31 December 2013
Assets			
Fixed assets			
– Investment properties	20	**64,237**	59,940
– Other property, plant and equipment	21	**77,635**	75,705
– Service concession assets	22	**18,492**	17,384
		160,364	153,029
Property management rights	23	**30**	31
Railway construction in progress	24	**16,229**	11,548
Property development in progress	26A	**3,962**	8,335
Deferred expenditure	27	**64**	4
Investments in subsidiaries	28	**1,292**	1,285
Properties held for sale	31	**1,076**	1,105
Derivative financial assets	32	**90**	115
Stores and spares	33	**1,059**	1,008
Debtors, deposits and payments in advance	34	**2,327**	2,341
Amounts due from related parties	35	**11,795**	10,883
Cash, bank balances and deposits	36	**16,532**	15,678
		214,820	205,362
Liabilities			
Bank overdrafts	37A	**46**	47
Short-term loans	37A	**500**	–
Creditors and accrued charges	38	**13,103**	10,929
Current taxation	44A	**916**	275
Contract retentions	39	**853**	834
Amounts due to related parties	40	**14,196**	19,011
Loans and other obligations	37A	**2,574**	2,993
Obligations under service concession	41	**10,438**	10,480
Derivative financial liabilities	32	**565**	389
Deferred income	43	**26**	50
Deferred tax liabilities	44B	**10,889**	10,218
		54,106	55,226
Net assets		**160,714**	150,136
Capital and reserves			
Share capital and other statutory capital reserves	45	**45,280**	44,442
Other reserves	46	**115,434**	105,694
Total equity		**160,714**	150,136

Approved and authorised for issue by the Members of the Board on 16 March 2015

Raymond K F Ch'ien
Chairman

Lincoln K K Leong
Chief Executive Officer

Stephen C K Law
Finance Director

The notes on pages 173 to 254 form part of the accounts.

Consolidated Statement of Changes in Equity

for the year ended 31 December in HK$ million	Note	Share capital	Other statutory capital reserves (note 45B)		Other reserves					Total equity attributable to equity shareholders of the Company	Non-controlling interests	Total equity
			Share premium	Capital reserve	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits			
2014												
Balance as at 1 January 2014		**5,798**	**11,456**	**27,188**	**2,525**	**(128)**	**240**	**513**	**104,965**	**152,557**	**145**	**152,702**
Changes in equity for the year ended 31 December 2014:												
– Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,606**	**15,606**	**191**	**15,797**
– Other comprehensive income for the year	19	**–**	**–**	**–**	**116**	**37**	**–**	**(95)**	**(370)**	**(312)**	**(26)**	**(338)**
– Total comprehensive income for the year		**–**	**–**	**–**	**116**	**37**	**–**	**(95)**	**15,236**	**15,294**	**165**	**15,459**
– Employee share options exercised before 3 March 2014	45A	**1**	**3**	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**4**
– Transition to no-par value regime on 3 March 2014	45A	**38,647**	**(11,459)**	**(27,188)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– 2013 final dividend	16	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,886)**	**(3,886)**	**–**	**(3,886)**
– Shares issued in respect of scrip dividend of 2013 final dividend	45A	**335**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**335**	**–**	**335**
– 2014 interim dividend	16	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,455)**	**(1,455)**	**–**	**(1,455)**
– Shares issued in respect of scrip dividend of 2014 interim dividend	45A	**61**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**61**	**–**	**61**
– Dividends paid to holders of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(153)**	**(153)**
– Employee share-based payments		**–**	**–**	**–**	**–**	**–**	**42**	**–**	**–**	**42**	**–**	**42**
– Employee share options exercised on or after 3 March 2014	45A	**438**	**–**	**–**	**–**	**–**	**(65)**	**–**	**–**	**373**	**–**	**373**
– Employee share options forfeited		**–**	**–**	**–**	**–**	**–**	**(3)**	**–**	**3**	**–**	**–**	**–**
Balance as at 31 December 2014		**45,280**	**–**	**–**	**2,641**	**(91)**	**214**	**418**	**114,863**	**163,325**	**157**	**163,482**
2013												
Balance as at 1 January 2013		5,793	11,300	27,188	2,227	(67)	219	412	95,832	142,904	207	143,111
Changes in equity for the year ended 31 December 2013:												
– Profit for the year		–	–	–	–	–	–	–	13,025	13,025	183	13,208
– Other comprehensive income for the year	19	–	–	–	298	(61)	–	109	686	1,032	(35)	997
– Total comprehensive income for the year		–	–	–	298	(61)	–	109	13,711	14,057	148	14,205
– 2012 final dividend	16	–	–	–	–	–	–	–	(3,130)	(3,130)	–	(3,130)
– 2013 interim dividend	16	–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
– Dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	–	(192)	(192)
– Disposal of a subsidiary		–	–	–	–	–	–	(8)	–	(8)	(18)	(26)
– Employee share-based payments		–	–	–	–	–	48	–	–	48	–	48
– Employee share options exercised	45A	5	156	–	–	–	(25)	–	–	136	–	136
– Employee share options forfeited		–	–	–	–	–	(2)	–	2	–	–	–
Balance as at 31 December 2013		5,798	11,456	27,188	2,525	(128)	240	513	104,965	152,557	145	152,702

The notes on pages 173 to 254 form part of the accounts.

Consolidated Cash Flow Statement

for the year ended 31 December in HK$ million	Note	2014		2013	
Cash flows from operating activities					
Cash generated from operations	47	**16,519**		15,446	
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		**652**		661	
Current tax paid					
– Hong Kong Profits Tax paid		**(954)**		(1,183)	
– Mainland of China and overseas tax paid		**(173)**		(160)	
Net cash generated from operating activities			**16,044**		14,764
Cash flows from investing activities					
Capital expenditure					
– Purchase of assets for Hong Kong transport and related operations		**(2,889)**		(2,790)	
– Shenzhen Metro Longhua Line Project and related operations		**(471)**		(577)	
– Island Line Extension Project		**(2,760)**		(2,537)	
– South Island Line (East) Project		**(2,611)**		(3,283)	
– Kwun Tong Line Extension Project		**(969)**		(1,029)	
– Shenzhen Longhua Line Depot Property Development		**(681)**		(2,146)	
– Hong Kong Property Development		**(410)**		(550)	
– Investment property projects and fitting out work		**(1,497)**		(366)	
– Other capital projects		**(71)**		(77)	
Fixed annual payment		**(750)**		(750)	
Variable annual payment		**(1,247)**		(883)	
Receipts in respect of Hong Kong property development		**9,176**		3,937	
Decrease in bank deposits with more than three months to maturity when placed or pledged		**6,607**		3,463	
Purchase of investments in securities		**(177)**		(192)	
Proceeds from sale or redemption of investments in securities		**122**		109	
Proceeds from disposal of fixed assets		**10**		4	
Investment in an associate		**(294)**		(1,111)	
Proceeds from disposal of an associate		**–**		62	
Receipt of loan repayment from an associate		**–**		24	
Dividends received from associates		**43**		197	
Net cash generated from/(used in) investing activities			**1,131**		(8,495)
Cash flows from financing activities					
Proceeds from shares issued under share option schemes		**377**		136	
Drawdown of loans		**11,171**		2,229	
Proceeds from issuance of capital market instruments		**543**		3,248	
Repayment of loans		**(10,205)**		(918)	
Repayment of capital market instruments		**(5,158)**		(3,336)	
Interest paid		**(791)**		(967)	
Interest received		**218**		253	
Finance charges paid		**(29)**		(38)	
Dividends paid to equity shareholders of the Company		**(4,944)**		(4,580)	
Dividends paid to holders of non-controlling interests		**(153)**		(192)	
Net cash used in financing activities			**(8,971)**		(4,165)
Net increase in cash and cash equivalents			**8,204**		2,104
Cash and cash equivalents at 1 January			**7,209**		5,105
Cash and cash equivalents at 31 December	36		**15,413**		7,209

The notes on pages 173 to 254 form part of the accounts.

Notes to the Accounts

1 Statement of Compliance

These accounts have been prepared in compliance with the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These accounts also comply with 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 2014. Changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts are disclosed in note 2A(iii).

2 Principal Accounting Policies

A Basis of Preparation of the Accounts

(i) The measurement basis used in the preparation of the accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (note 2E(i));
- self-occupied land and buildings (note 2E(ii));
- financial instruments classified as investments in securities other than those intended to be held to maturity (note 2L); and
- derivative financial instruments (note 2S).

(ii) The preparation of the accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and estimations about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates are discussed in note 55.

(iii) The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's accounts:

- Amendments to HKAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to HKAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*
- Amendments to HKAS 39, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. These amendments do not have an impact on the Group's accounts.

The amendments to HKAS 36 modify the disclosures requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for impaired assets or cash-generating units whose recoverable amount is based on fair value less costs of disposal. The adoption of these amendments does not have an impact on the Group's accounts.

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments do not have an impact on the Group's accounts as the Group has not novated any of its derivatives.

The Group has not applied any new or revised standard or interpretation that is not yet effective for the current accounting period (note 56).

B Basis of Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates (note 2D) made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate.

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 balance sheet within equity, separately from equity attributable to equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated profit and loss account and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet depending on the nature of the liability.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (note 2D).

Investments in subsidiaries are carried in the Company's balance sheet at cost less any impairment losses (note 2G(ii)).

D Associates

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated accounts of the Group using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets. The Group's share of the post-acquisition results of the investees for the year is recognised in the consolidated profit and loss account, whereas the Group's share of the post-acquisition items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's balance sheet, investments in associates are stated at cost less impairment losses (note 2G(ii)).

E Fixed Assets

(i) Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include properties that are being constructed or developed for future use as investment properties.

Investment properties are stated on the balance sheet 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.

2 Principal Accounting Policies *(continued)*

E Fixed Assets *(continued)*

(ii) Leasehold land registered and located in the Hong Kong Special Administrative Region is accounted for as being held under a finance lease and is stated at cost less accumulated depreciation and impairment losses (note 2G(ii)). Land held for own use under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at inception of the lease, are accounted for as being held under a finance lease, unless the buildings are also clearly held under an operating lease. For these purposes, inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. The self-occupied land and buildings are stated on the balance sheet 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 2G(ii)).

(iv) Assets under construction are stated at cost less impairment losses (note 2G(ii)). Cost comprises direct costs of construction, such as materials, staff costs and overheads, together with interest expense capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate fixed assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

(v) Leased Assets

(a) Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments (computed using the rate of interest implicit in the lease), of such assets are included in fixed assets and the corresponding liabilities, net of finance charges are recorded as obligations under finance leases. Depreciation and impairment losses are accounted for in accordance with the accounting policy as set out in notes 2H(iv) and 2G(ii) respectively. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(b) Leases of assets, other than that mentioned in note 2E(ii), under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as operating leases. Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Impairment losses are accounted for in accordance with the accounting policies on impairment of assets (note 2G(ii)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in note 2Y(ii).

(vi) Subsequent expenditure relating to the replacement of certain parts of an existing fixed asset is recognised in the carrying amount of the asset if it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised, with gain or loss arising therefrom dealt with in the profit and loss account.

Expenditure on repairs or maintenance of an existing fixed asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense in the profit and loss account when incurred.

Gains or losses arising from the retirement or disposal of a fixed asset or an investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed assets revaluation reserve to retained profits and is not re-classified to profit and loss account.

(vii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services, upfront payments and expenditure directly attributable to the acquisition of the service concession up to inception of the service concession are capitalised as service concession assets and amortised on a straight-line basis over the period of the service concession. Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at their present value, calculated using the incremental long term borrowing rate determined at inception as the discount rate, as service concession assets and amortised on a straight-line basis over the period of the service concession, with a corresponding liability recognised as obligations under service concession. Annual payments for the service concession which are not fixed or determinable at inception and are contingent on future revenue are charged to the profit and loss account in the period when incurred.

2 Principal Accounting Policies *(continued)*

E Fixed Assets *(continued)*

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenue and costs are recognised in the profit and loss account by reference to the stage of completion at the balance sheet date while the fair value of construction service is capitalised initially as service concession assets in the balance sheet and amortised on a straight-line basis over the shorter of the assets' useful lives and the period in which the service concession assets are expected to be available for use by the Group.

Expenditure for the replacement and/or upgrade of the assets subject to service concession is capitalised and amortised on a straight-line basis over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried on the balance sheet as an intangible asset at cost less accumulated amortisation and impairment losses, if any (note 2G(ii)).

Income and expenditure and assets and liabilities in relation to the operation of the service concessions are accounted for in the Group's and the Company's profit and loss accounts and balance sheets.

F Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated on the balance sheet at cost less accumulated amortisation and impairment losses (note 2G(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

G Impairment of Assets

(i) Impairment of Debtors and Other Receivables

Debtors and other current and non-current receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases, the impairment loss is reversed through the profit and loss account.

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including service concession assets but other than assets carried at revalued amounts);
- property management rights;
- railway construction in progress;
- property development in progress;
- deferred expenditure; and
- investments in subsidiaries and associates.

If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

2 Principal Accounting Policies *(continued)*

H Depreciation and Amortisation

(i) Investment properties are not depreciated.

(ii) Fixed assets other than investment properties, assets under construction and service concession assets which are amortised over the entire or remaining period of the service concession (note 2E(vii)) are depreciated or amortised on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

Land and Buildings

Self-occupied land and buildings	the shorter of 50 years and the unexpired term of the lease
Leasehold land	the unexpired term of the lease

Civil Works

Excavation and boring	Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes	100 years
Station building structures	100 years
Depot structures	80 years
Kiosk structures	20 – 30 years
Cableway station tower and theme village structures	27 – 30 years

Plant and Equipment

Rolling stock and components	4 – 50 years
Platform screen doors	10 – 35 years
Rail track	7 – 50 years
Environmental control systems, lifts and escalators, fire protection and drainage system	7 – 30 years
Power supply systems	7 – 40 years
Aerial ropeway and cabin	5 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	20 – 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 25 years
Station architectural finishes	8 – 30 years
Fixtures and fittings	4 – 25 years
Maintenance equipment	4 – 40 years
Office furniture and equipment	2 – 15 years
Computer software licences and applications	2 – 10 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	4 – 8 years

Where parts of an item of property, plant and equipment have different useful lives, each part is depreciated or amortised separately. The useful lives of the various categories of fixed assets are reviewed annually in the light of actual asset condition, usage experience and the current asset replacement programme.

(iii) No depreciation or amortisation is provided on assets under construction until the construction is completed and the assets are ready for their intended use.

(iv) Depreciation on assets held under finance leases is provided at rates designed to write off the cost of the asset in equal annual amounts over the shorter of the lease term or the anticipated useful life of the asset as set out above, except in cases where title to the asset will be acquired by the Group at the end of the lease where depreciation is provided at rates designed to write off the cost of the asset in equal amounts over the anticipated useful life of the asset.

2 Principal Accounting Policies *(continued)*

I Construction Costs

(i) Costs incurred by the Group in respect of feasibility studies on proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:

- where the proposed projects are at a preliminary review stage with no certainty of materialising, the costs concerned are charged to the profit and loss account; and
- where the proposed projects are at a detailed study stage, having been agreed in principle by the Members of the Board based on a feasible financial plan, the costs concerned are recorded as deferred expenditure until such time as a project agreement is reached, whereupon the costs are transferred to railway construction in progress.

(ii) After entering into a project agreement, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

J Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs, acquisition of development rights, aggregate cost of development, borrowing costs capitalised and other direct expenses are dealt with as property development in progress.

(ii) Payments received from developers in respect of property developments are offset against the amounts in property development in progress attributable to that development. Any surplus amounts of payments received from developers in excess of the balance in property development in progress are transferred to deferred income. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

(iii) Profits arising from the development of properties undertaken in conjunction with property developers are recognised in the profit and loss account as follows:

- where the Group receives payments from developers, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
- where the Group receives a right to a share of the net surplus from sale of the development and interests in any unsold units, income is initially recognised by the Group upon the issue of occupation permits provided the amounts of revenue and costs can be estimated reliably. The interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2J(iv); 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) Where properties are received as a profit distribution upon completion of development and are held for sale, those properties are stated at fair value upon receipt as their cost and subsequently carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. When properties are sold, the carrying amount of those properties is recognised as cost of properties sold in the period in which the related revenue is recognised. The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

(v) Where properties under construction are received from a development for investment purpose, these properties are recognised as investment properties at fair value. Further costs incurred in the construction of those assets and the related fitting out costs are capitalised in investment properties.

K Joint Operations

A joint operation is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The arrangements entered into by the Group with developers for Hong Kong property development without establishing separate entities are considered to be joint operations in accordance with HKFRS 11, *Joint Arrangements*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. Such costs are deductible from the proceeds of sale before surplus proceeds are shared. In respect of its interests in such operations, the Group accounts for the purchase consideration of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) paid net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the profit and loss account on the basis of note 2J(iii) after netting off any related balance in property development in progress at that time.

2 Principal Accounting Policies *(continued)*

L Investments in Securities

The Group's policies for investments in securities (other than investments in its subsidiaries and associates) are as follows:

(i) Investments in securities held for trading purpose are initially stated at fair value. At each balance sheet date, the fair value is remeasured with any resultant unrealised gain or loss being recognised in the profit and loss account.

(ii) Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(iii) Interest income in relation to investment in securities is recognised as it accrues using the effective interest method.

(iv) Profit or loss on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

M Stores and Spares

Stores and spares used for business operation are categorised as either revenue or capital. Revenue spares are stated in the balance sheet at cost, using the weighted average cost method and are recognised as expenses in the period in which the consumption occurs. Provision is made for obsolescence where appropriate. Capital spares are included in fixed assets and stated at cost less accumulated depreciation and impairment losses (note 2G(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

N Long-term Contracts

The accounting policy for contract revenue is set out in note 2Y(iii). When the outcome of a fixed-price long-term contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a long-term contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

Long-term contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Gross amount due from customers for contract work" (as an asset) or "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Debtors, deposits and payments in advance". Amounts received before the related work is performed are included in the balance sheet as a liability under "Creditors and accrued charges".

O Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value with a maturity at acquisition within three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

P Debtors, Deposits and Payments in Advance

Debtors, deposits and payments in advance are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less impairment losses for bad and doubtful debts (note 2G(i)), except where the effect of discounting would be immaterial or the discount is not measurable as the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Q Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value net of transaction costs incurred. The interest-bearing borrowings not subject to fair value hedges are subsequently stated at amortised costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Subsequent to initial recognition, the carrying amount of interest-bearing borrowings subject to fair value hedges is remeasured and the change in fair value attributable to the risk being hedged is recognised in the profit and loss account to offset the effect of the gain or loss on the related hedging instrument.

R Creditors and Accrued Charges

Creditors and accrued charges are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

S Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on the Group's policies, these instruments are used solely for reducing or eliminating financial risks associated with the Group's investments and liabilities and not for trading or speculation purposes.

Derivatives are initially recognised at fair value and are subsequently remeasured at their fair value at each balance sheet date. 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.

2 Principal Accounting Policies *(continued)*

S Derivative Financial Instruments and Hedging Activities *(continued)*

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; or (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income which is accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the profit and loss account in the periods when the hedged item is recognised in the profit and loss account. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the profit and loss account.

(iii) Derivatives That Do Not Qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

T Employee Benefits

(i) Salaries, annual leave, other allowances, contributions to defined contribution retirement plans, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and other costs of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where these benefits are incurred for staff relating to construction projects, capital works and property developments, they are capitalised as part of the cost of the qualifying assets. In other cases, they are recognised as expenses in the profit and loss account as incurred.

(ii) The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. Service cost and net interest expense/ income on the net defined benefit liability/asset are recognised either as an expense in the profit and loss account, or capitalised as part of the cost of the relevant construction projects, capital works or property developments, as the case may be. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in the profit and loss account or capitalised at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/income for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the weighted average duration of the plan's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise of actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/asset) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/asset).

(iii) Equity-settled share-based payments are measured at fair value at the date of grant. 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.

2 Principal Accounting Policies *(continued)*

T Employee Benefits *(continued)*

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 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 each balance sheet date.

(iv) Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

U Retirement Schemes

The Group operates both defined contribution and defined benefit retirement schemes.

Employer's contributions to defined contribution retirement schemes including MPF Schemes are recognised in the accounts in accordance with the policy set out in note 2T(i).

Employer's contributions paid and payable in respect of employees of defined benefit retirement schemes as 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 to note 2T(ii).

V Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried backward or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to the recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2E(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the balance sheet date 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 balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 Principal Accounting Policies *(continued)*

V Income Tax *(continued)*

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

W Financial Guarantee Contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment to the holder when due in accordance with the original or modified terms of a debt instrument.

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee, after netting off any consideration received or receivable at inception, is initially debited to the profit and loss account and recognised as deferred income within creditors and accrued charges. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2X if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors and accrued charges in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

X Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Y Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits associated with the transactions will flow to the Group and the amount of revenue can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Fare revenue is recognised when the journey is provided.

(ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is accounted for in accordance with the terms of the leases. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable 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.

Z Operating Lease Charges

Rentals payable under operating leases are charged on a straight-line basis over the period of the lease to the profit and loss account, except for rentals payable in respect of railway construction, property development in progress and proposed capital projects which are capitalised as part of railway construction in progress, property development in progress and deferred expenditure respectively.

2 Principal Accounting Policies *(continued)*

AA Interest and Finance Charges

Interest income and expense directly attributable to the financing of capital projects prior to their completion or commissioning are capitalised. Exchange differences arising from foreign currency borrowings relating to the acquisition of assets are capitalised to the extent that they are regarded as an adjustment to capitalised interest costs. Interest expense attributable to other purposes is charged to the profit and loss account.

Finance charges implicit in the lease payments on assets held under finance leases are charged to the profit and loss account over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

BB Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. 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. Balance sheet items are translated into Hong Kong dollars at the closing exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

CC Segment Reporting

Operating segments, and the amounts of each segment item reported in the accounts, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of businesses and operations in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services and products, the type or class of customers, the methods used to provide the services or distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

DD Related Parties

For the purposes of these accounts, a person, or a close member of that person's family, is related to the Group if that person is a member of the key management personnel of the Group. An entity is related to the Group if the entity and the Group are members of the same group, or the entity is an associate of the Group, or post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group, or an individual who is a related party of the Group has control, jointly control, significant influence over that entity or is a member of the key management personnel of that entity.

EE Government Grants

Government grants are assistance by governments in the form of transfer of resources in return for the Group's compliance to the conditions attached thereto. Government grants which represent compensation for the cost of an asset are deducted from the cost of the asset in arriving at its carrying value to the extent of the amounts received and receivable as at the date of the balance sheet. 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 balance sheet date are carried forward as advance receipts or deferred income to set off against the future cost of the asset or future expenses or losses.

3 Rail Merger with Kowloon-Canton Railway Corporation

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of Kowloon-Canton Railway Corporation ("KCRC") ("Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the Hong Kong Special Administrative Region (the "HKSAR Government"), KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement. Key elements of the Rail Merger included the following:

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), extendable pursuant to the provisions of the MTR Ordinance (note 53C);
- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay variable annual payments to KCRC, calculated on a tiered basis by reference to the revenue generated from the KCRC system above certain thresholds;
- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;

3 Rail Merger with Kowloon-Canton Railway Corporation *(continued)*

- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted; and
- Property Package Agreements and Merger Framework Agreement setting out the acquisition of certain properties, property management rights and property development rights by the Company as well as the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK$ million	2014	2013
Fare Revenue:		
– Domestic Service	**11,318**	10,511
– Cross-boundary Service	**3,049**	2,923
– Airport Express	**915**	843
– Light Rail and Bus	**639**	600
– Intercity Service	**145**	144
	16,066	15,021
Other rail-related income	**157**	145
	16,223	15,166

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan Lines. Other rail-related income includes mainly ancillary service income from Intercity Service, by-law infringement surcharge and Octopus load agent fees.

In 2014, the Island Line was extended to the Western District when HKU and Kennedy Town stations opened on 28 December 2014.

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK$ million	2014	2013
Duty free shops and kiosks rental	**3,197**	2,933
Advertising	**1,118**	1,053
Telecommunication income	**479**	447
Other station commercial income	**169**	155
	4,963	4,588

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK$ million	2014	2013
Property rental income from:		
– Elements	**1,021**	855
– Telford Plaza	**811**	766
– Maritime Square	**504**	477
– Luk Yeung Galleria	**177**	181
– Citylink Plaza	**157**	148
– PopCorn	**160**	142
– Paradise Mall	**143**	136
– International Finance Centre	**547**	442
– Other properties	**425**	400
	3,945	3,547
Property management income	**245**	231
	4,190	3,778

7 Revenue and Expenses Relating to Mainland of China and International Subsidiaries

Revenue and expenses relating to Mainland of China and international subsidiaries comprise:

in HK$ million	Railway-related subsidiaries outside of Hong Kong: Stockholm Metro	Melbourne Train	Shenzhen Metro Longhua Line	Sydney North West Rail Link (Note 29)	MTR Express	Total	Property rental and management businesses in Mainland of China	Property development in Mainland of China	Total Mainland of China and international subsidiaries
2014									
Revenue	**3,347**	**8,476**	**601**	**48**	**–**	**12,472**	**155**	**–**	**12,627**
Expenses	**3,220**	**7,896**	**455**	**50**	**17**	**11,638**	**128**	**55**	**11,821**
2013									
Revenue	3,325	9,269	506	–	–	13,100	146	–	13,246
Expenses	3,187	8,717	428	–	–	12,332	123	–	12,455

8 Revenue from Other Businesses

Revenue from other businesses comprises incomes from:

in HK$ million	2014	2013
Ngong Ping 360	**375**	316
Consultancy business	**180**	128
Project management for HKSAR Government	**1,561**	1,461
Miscellaneous businesses	**37**	24
	2,153	1,929

9 Operating Expenses

A Total staff costs include:

in HK$ million	2014	2013
Amounts charged to profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**4,450**	4,198
– maintenance and related works for Hong Kong transport operations	**80**	86
– other expense line items for Hong Kong transport operations	**65**	63
– expenses relating to Hong Kong station commercial businesses	**74**	70
– expenses relating to Hong Kong property rental and management businesses	**94**	93
– expenses relating to Mainland of China and international subsidiaries	**5,468**	5,273
– expenses relating to other businesses	**1,694**	1,518
– project study and business development expenses	**244**	200
– profit on Hong Kong property development	**6**	6
Amounts capitalised under:		
– railway construction in progress before offset by government grant	**569**	447
– property development in progress	**136**	136
– assets under construction and other projects	**363**	383
– service concession assets	**294**	229
Amounts recoverable	**496**	473
Total staff costs	**14,033**	13,175

Amounts recoverable relate to property management, entrustment works and other agreements.

9 Operating Expenses *(continued)*

A Total staff costs include: *(continued)*

The following expenditures are included in total staff costs:

in HK$ million	2014	2013
Share-based payments	**43**	52
Contributions to defined contribution retirement plans and Mandatory Provident Fund	**619**	560
Amounts recognised in respect of defined benefit retirement plans	**348**	388
	1,010	1,000

B The costs of maintenance and related works for Hong Kong transport operations relate mainly to contracted maintenance and revenue works. Other routine repairs and maintenance works are performed by in-house operations and the costs of which are included under staff costs and related expenses as well as stores and spares consumed.

C Project study and business development expenses comprise:

in HK$ million	2014	2013
Business development expenses	**427**	452
Miscellaneous project study expenses	**27**	34
	454	486

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	2014	2013
Audit	**12**	12
Other audit related services	**6**	5
Tax	**1**	1
Other non-audit services	**16**	7
	35	25

E The following charges/(credits) are included in operating expenses:

in HK$ million	2014	2013
Loss on disposal of fixed assets	**36**	37
Derivative financial instruments – transferred from hedging reserve (note 19B)	**–**	(2)
Unrealised loss on revaluation of investments in securities	**1**	2

F Operating lease expenses charged to the consolidated profit and loss account comprise:

in HK$ million	2014	2013
Shopping centre, office building, staff quarters and bus depot	**92**	87
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for subsidiaries	**1,004**	1,050
Amount capitalised	**(7)**	(3)
	1,089	1,134

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
2014					
Members of the Board					
– Raymond Ch'ien Kuo-fung	**1.2**	**–**	**–**	**–**	**1.2**
– Pamela Chan Wong Shui	**0.3**	**–**	**–**	**–**	**0.3**
– Dorothy Chan Yuen Tak-fai	**0.3**	**–**	**–**	**–**	**0.3**
– Vincent Cheng Hoi-chuen	**0.3**	**–**	**–**	**–**	**0.3**
– Christine Fang Meng-sang	**0.3**	**–**	**–**	**–**	**0.3**
– Edward Ho Sing-tin	**0.4**	**–**	**–**	**–**	**0.4**
– James Kwan Yuk-choi (appointed on 14 October 2014)	**0.1**	**–**	**–**	**–**	**0.1**
– Lucia Li Li Ka-lai (appointed on 14 October 2014)	**0.1**	**–**	**–**	**–**	**0.1**
– Alasdair George Morrison	**0.3**	**–**	**–**	**–**	**0.3**
– Frederick Ma Si-hang	**0.3**	**–**	**–**	**–**	**0.3**
– Ng Leung-sing	**0.3**	**–**	**–**	**–**	**0.3**
– Abraham Shek Lai-him	**0.3**	**–**	**–**	**–**	**0.3**
– T. Brian Stevenson	**0.4**	**–**	**–**	**–**	**0.4**
– Benjamin Tang Kwok-bun (appointed on 14 October 2014)	**0.1**	**–**	**–**	**–**	**0.1**
– Ceajer Chan Ka-keung	**0.3**	**–**	**–**	**–**	**0.3**
– Anthony Cheung Bing-leung	**0.3**	**–**	**–**	**–**	**0.3**
– Wai Chi-sing (appointed on 14 October 2014)	**0.1**	**–**	**–**	**–**	**0.1**
– Ingrid Yeung Ho Poi-yan	**0.3**	**–**	**–**	**–**	**0.3**
Members of the Executive Directorate					
– Jay H Walder (up to 15 August 2014)	**–**	**5.8**	**–***	**–**	**5.8**
– Lincoln Leong Kwok-kuen	**–**	**7.0**	**1.1**	**2.3**	**10.4**
– Morris Cheung Siu-wa	**–**	**4.0**	**0.2**	**0.7**	**4.9**
– Chew Tai-chong (up to 27 October 2014)	**–**	**4.9**	**0.6**	**0.4**	**5.9**
– Jacob Kam Chak-pui	**–**	**5.0**	**0.8**	**1.8**	**7.6**
– Stephen Law Cheuk-kin	**–**	**4.8**	**0.7**	**1.3**	**6.8**
– Gillian Elizabeth Meller	**–**	**3.7**	**0.5**	**1.3**	**5.5**
– David Tang Chi-fai	**–**	**4.0**	**0.6**	**1.4**	**6.0**
– Philco Wong Nai-keung (appointed on 28 October 2014) **	**–**	**0.9**	**0.1**	**0.2**	**1.2**
– Jeny Yeung Mei-chun	**–**	**3.9**	**0.6**	**1.4**	**5.9**
	5.7	**44.0**	**5.2**	**10.8**	**65.7**

* The total contributions paid by the Company attributable to the financial year ended 31 December 2014 for Jay H Walder, who participated in the MTR MPF Scheme, was HK$10,750.

** Philco N K Wong was appointed as a Member of the Executive Directorate on 28 October 2014. The amount of his emoluments shown in the above table covers the period from the date of his appointment to 31 December 2014.

Mr. Jay H Walder received a contractual settlement amount of HK$15.7 million, of which HK$725,428 was the equivalent value in cash of 24,378 shares as referred to in Note 49(B), from the Company upon his stepping down as Chief Executive Officer of the Company on 15 August 2014. Both amounts are not reflected in the above table.

Notes to the Accounts

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2013					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.2	–	–	–	1.2
– Pamela Chan Wong Shui (appointed on 4 July 2013)	0.1	–	–	–	0.1
– Dorothy Chan Yuen Tak-fai (appointed on 4 July 2013)	0.1	–	–	–	0.1
– Vincent Cheng Hoi-chuen	0.3	–	–	–	0.3
– Christine Fang Meng-sang	0.3	–	–	–	0.3
– Edward Ho Sing-tin	0.4	–	–	–	0.4
– Alasdair George Morrison	0.3	–	–	–	0.3
– Frederick Ma Si-hang (appointed on 4 July 2013)	0.1	–	–	–	0.1
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.3	–	–	–	0.3
– T. Brian Stevenson	0.4	–	–	–	0.4
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Anthony Cheung Bing-leung	0.3	–	–	–	0.3
– Ingrid Yeung Ho Poi-yan	0.3	–	–	–	0.3
Members of the Executive Directorate					
– Jay H Walder	–	8.0	–*	5.0	13.0
– Lincoln Leong Kwok-kuen	–	6.3	1.0	2.4	9.7
– Morris Cheung Siu-wa	–	4.1	0.2	1.4	5.7
– Chew Tai-chong	–	7.1	0.8	2.0	9.9
– Jacob Kam Chak-pui	–	4.5	0.7	1.9	7.1
– Stephen Law Cheuk-kin (appointed on 2 July 2013)**	–	2.3	0.3	0.6	3.2
– Gillian Elizabeth Meller	–	3.5	0.5	1.3	5.3
– David Tang Chi-fai	–	3.7	0.6	1.4	5.7
– Jeny Yeung Mei-chun	–	3.7	0.5	1.5	5.7
	4.7	43.2	4.6	17.5	70.0

* The total contributions paid by the Company attributable to the financial year ended 31 December 2013 for Jay H Walder, who participated in the MTR MPF Scheme, was HK$15,000.

** Stephen C K Law was appointed as a Member of the Executive Directorate on 2 July 2013. The amount of his emoluments shown in the above table covers the period from the date of his appointment to 31 December 2013.

The above emoluments do not include the fair value of share options as estimated at the date of grant, which is defined as the date of acceptance of the offer to grant the option.

The director's fees in respect of the office of the Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung), the office of the Permanent Secretary for Development (Works) (Wai Chi-sing) and the office of the Commissioner for Transport (Ingrid Yeung Ho Poi-yan), each of whom was appointed Director by the Chief Executive of the HKSAR pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong), were received by the HKSAR Government rather than by the individuals concerned.

The director's fee in respect of Professor Chan Ka-keung, Ceajer, the Secretary for Financial Services and the Treasury of the HKSAR Government, was received by the HKSAR Government rather than by Professor Chan personally.

Alternate Directors were not entitled to director's fees.

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

Share options were granted to Members of the Executive Directorate under the Company's 2007 Share Option Scheme, which were offered to them on 10 December 2007, 8 December 2008, 12 June 2009, 8 December 2009, 28 June 2010, 16 December 2010, 23 March 2012, 26 April 2013 and 25 October 2013. The entitlements of each of the Members are as follows:

- Jay H Walder was granted options in respect of 391,500 shares on 30 March 2012 and 497,000 shares on 6 May 2013, of which 296,500 options were vested in 2014 (2013: 130,500). The respective fair value of the share-based payments recognised for the year ended 31 December 2014 was HK$0.6 million (2013: HK$0.9 million);
- Lincoln K K Leong was granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010, 201,000 shares on 30 March 2012 and 256,000 shares on 6 May 2013, of which 152,500 options were vested in 2014 (2013:123,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2014 was HK$0.3 million (2013: HK$0.6 million);
- Morris S W Cheung was granted options in respect of 65,000 shares each on 12 December 2007, 10 December 2008 and 11 December 2009, 35,000 shares on 21 July 2010, 65,000 shares on 20 December 2010, 122,000 shares on 30 March 2012 and 180,500 shares on 6 May 2013, of which 101,500 options were vested in 2014 (2013: 73,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2014 was HK$0.2 million (2013: HK$0.4 million);
- T C Chew was granted options in respect of 85,000 shares on 18 June 2009, 170,000 shares each on 10 December 2009 and 17 December 2010, 184,500 shares on 30 March 2012 and 225,500 shares on 6 May 2013, of which 137,000 options were vested in 2014 (2013: 117,500). The respective fair value of the share-based payments recognised for the year ended 31 December 2014 was HK$0.3 million (2013: HK$0.5 million);
- Jacob C P Kam was granted options in respect of 75,000 shares on 13 December 2007, 65,000 shares each on 8 December 2008 and 14 December 2009, 50,000 shares on 21 July 2010, 170,000 shares on 17 December 2010, 172,000 shares on 30 March 2012 and 202,500 shares on 6 May 2013, of which 125,000 options were vested in 2014 (2013: 129,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2014 was HK$0.3 million (2013: HK$0.5 million);
- Stephen C K Law was granted options in respect of 196,000 shares on 1 November 2013, of which 65,500 options were vested in 2014 (2013: nil), and the fair value of the share-based payments recognised for the year ended 31 December 2014 was HK$0.3 million (2013: HK$0.1million);
- Gillian E Meller was granted options in respect of 55,000 shares on 12 December 2007, 70,000 shares on 11 December 2008, 65,000 shares on 10 December 2009, 90,000 shares on 17 December 2010, 158,500 shares on 30 March 2012 and 184,000 shares on 6 May 2013, of which 114,500 options were vested in 2014 (2013: 83,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2014 was HK$0.2 million (2013: HK$0.4 million);
- David C F Tang was granted options in respect of 65,000 shares each on 13 December 2007, 12 December 2008, 15 December 2009 and 17 December 2010, 163,500 shares on 30 March 2012 and 182,500 shares on 6 May 2013, of which 115,500 options were vested in 2014 (2013: 75,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2014 was HK$0.2 million (2013: HK$0.4 million);
- Philco N K Wong was granted options in respect of 70,500 shares on 30 March 2012, 81,000 shares on 6 May 2013 and 83,000 shares on 30 May 2014, of which 50,500 options were vested in 2014 (2013: 23,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2014 was HK$0.2 million (2013: HK$0.2 million); 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 116,500 options were vested in 2014 (2013: 75,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2014 was HK$0.2 million (2013: HK$0.4 million).

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 49.

For the year ended 31 December 2014, four directors of the Company, whose emoluments are disclosed above, (2013: four) were among the five individuals whose emoluments were the highest for the year. The remuneration in respect of the other one individual who was among the five individuals whose emoluments were the highest for the year (2013: one) consisted of base pay, allowance and benefits in kind of HK$5.1 million (2013: HK$5.4 million), retirement scheme contribution of HK$0.1 million (2013: HK$0.1 million) and discretionary bonus of HK$2.9 million (2013: HK$2.4 million).

(ii) On appointment as the Chief Executive Officer of the Company, Jay H Walder was granted a derivative interest in respect of 300,000 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance. The derivative interest represents his entitlement to be paid an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office expired. Accordingly, an amount of HK$8,805,000 was paid to him on 2 July 2014 (at a price of HK$29.35 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 30 June 2014).

On 30 August 2013, he was re-appointed as the Chief Executive Officer until 31 August 2015. He was granted a derivative interest in respect of 230,000 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance. The derivative interest represents his entitlement to be paid an equivalent value in cash of 230,000 shares in the Company upon completion of his extended term of office on 31 August 2015. Jay H Walder stepped down as the Chief Executive Officer of the Company from 15 August 2014. On 15 August 2014, an amount of HK$725,428, forming part of the contractual settlement amount referred to in section (i) of this Note 10A, was paid to him, being the equivalent value in cash of 24,378 shares (at a price of HK$29.7575 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 25 July 2014). His remaining derivative interest in 205,622 shares in the Company lapsed on 15 August 2014.

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

(iii) The aggregate emoluments of Members of the Board and the Executive Directorate for the year was HK$93.0 million (2013: HK$74.2 million).

(iv) The Company has a service contract with each of the non-executive Directors (including Dr. Raymond Ch'ien Kuo-fung and Professor Ceajer Chan Ka-keung but excluding three additional directors appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)) specifying the terms of his/her continuous appointments as a non-executive Director and a Member of the relevant Board Committees, for a period not exceeding three years. He/she is also subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 91 and 92 of the Company's Articles of Association. Dr. Raymond Ch'ien Kuo-fung, a Member of the Board and the non-executive Chairman of the Company since 1998 and 2003 respectively, was re-appointed by the HKSAR Government on 29 October 2012 as the non-executive Chairman of the Company until 31 December 2015.

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2014 are set out in the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

(i) New Joiners Share Option Scheme

Under the New Joiners Share Option Scheme (the "New Option Scheme") as described in note 49A(i), David C F Tang, Member of the Executive Directorate, was granted options to acquire 213,000 shares in May 2006.

(ii) 2007 Share Option Scheme

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 49A(ii), all Members of the Executive Directorate were granted options to acquire shares in each year from 2007 to 2010 and from 2012 to 2013 (note 10A(i)).

Under the vesting terms of the options, options granted will be evenly vested in respect of their underlying shares over a period of three years from the date of offer to grant such options (note 10A(i)).

11 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK$ million	2014	2013
Share of surplus from property development	4,004	1,418
Income from receipt of properties for investment purpose	–	44
Agency fee and other income from West Rail property development (note 26D)	234	13
Other overhead costs net of miscellaneous income	(22)	(79)
	4,216	1,396

12 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2014	2013
Depreciation charge on assets relating to:		
– Hong Kong transport operations	2,616	2,550
– Hong Kong station commercial businesses	107	113
– Hong Kong property rental and management businesses	12	10
– Mainland of China and international subsidiaries	66	72
– Other businesses	64	62
	2,865	2,807
Amortisation charge on service concession assets relating to:		
– Rail Merger with KCRC	607	550
– Mainland of China and international subsidiaries	349	333
	956	883
– Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(336)	(318)
	620	565
	3,485	3,372

13 Interest and Finance Charges

in HK$ million	2014		2013	
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments wholly repayable within 5 years	**275**		313	
– Bank loans and capital market instruments not wholly repayable within 5 years	**434**		361	
– Obligations under service concession	**717**		719	
– Other obligations (note 21E)	**18**		17	
Finance charges	**36**		38	
Exchange (gain)/loss	**(219)**		1	
		1,261		1,449
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(221)**		(254)
Derivative financial instruments:				
– Fair value hedges	**(26)**		(28)	
– Cash flow hedges:				
– transferred from hedging reserve to offset interest expenses	**26**		143	
– transferred from hedging reserve to offset exchange loss	**234**		–	
– ineffective portion	**(1)**		(1)	
– Derivatives not qualified for hedge accounting	**(1)**		–	
		232		114
Interest expenses capitalised		**(497)**		(368)
		775		941
Interest income in respect of deposits with banks and other financial institutions		**(230)**		(220)
Interest income capitalised		**–**		11
		545		732

During the year ended 31 December 2014, 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 1.3% to 6.5% per annum (2013: 0.9% to 6.5% per annum). During the year ended 31 December 2013, interest income capitalised was calculated on a monthly basis at the average return from deposits which varied from 0.9% to 1.3% per annum.

During the year ended 31 December 2014, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line were HK$221 million (2013: HK$254 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2014, the gain resulting from fair value changes of the underlying financial assets and liabilities being hedged was HK$30 million (2013: HK$265 million) while the loss resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$4 million (2013: HK$237 million), thus resulting in a net gain of HK$26 million (2013: HK$28 million).

14 Income Tax

A Income tax in the consolidated profit and loss account represents:

in HK$ million	2014	2013
Current tax		
– Provision for Hong Kong Profits Tax at 16.5% (2013: 16.5%) for the year	**1,583**	1,118
– Mainland of China and overseas tax for the year	**205**	181
	1,788	1,299
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**(15)**	(5)
– depreciation allowances in excess of related depreciation	**760**	506
– provision and others	**(37)**	19
	708	520
	2,496	1,819

The provision for Hong Kong Profits Tax for the year ended 31 December 2014 is calculated at 16.5% (2013: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current taxes for the Mainland of China and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2013: 16.5%) while that arising in the Mainland of China and overseas is calculated at the appropriate current rates of taxation ruling in the relevant countries.

B Reconciliation between tax expense and accounting profit at applicable tax rates:

	2014		2013	
	HK$ million	%	HK$ million	%
Profit before taxation	**18,293**		15,027	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**3,055**	**16.7**	2,506	16.7
Tax effect of non-deductible expenses	**382**	**2.1**	232	1.5
Tax effect of non-taxable revenue	**(932)**	**(5.1)**	(927)	(6.2)
Tax effect of unused tax losses not recognised	**(9)**	**–**	8	0.1
Actual tax expenses	**2,496**	**13.7**	1,819	12.1

15 Profit Attributable to Equity Shareholders

The consolidated profit attributable to equity shareholders includes a profit of HK$15,332 million (2013: HK$12,702 million), which has been dealt with in the accounts of the Company. Details of dividends paid and payable to equity shareholders of the Company are set out in note 16.

16 Dividends

During the year, dividends paid and proposed to equity shareholders of the Company comprise:

in HK$ million	2014	2013
Dividends payable attributable to the year		
– Interim dividend declared after the balance sheet date of HK$0.25 (2013: HK$0.25) per share	**1,455**	1,450
– Final dividend proposed after the balance sheet date of HK$0.80 (2013: HK$0.67) per share	**4,661**	3,885
	6,116	5,335
Dividends paid attributable to the previous year		
– Final dividend of HK$0.67 (2012: HK$0.54) per share approved and paid during the year	**3,886**	3,130

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. Details of dividends paid to the Financial Secretary Incorporated are disclosed in note 53N.

During the year, scrip dividend elections were offered to all shareholders except shareholders with registered addresses in the United States of America or any of its territories or possessions.

17 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of HK$15,606 million (2013: HK$13,025 million) and the weighted average number of ordinary shares in issue during the year of 5,809,481,200 (2013: 5,796,829,998), calculated as follows:

	2014	2013
Issued ordinary shares at 1 January	**5,798,541,650**	5,793,196,650
Effect of scrip dividend issued	**6,084,149**	–
Effect of share options exercised	**4,855,401**	3,633,348
Weighted average number of ordinary shares for the year ended 31 December	**5,809,481,200**	5,796,829,998

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of HK$15,606 million (2013: HK$13,025 million) and the weighted average number of ordinary shares in issue during the year of 5,813,911,530 (2013: 5,802,790,866) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

	2014	2013
Weighted average number of ordinary shares for the year ended 31 December	**5,809,481,200**	5,796,829,998
Effect of dilutive potential shares under the Company's share option schemes	**4,430,330**	5,960,868
Weighted average number of ordinary shares (diluted) for the year ended 31 December	**5,813,911,530**	5,802,790,866

C Both basic and diluted earnings per share would have been HK$1.99 (2013: HK$1.48) if the calculation is based on profit attributable to equity shareholders arising from underlying businesses of HK$11,571 million (2013: HK$8,600 million).

18 Segmental Information

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

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

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

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

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

(v) Railway, property rental and management businesses outside Hong Kong: The 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.

18 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: Railway, property rental and management businesses outside Hong Kong	Mainland of China and international affiliates: Mainland of China property development	Other businesses	Un-allocated amount	Total
2014									
Revenue	16,223	4,963	4,190	–	12,627	–	2,153	–	40,156
Operating expenses	(9,236)	(515)	(747)	–	(11,766)	(55)	(1,960)	–	(24,279)
Project study and business development expenses	–	–	–	–	–	–	–	(454)	(454)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	6,987	4,448	3,443	–	861	(55)	193	(454)	15,423
Profit on Hong Kong property development	–	–	–	4,216	–	–	–	–	4,216
Operating profit before depreciation, amortisation and variable annual payment	6,987	4,448	3,443	4,216	861	(55)	193	(454)	19,639
Depreciation and amortisation	(3,196)	(133)	(13)	–	(79)	–	(64)	–	(3,485)
Variable annual payment	(1,081)	(388)	(3)	–	–	–	–	–	(1,472)
Operating profit before interest and finance charges	2,710	3,927	3,427	4,216	782	(55)	129	(454)	14,682
Interest and finance charges	–	–	–	–	(27)	1	–	(519)	(545)
Investment property revaluation	–	–	4,035	–	–	–	–	–	4,035
Share of profit or loss of associates	–	–	–	–	(105)	–	226	–	121
Income tax	–	–	–	(632)	(197)	17	–	(1,684)	(2,496)
Profit for the year ended 31 December 2014	2,710	3,927	7,462	3,584	453	(37)	355	(2,657)	15,797
Assets									
Fixed assets	93,835	1,807	65,736	1	8,487	–	790	–	170,656
Other operational assets *	1,787	238	317	1,384	3,838	69	957	16,643	25,233
Property management rights	–	–	30	–	–	–	–	–	30
Railway construction in progress	16,229	–	–	–	–	–	–	–	16,229
Property development in progress	–	–	–	3,962	–	3,528	–	–	7,490
Deferred expenditure	39	–	3	–	–	–	22	–	64
Deferred tax assets	–	3	–	–	16	31	–	–	50
Investments in securities	–	–	–	–	–	–	527	–	527
Properties held for sale	–	–	–	1,076	–	–	–	–	1,076
Interests in associates	–	–	–	–	5,105	–	692	–	5,797
Total assets	111,890	2,048	66,086	6,423	17,446	3,628	2,988	16,643	227,152
Liabilities									
Segment liabilities	9,633	1,787	1,742	798	7,421	1,022	2,224	27,664	52,291
Obligations under service concession	10,438	–	–	–	176	–	–	–	10,614
Deferred income	–	174	–	26	565	–	–	–	765
Total liabilities	20,071	1,961	1,742	824	8,162	1,022	2,224	27,664	63,670
Other Information									
Capital expenditure on:									
Fixed assets	2,931	268	372	–	597	–	26	–	4,194
Railway construction in progress	7,947	–	–	–	–	–	–	–	7,947
Property development in progress	–	–	–	434	696	–	–	–	1,130
Non-cash expenses other than depreciation and amortisation	28	5	–	–	–	–	3	–	36

* Other operational assets include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

18 Segmental Information *(continued)*

in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates: Railway, property rental and management businesses outside Hong Kong	Mainland of China and international affiliates: Mainland of China property development	Other businesses	Unallocated amount	Total
2013									
Revenue	15,166	4,588	3,778	–	13,246	–	1,929	–	38,707
Operating expenses	(8,449)	(464)	(673)	–	(12,455)	–	(1,781)	–	(23,822)
Project study and business development expenses	–	–	–	–	–	–	–	(486)	(486)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	6,717	4,124	3,105	–	791	–	148	(486)	14,399
Profit on Hong Kong property development	–	–	–	1,396	–	–	–	–	1,396
Operating profit before depreciation, amortisation and variable annual payment	6,717	4,124	3,105	1,396	791	–	148	(486)	15,795
Depreciation and amortisation	(3,078)	(135)	(10)	–	(87)	–	(62)	–	(3,372)
Variable annual payment	(923)	(321)	(3)	–	–	–	–	–	(1,247)
Operating profit before interest and finance charges	2,716	3,668	3,092	1,396	704	–	86	(486)	11,176
Interest and finance charges	–	–	–	–	10	–	–	(742)	(732)
Investment property revaluation	–	–	4,425	–	–	–	–	–	4,425
Share of profit or loss of associates	–	–	–	–	(67)	–	225	–	158
Income tax	–	–	–	(233)	(160)	–	–	(1,426)	(1,819)
Profit for the year ended 31 December 2013	2,716	3,668	7,517	1,163	487	–	311	(2,654)	13,208
Assets									
Fixed assets	90,806	1,661	61,336	1	8,521	–	831	–	163,156
Other operational assets *	1,489	281	732	1,391	2,931	47	641	15,456	22,968
Property management rights	–	–	31	–	–	–	–	–	31
Railway construction in progress	11,548	–	–	–	–	–	–	–	11,548
Property development in progress	–	–	–	8,335	–	2,898	–	–	11,233
Deferred expenditure	–	–	1	–	–	–	3	–	4
Deferred tax assets	–	3	–	–	10	15	1	–	29
Investments in securities	–	–	–	–	–	–	472	–	472
Properties held for sale	–	–	–	1,105	–	–	–	–	1,105
Interests in associates	–	–	–	–	4,790	–	487	–	5,277
Total assets	103,843	1,945	62,100	10,832	16,252	2,960	2,435	15,456	215,823
Liabilities									
Segment liabilities	6,596	1,719	2,857	698	6,714	234	1,954	31,068	51,840
Obligations under service concession	10,480	–	–	–	178	–	–	–	10,658
Deferred income	–	96	–	50	477	–	–	–	623
Total liabilities	17,076	1,815	2,857	748	7,369	234	1,954	31,068	63,121
Other Information									
Capital expenditure on:									
Fixed assets	3,821	241	1,538	1	400	–	32	–	6,033
Railway construction in progress	5,542	–	–	–	–	–	–	–	5,542
Property development in progress	–	–	–	493	320	–	–	–	813
Non-cash expenses other than depreciation and amortisation	24	4	–	–	6	–	3	–	37

* Other operational assets include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

18 Segmental Information *(continued)*

Unallocated assets and liabilities mainly comprise cash, bank balances and deposits, derivative financial assets and liabilities, interest-bearing loans and borrowings as well as deferred tax liabilities.

For the year ended 31 December 2014, revenue from one customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue (2013: one). Approximately 15.65% (2013: 18.71%) of the Group's total turnover was attributable to this customer.

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, property management rights, railway construction in progress, property development in progress, deferred expenditure and interests in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment, railway construction in progress and property development in progress, the location of the proposed capital project in the case of deferred expenditure, the location of the operation to which they are related in the case of service concession assets and property management rights and the location of operation in the case of interests in associates.

	Revenue from external customers		Specified non-current assets	
in HK$ million	**2014**	2013	**2014**	2013
Hong Kong (place of domicile)	**27,454**	25,413	**183,144**	175,037
Australia	**8,524**	9,269	**162**	183
Mainland of China	**792**	658	**16,818**	15,871
Sweden	**3,347**	3,325	**121**	156
Other countries	**39**	42	**21**	2
	12,702	13,294	**17,122**	16,212
	40,156	38,707	**200,266**	191,249

19 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below:

	2014			2013		
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 and associates	**(95)**	**–**	**(95)**	109	–	109
– Non-controlling interests	**(26)**	**–**	**(26)**	(35)	–	(35)
	(121)	**–**	**(121)**	74	–	74
Surplus on revaluation of self-occupied land and buildings	**138**	**(22)**	**116**	356	(58)	298
Remeasurement of net liability of defined benefit plans	**(443)**	**73**	**(370)**	822	(136)	686
Cash flow hedges: net movement in hedging reserve (note 19B)	**46**	**(9)**	**37**	(73)	12	(61)
Other comprehensive income	**(380)**	**42**	**(338)**	1,179	(182)	997

19 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	**2014**	2013
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(216)**	(214)
Amounts transferred to initial carrying amount of hedged items	**2**	–
Amounts transferred to profit or loss:		
– Interest and finance charges (note 13)	**260**	143
– Other expenses (note 9E)	**–**	(2)
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the year	**33**	35
– Amounts transferred to profit or loss	**(42)**	(23)
	37	(61)

20 Investment Properties

Movements and analysis of the Group's and the Company's investment properties, all of which being held in Hong Kong and carried at fair value, are as follows:

	The Group		**The Company**	
in HK$ million	**2014**	2013	**2014**	2013
Cost or valuation				
At 1 January	**61,285**	55,314	**59,940**	54,087
Additions	**359**	1,531	**345**	1,524
Change in fair value	**4,035**	4,425	**3,952**	4,314
Transfer from deferred expenditure (note 27)	**–**	15	**–**	15
At 31 December	**65,679**	61,285	**64,237**	59,940
Long leases	**22**	94	**22**	94
Medium-term leases	**65,657**	61,191	**64,215**	59,846
	65,679	61,285	**64,237**	59,940

All investment properties of the Group were revalued at 31 December 2014 and 2013. Details of the fair value measurement are disclosed in note 48. The net increase in fair value of HK$4,035 million (2013: HK$4,425 million) arising from the revaluation has been credited to the consolidated profit and loss account. Investment properties are revalued semi-annually by Jones Lang LaSalle Limited and future market condition changes may result in further gains or losses to be recognised through profit and loss account in subsequent periods. Cost or valuation as at 31 December 2014 include investment properties under development of HK$1,504 million (2013: HK$1,285 million).

The Group's future minimum lease receipts in respect of investment properties under non-cancellable operating leases are disclosed together with those in respect of other properties under note 21D.

21 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
2014						
Cost or Valuation						
At 1 January 2014	**732**	**3,474**	**46,727**	**67,329**	**1,171**	**119,433**
Additions	**–**	**–**	**–**	**196**	**1,372**	**1,568**
Capitalisation adjustments *	**–**	**–**	**(10)**	**–**	**–**	**(10)**
Disposals/write-offs	**–**	**–**	**(1)**	**(547)**	**(9)**	**(557)**
Surplus on revaluation	**–**	**33**	**–**	**–**	**–**	**33**
Reclassification within other property, plant and equipment	**–**	**–**	**16**	**(16)**	**–**	**–**
Transfer to additional concession property (note 22)	**–**	**–**	**–**	**(5)**	**3**	**(2)**
Transfer from railway construction in progress (note 24)	**–**	**–**	**369**	**2,877**	**–**	**3,246**
Other assets commissioned	**–**	**–**	**–**	**1,122**	**(1,122)**	**–**
Exchange differences	**–**	**–**	**–**	**(49)**	**–**	**(49)**
At 31 December 2014	**732**	**3,507**	**47,101**	**70,907**	**1,415**	**123,662**
At Cost	**732**	**–**	**47,101**	**70,907**	**1,415**	**120,155**
At 31 December 2014 Valuation	**–**	**3,507**	**–**	**–**	**–**	**3,507**
Aggregate depreciation						
At 1 January 2014	**231**	**–**	**6,611**	**36,314**	**–**	**43,156**
Charge for the year	**14**	**105**	**401**	**2,345**	**–**	**2,865**
Written back on disposals	**–**	**–**	**(1)**	**(507)**	**–**	**(508)**
Written back on revaluation	**–**	**(105)**	**–**	**–**	**–**	**(105)**
Exchange differences	**–**	**–**	**–**	**(25)**	**–**	**(25)**
At 31 December 2014	**245**	**–**	**7,011**	**38,127**	**–**	**45,383**
Net book value at 31 December 2014	**487**	**3,507**	**40,090**	**32,780**	**1,415**	**78,279**
2013						
Cost or Valuation						
At 1 January 2013	732	3,216	46,681	65,197	1,367	117,193
Additions	–	–	2	139	2,681	2,822
Disposals/write-offs	–	–	(1)	(674)	(23)	(698)
Surplus on revaluation	–	258	–	–	–	258
Reclassification within other property, plant and equipment	–	–	1	(1)	–	–
Transfer to additional concession property (note 22)	–	–	–	(6)	(90)	(96)
Other assets commissioned	–	–	44	2,720	(2,764)	–
Exchange differences	–	–	–	(46)	–	(46)
At 31 December 2013	732	3,474	46,727	67,329	1,171	119,433
At Cost	732	–	46,727	67,329	1,171	115,959
At 31 December 2013 Valuation	–	3,474	–	–	–	3,474
Aggregate depreciation						
At 1 January 2013	218	–	6,211	34,676	–	41,105
Charge for the year	13	98	401	2,295	–	2,807
Written back on disposals	–	–	(1)	(640)	–	(641)
Written back on revaluation	–	(98)	–	–	–	(98)
Exchange differences	–	–	–	(17)	–	(17)
At 31 December 2013	231	–	6,611	36,314	–	43,156
Net book value at 31 December 2013	501	3,474	40,116	31,015	1,171	76,277

21 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
2014						
Cost or Valuation						
At 1 January 2014	**732**	**3,474**	**46,727**	**66,009**	**1,118**	**118,060**
Additions	**–**	**–**	**–**	**93**	**1,272**	**1,365**
Capitalisation adjustments *	**–**	**–**	**(10)**	**–**	**–**	**(10)**
Disposals/write-offs	**–**	**–**	**(1)**	**(545)**	**(9)**	**(555)**
Surplus on revaluation	**–**	**33**	**–**	**–**	**–**	**33**
Reclassification within other property, plant and equipment	**–**	**–**	**16**	**(16)**	**–**	**–**
Transfer to additional concession property (note 22)	**–**	**–**	**–**	**(5)**	**3**	**(2)**
Transfer from railway construction in progress (note 24)	**–**	**–**	**369**	**2,877**	**–**	**3,246**
Other assets commissioned	**–**	**–**	**–**	**1,047**	**(1,047)**	**–**
At 31 December 2014	**732**	**3,507**	**47,101**	**69,460**	**1,337**	**122,137**
At Cost	**732**	**–**	**47,101**	**69,460**	**1,337**	**118,630**
At 31 December 2014 Valuation	**–**	**3,507**	**–**	**–**	**–**	**3,507**
Aggregate depreciation						
At 1 January 2014	**231**	**–**	**6,611**	**35,513**	**–**	**42,355**
Charge for the year	**14**	**105**	**401**	**2,239**	**–**	**2,759**
Written back on disposals	**–**	**–**	**(1)**	**(506)**	**–**	**(507)**
Written back on revaluation	**–**	**(105)**	**–**	**–**	**–**	**(105)**
At 31 December 2014	**245**	**–**	**7,011**	**37,246**	**–**	**44,502**
Net book value at 31 December 2014	**487**	**3,507**	**40,090**	**32,214**	**1,337**	**77,635**
2013						
Cost or Valuation						
At 1 January 2013	732	3,216	46,681	63,846	1,329	115,804
Additions	–	–	2	116	2,592	2,710
Disposals/write-offs	–	–	(1)	(593)	(22)	(616)
Surplus on revaluation	–	258	–	–	–	258
Reclassification within other property, plant and equipment	–	–	1	(1)	–	–
Transfer to additional concession property (note 22)	–	–	–	(6)	(90)	(96)
Other assets commissioned	–	–	44	2,647	(2,691)	–
At 31 December 2013	732	3,474	46,727	66,009	1,118	118,060
At Cost	732	–	46,727	66,009	1,118	114,586
At 31 December 2013 Valuation	–	3,474	–	–	–	3,474
Aggregate depreciation						
At 1 January 2013	218	–	6,211	33,891	–	40,320
Charge for the year	13	98	401	2,184	–	2,696
Written back on disposals	–	–	(1)	(562)	–	(563)
Written back on revaluation	–	(98)	–	–	–	(98)
At 31 December 2013	231	–	6,611	35,513	–	42,355
Net book value at 31 December 2013	501	3,474	40,116	30,496	1,118	75,705

* Capitalisation adjustments relate to adjustments on the cost of assets to their final contract values after finalisation of contract claims with contractors.

21 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	2014	2013
At net book value		
– long leases	**134**	137
– medium-term leases	**353**	364
	487	501

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 53A, 53B and 53C).

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 48. The revaluation surplus of HK$138 million (2013: HK$356 million) and the related deferred tax expenses of HK$22 million (2013: HK$58 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 46). The carrying amount of the self-occupied land and buildings at 31 December 2014 would have been HK$799 million (2013: HK$824 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$64,175 million (2013: HK$60,000 million) and HK$62,733 million (2013: HK$58,655 million) respectively. The costs of station kiosks of the Group and the Company held for use in operating leases were HK$655 million (2013: HK$648 million) and the related accumulated depreciation charges were HK$316 million (2013: HK$284 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
in HK$ million	2014	2013	2014	2013
Within 1 year	**6,345**	5,938	**6,008**	5,631
After 1 year but within 5 years	**8,670**	10,934	**8,255**	10,428
Later than 5 years	**95**	222	**46**	198
	15,110	17,094	**14,309**	16,257

E 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.

21 Other Property, Plant and Equipment *(continued)*

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.

22 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	Shenzhen Metro Longhua Line	Stockholm Metro	London Crossrail	Total
2014						
Cost						
At 1 January 2014	**15,226**	**4,693**	**8,977**	**85**	**–**	**28,981**
Net additions during the year	**–**	**1,729**	**525**	**–**	**13**	**2,267**
Disposals	**–**	**(34)**	**(2)**	**–**	**–**	**(36)**
Transfer from other property, plant and equipment (note 21)	**–**	**2**	**–**	**–**	**–**	**2**
Exchange differences	**–**	**–**	**(209)**	**(14)**	**–**	**(223)**
At 31 December 2014	**15,226**	**6,390**	**9,291**	**71**	**13**	**30,991**
Accumulated amortisation						
At 1 January 2014	**1,852**	**683**	**806**	**46**	**–**	**3,387**
Charge for the year	**305**	**302**	**338**	**11**	**–**	**956**
Written-off on disposals	**–**	**(18)**	**(2)**	**–**	**–**	**(20)**
Exchange differences	**–**	**–**	**(21)**	**(9)**	**–**	**(30)**
At 31 December 2014	**2,157**	**967**	**1,121**	**48**	**–**	**4,293**
Net book value at 31 December 2014	**13,069**	**5,423**	**8,170**	**23**	**13**	**26,698**
2013						
Cost						
At 1 January 2013	15,226	3,316	8,358	93	–	26,993
Net additions during the year	–	1,304	376	–	–	1,680
Disposals	–	(23)	–	(10)	–	(33)
Transfer from other property, plant and equipment (note 21)	–	96	–	–	–	96
Exchange differences	–	–	243	2	–	245
At 31 December 2013	15,226	4,693	8,977	85	–	28,981
Accumulated amortisation						
At 1 January 2013	1,548	447	467	39	–	2,501
Charge for the year	304	246	321	12	–	883
Written-off on disposals	–	(10)	–	(6)	–	(16)
Exchange differences	–	–	18	1	–	19
At 31 December 2013	1,852	683	806	46	–	3,387
Net book value at 31 December 2013	13,374	4,010	8,171	39	–	25,594

22 Service Concession Assets *(continued)*

The Company

in HK$ million	Initial concession property	Additional concession property	Total
2014			
Cost			
At 1 January 2014	**15,226**	**4,693**	**19,919**
Net additions during the year	**–**	**1,729**	**1,729**
Disposals	**–**	**(34)**	**(34)**
Transfer from other property, plant and equipment (note 21)	**–**	**2**	**2**
At 31 December 2014	**15,226**	**6,390**	**21,616**
Accumulated amortisation			
At 1 January 2014	**1,852**	**683**	**2,535**
Charge for the year	**305**	**302**	**607**
Written-off on disposals	**–**	**(18)**	**(18)**
At 31 December 2014	**2,157**	**967**	**3,124**
Net book value at 31 December 2014	**13,069**	**5,423**	**18,492**
2013			
Cost			
At 1 January 2013	15,226	3,316	18,542
Net additions during the year	–	1,304	1,304
Disposals	–	(23)	(23)
Transfer from other property, plant and equipment (note 21)	–	96	96
At 31 December 2013	15,226	4,693	19,919
Accumulated amortisation			
At 1 January 2013	1,548	447	1,995
Charge for the year	304	246	550
Written-off on disposals	–	(10)	(10)
At 31 December 2013	1,852	683	2,535
Net book value at 31 December 2013	13,374	4,010	17,384

Initial concession property relates to the payments recognised at inception of the Rail Merger with KCRC while additional concession property relates to the expenditures for the replacement and/or upgrade of the initial concession property after inception of the Rail Merger.

On 30 July 2014, the Group entered into a concession agreement with Transport for London to operate the London Crossrail train service for an eight-year period with a two-year extension option, with passenger operation expected to commence in phases from 2015 to 2019. Service concession assets in respect of London Crossrail relate to the costs incurred between the signing of concession agreement on 30 July 2014 and prior to the commencement of the franchise period for preparing the Group to operate London Crossrail. The concession property is amortised and charged to the consolidated profit and loss account over the term of the franchise.

23 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	**2014**	2013
Cost at 1 January and 31 December	**40**	40
Accumulated amortisation		
At 1 January	**9**	9
Charge for the year	**1**	–
At 31 December	**10**	9
Net book value at 31 December	**30**	31

24 Railway Construction in Progress

The Group and The Company

in HK$ million	Balance at 1 January	Expenditure	Capitalised on commissioning (note 21)	Balance at 31 December
2014				
Island Line Extension Project				
Construction costs	**10,727**	**2,927**	**(10,290)**	**3,364**
Consultancy fees	**543**	**97**	**(491)**	**149**
Staff costs and other expenses	**1,569**	**315**	**(1,654)**	**230**
(Interest income)/finance costs	**(207)**	**35**	**72**	**(100)**
Principal and interest repaid/repayable in respect of government grant	**–**	**238**	**(172)**	**66**
Utilisation of government grant	**(12,632)**	**(20)**	**9,289**	**(3,363)**
	–	**3,592**	**(3,246)**	**346**
South Island Line (East) Project				
Construction costs	**7,089**	**2,651**	**–**	**9,740**
Consultancy fees	**530**	**63**	**–**	**593**
Staff costs and other expenses	**895**	**238**	**–**	**1,133**
Finance costs	**307**	**245**	**–**	**552**
	8,821	**3,197**	**–**	**12,018**
Kwun Tong Line Extension Project				
Construction costs	**2,008**	**924**	**–**	**2,932**
Consultancy fees	**198**	**31**	**–**	**229**
Staff costs and other expenses	**410**	**98**	**–**	**508**
Finance costs	**111**	**85**	**–**	**196**
	2,727	**1,138**	**–**	**3,865**
Total	**11,548**	**7,927**	**(3,246)**	**16,229**
2013				
Island Line Extension Project				
Construction costs	9,521	1,206	–	10,727
Consultancy fees	512	31	–	543
Staff costs and other expenses	1,354	215	–	1,569
Interest income	(196)	(11)	–	(207)
Utilisation of government grant	(11,191)	(1,441)	–	(12,632)
	–	–	–	–
South Island Line (East) Project				
Construction costs	4,166	2,923	–	7,089
Consultancy fees	472	58	–	530
Staff costs and other expenses	669	226	–	895
Finance costs	103	204	–	307
	5,410	3,411	–	8,821
Kwun Tong Line Extension Project				
Construction costs	1,464	544	–	2,008
Consultancy fees	188	10	–	198
Staff costs and other expenses	358	52	–	410
Finance costs	38	73	–	111
	2,048	679	–	2,727
Total	7,458	4,090	–	11,548

24 Railway Construction in Progress *(continued)*

A Island Line Extension Project

On 13 July 2009, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the extension of Island Line to the Western District and related services and facilities.

Pursuant to the agreement, the HKSAR Government provided a grant of HK$12.3 billion to the Company in March 2010 (having already made HK$0.4 billion available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism whereby, within 24 months of commercial operations of the extension of Island Line to the Western District, the Company has to pay to the HKSAR Government amounts to reflect the excess of the original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest). During the year ended 31 December 2014, the Company has recognised and prepaid an amount with a principal of HK$187 million and interest of HK$51 million to the HKSAR Government under the repayment mechanism (2013: nil). In March 2015, the Company notified the HKSAR Government that the Company would make a further prepayment of principal of HK$91 million and interest of HK$27 million.

The latest project cost estimate of the Island line Extension is HK$18.4 billion (including capitalised interest income of HK$0.1 billion).

As at 31 December 2014, the Company had incurred net cumulative expenditure of HK$3.6 billion (after offsetting the government grant of HK$12.7 billion). During the year ended 31 December 2014, HK$3.2 billion had been transferred out from railway construction in progress to other property, plant and equipment upon the opening of HKU and Kennedy Town stations of the extension of Island Line to the Western District on 28 December 2014. Sai Ying Pun Station is expected to open at the end of the first quarter in 2015. The authorised outstanding commitments on contracts amounted to HK$0.5 billion as at 31 December 2014 (2013: HK$1.2 billion) for this project (note 54).

B South Island Line (East) ("SIL(E)") Project

On 17 May 2011, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the SIL(E).

In August 2014, the project cost estimate was increased by HK$1.3 billion to HK$16.7 billion (including capitalised interests expense of HK$1.5 billion). With the complexity of the project and continued challenges encountered, this estimate will be further reviewed in light of project progress and may be revised upwards. As at 31 December 2014, the Company has incurred cumulative expenditure of HK$12.0 billion (2013: HK$8.8 billion) and has authorised outstanding commitments on contracts totalling HK$0.5 billion (2013: HK$2.1 billion) for this project (note 54).

C Kwun Tong Line Extension ("KTE") Project

On 17 May 2011, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the KTE.

The original estimate of the project cost is estimated at HK$6.2 billion (including estimated project cost before capitalised interest of HK$5.9 billion and capitalised interests expense of HK$0.3 billion). With the complexity of the project and continued challenges encountered, this estimate will be further reviewed in light of project progress and may be revised upwards. As at 31 December 2014, the Company has incurred cumulative expenditure of HK$3.9 billion (2013: HK$2.7 billion) and has authorised outstanding commitments on contracts totalling HK$0.5 billion (2013: HK$1.2 billion) for this project (note 54).

25 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or the HKSAR Government

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project

On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the XRL (the "XRL Preliminary Entrustment Agreement"). Pursuant to the XRL Preliminary Entrustment Agreement, the HKSAR Government is obligated to pay the Company the Company's in-house design costs and certain on-costs, preliminary costs and staff costs.

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the XRL on the understanding that the Company would subsequently be invited to undertake the operation of the XRL under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the XRL (the "XRL Entrustment Agreement"). Pursuant to the XRL Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the XRL and the HKSAR Government, as owner of XRL, is responsible for bearing and financing the full amount of the total cost of such activities (the "Entrustment Cost") and for paying to the Company HK$4,590 million in accordance with an agreed payment schedule (the "Project Management Fee"). As at 31 December 2014 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.

25 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project *(continued)*

Under the XRL Entrustment Agreement, in the event that a material modification to the programme for the execution of the entrustment activities is likely to result in a material increase or decrease in project management responsibilities or costs of the Company, the Company and the HKSAR Government are to negotiate in good faith to agree an increase or, as the case may be, decrease in the Project Management Fee. Such negotiations have not yet commenced (as of 31 December 2014 and up to the date of this annual report) and, accordingly, at this stage, there is no certainty as to whether such sum will be increased. If the Company does not receive an increase in the Project Management Fee, it may not be able to recover the increased internal cost it incurs in performing its obligations under the XRL Entrustment Agreement. Further, under the XRL Entrustment Agreement, certain payments by the HKSAR Government (including the Project Management Fee) are subject to a maximum annual aggregate limit of HK$2 billion and a total limit of HK$10 billion.

The HKSAR Government has the right to claim against the Company if the Company breaches the XRL Entrustment Agreement and, under the XRL Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the XRL Entrustment Agreement or breach by the Company of the XRL Entrustment Agreement. Under the XRL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the XRL Preliminary Entrustment Agreement and the XRL Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the Project Management Fee and any other fees that the Company receives under the XRL Entrustment Agreement and certain fees received by the Company under the XRL Preliminary Entrustment Agreement.

In April 2014, the Company announced that the construction period for the XRL project needed to be extended, with the target opening of the line for passenger service revised to the end of 2017 (the "XRL Revised Timeline"). In July 2014, the Company provided to the HKSAR Government a project cost estimate for the XRL project of HK$71.52 billion, inclusive of future insurance and project management costs. With the complexity of the project, particularly the works at the West Kowloon Terminus, the Company is reviewing again the project cost estimate and the XRL Revised Timeline (and any possible delay in respect thereof). Taking into account the continued construction challenges and recommendations from the Independent Board Committee, the cost estimate may be revised significantly upwards. It is expected that this review will be completed within the second quarter of 2015, after which the Company will formally report the findings to the HKSAR Government. Thereafter, the Company will continue to monitor and review the project cost and completion date.

Given (i) the XRL Entrustment Agreement provides that the HKSAR Government shall bear and finance the full amount of the Entrustment Cost; (ii) the negotiations, pursuant to the XRL Entrustment Agreement, to agree a variation in the Project Management Fee have not commenced (as of 31 December 2014 and up to the date of this annual report); and (iii) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company in relation to the events leading to and/or the setting of the XRL Revised Timeline (as of 31 December 2014 and up to the date of this annual report), the Company is not able to estimate reliably the financial effect on the Company, if any, arising from the events leading to and/or the setting of, or revision to, the XRL Revised Timeline. The Company will continue to monitor its position on an ongoing basis.

During the year ended 31 December 2014, project management fee of HK$819 million (2013: HK$800 million) was recognised in the consolidated profit and loss account.

B Shatin to Central Link ("SCL") Project

On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the SCL ("SCL Preliminary Entrustment Agreement"). Pursuant to the SCL Preliminary Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible to fund directly the total cost of such activities.

On 17 May 2011, the Company entered into another entrustment agreement with the HKSAR Government for the financing, construction, procurement of services and equipment and other matters associated with certain enabling works in relation to the SCL ("SCL Advance Works Entrustment Agreement"). Pursuant to the SCL Advance Works Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the agreed works while the HKSAR Government is responsible to bear and pay to the Company all the work costs.

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 except for certain costs of modification, upgrade or expansions of certain assets for which the Company is responsible under the existing service concession agreement with KCRC. The Company is responsible to carry out or procure to the carrying out of the works specified in the SCL Entrustment Agreement (and the SCL Preliminary Entrustment Agreement and SCL Advance Works Entrustment Agreement) for a project management fee of HK$7,893 million. As at 31 December 2014 and up to the date of this annual report, the Company has received payments from the HKSAR Government in accordance with the original agreed payment schedule.

In May 2014, the Company notified the HKSAR Government of the delays to the completion of the East West Corridor and North South Corridor. With the complexity of the project, the Company is reviewing the project cost estimate taking into account the continued construction challenges, after which the Company will report the findings to the HKSAR Government.

During the year ended 31 December 2014, project management fee of HK$742 million (2013: HK$661 million) was recognised in the consolidated profit and loss account. Additionally, during the year ended 31 December 2014, the reimbursable costs from the HKSAR Government in relation to the project under the entrustment agreements for SCL were HK$1,828 million (2013: HK$1,472 million). As at 31 December 2014, the amount to be recovered from the HKSAR Government was HK$685 million (2013: HK$414 million).

Notes to the Accounts

26 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 lands over the stations along railway lines.

As at 31 December 2014, the outstanding property developments of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung Kwan O Area 86, South Island Line (East) Property Project at a site in Wong Chuk Hang, Kwun Tong Line Extension Property Project at a site in Ho Man Tin and the East Rail Line/Light Rail Property Projects at along the related railway lines.

In 2011, the Company's two wholly owned subsidiaries, MTR Corporation (Shenzhen) Limited and MTR Property (Shenzhen) Company Limited, won the bid for Lot 1 of the Shenzhen Metro Longhua Line Depot Site. On 3 May 2012, the two subsidiaries established a project company in the Mainland of China, MTR Property Development (Shenzhen) Company Limited, to undertake residential and commercial development of the site ("Shenzhen Property Project"). Part of the net profits generated from this property development will be shared with the Shenzhen Municipal Government.

A Property Development in Progress

The Group

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Exchange differences	Balance at 31 December
2014						
Airport Railway Property Projects	**–**	**4**	**(4)**	**–**	**–**	**–**
Tseung Kwan O Extension Property Projects	**1,145**	**115**	**(20)**	**–**	**–**	**1,240**
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	**5,976**	**126**	**(4,104)**	**(682)**	**–**	**1,316**
South Island Line (East) Property Project	**939**	**106**	**–**	**–**	**–**	**1,045**
Kwun Tong Line Extension Property Project	**275**	**86**	**–**	**–**	**–**	**361**
Shenzhen Property Project	**2,898**	**696**	**–**	**–**	**(66)**	**3,528**
	11,233	**1,133**	**(4,128)**	**(682)**	**(66)**	**7,490**
2013						
Airport Railway Property Projects	–	4	(4)	–	–	–
Tseung Kwan O Extension Property Projects	1,150	61	(6)	(60)	–	1,145
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	5,906	81	–	(11)	–	5,976
South Island Line (East) Property Project	692	247	–	–	–	939
Kwun Tong Line Extension Property Project	175	100	–	–	–	275
Shenzhen Property Project	2,507	320	–	–	71	2,898
	10,430	813	(10)	(71)	71	11,233

The Company

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers/ investments in subsidiaries	Transfer out to profit or loss	Balance at 31 December
2014					
Airport Railway Property Projects	**–**	**4**	**(4)**	**–**	**–**
Tseung Kwan O Extension Property Projects	**1,145**	**115**	**(20)**	**–**	**1,240**
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	**5,976**	**126**	**(4,104)**	**(682)**	**1,316**
South Island Line (East) Property Project	**939**	**106**	**–**	**–**	**1,045**
Kwun Tong Line Extension Property Project	**275**	**86**	**–**	**–**	**361**
	8,335	**437**	**(4,128)**	**(682)**	**3,962**
2013					
Airport Railway Property Projects	–	4	(4)	–	–
Tseung Kwan O Extension Property Projects	1,150	61	(6)	(60)	1,145
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	5,906	81	–	(11)	5,976
South Island Line (East) Property Project	692	247	–	–	939
Kwun Tong Line Extension Property Project	175	100	–	–	275
Shenzhen Property Project	5	7	(12)	–	–
	7,928	500	(22)	(71)	8,335

26 Property Development in Progress *(continued)*

A Property Development in Progress *(continued)*

East Rail Line/Kowloon Southern Link/Light Rail Property Projects include the acquisition cost for the property development rights on the development site from KCRC and mandatory payments in respect of enabling works carried out by KCRC for such site. As at 31 December 2014, outstanding mandatory payments including interest accrued amounted to HK$60 million (2013: HK$60 million). Leasehold land in Hong Kong included under property development in progress are held under medium-term leases.

Shenzhen Property Project includes the price for Lot 1 of the Shenzhen Metro Longhua Line Depot Site of RMB1,977 million (HK$2,473 million).

B Deferred Income on Property Development

The Group and The Company

in HK$ million	Balance at 1 January	Offset against development in progress (note 26A)	Balance at 31 December
2014			
Airport Railway Property Projects	**27**	**(4)**	**23**
Tseung Kwan O Extension Property Projects	**23**	**(20)**	**3**
Total (note 43)	**50**	**(24)**	**26**
2013			
Airport Railway Property Projects	31	(4)	27
Tseung Kwan O Extension Property Projects	29	(6)	23
Total (note 43)	60	(10)	50

C Stakeholding Funds

Being the stakeholder under certain Airport Railway, Tseung Kwan O Extension and East Rail Line/Kowloon Southern Link Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, are to be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the HKSAR Government Consent Schemes and development agreements. Any balance remaining is to be released for distribution only after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the Group's and the Company's balance sheets. Movements in the stakeholding funds during the year are as follows:

The Group and The Company

in HK$ million	**2014**	2013
Balance as at 1 January	**5,184**	7,611
Stakeholding funds received	**37,828**	13,680
Add: Interest earned thereon	**21**	20
	43,033	21,311
Disbursements during the year	**(34,855)**	(16,127)
Balance as at 31 December	**8,178**	5,184
Represented by :		
Balances in designated bank accounts as at 31 December	**8,176**	5,182
Retention receivable	**2**	2
	8,178	5,184

D West Rail Property Development

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company can receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company can receive 10% of the net profits accrued under the development agreement. The Company can also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During the year ended 31 December 2014, HK$234 million (2013: HK$13 million) agency fee and other income in respect of West Rail property development was recognised (note 11). During the year ended 31 December 2014, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$116 million (2013: HK$98 million).

27 Deferred Expenditure

The Group and The Company

in HK$ million	2014	2013
Balance at 1 January	**4**	15
Expenditure during the year	**60**	4
Transfer to investment properties (note 20)	**–**	(15)
Balance at 31 December	**64**	4

28 Investments in Subsidiaries

The Company

in HK$ million	2014	2013
Unlisted shares, at cost	**1,292**	1,285

The following list contains details of subsidiaries as at 31 December 2014 which have been consolidated into the Group's accounts.

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Subsidiaries held throughout 2014						
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 management
MTR (Estates Management) Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding and property management
MTR (Shanghai Project Management) Limited	HK$1,000	100%	100%	–	Hong Kong	Railway consultancy services, property investment and development
MTR Beijing Line 4 Investment Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Building Works Company Limited	HK$2	100%	100%	–	Hong Kong	General building, maintenance and engineering works
MTR China Commercial Management No. 1 Holdings Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR China Consultancy Company Limited	HK$1,000	100%	100%	–	Hong Kong	Railway consultancy services
MTR China Property Holdings Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR China Property Limited	HK$1,000	100%	100%	–	Hong Kong	Property management
MTR Engineering Services Limited	HK$1,000	100%	100%	–	Hong Kong	Engineering and other consultancy services
MTR Hangzhou Line 1 Investment Company Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Information Solutions Company Limited	HK$1,000	100%	100%	–	Hong Kong	License MTR software to MTR's subsidiaries and associates
MTR Property Agency Co. Limited	HK$2	100%	100%	–	Hong Kong	Property broking and administrative services
MTR Property (Beijing) No. 1 Company Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Property (Shenzhen) Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Property (Tianjin) No. 1 Company Limited	HK$1	100%	–	100%	Hong Kong	Investment holding

28 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
MTR Property (Tianjin) No. 2 Company Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Rail Transport Training (International) Company Limited	HK$2,800,000	100%	100%	–	Hong Kong	Provide rail transport training in Mainland China
MTR Shenyang Holdings Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Shenyang Investment Holdings Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Shenyang Property No.1 Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Shenzhen Investment Holding Limited	HK$400,000	100%	100%	–	Hong Kong	Investment holding
MTR Shenzhen Line 6 Investment Holding (Hong Kong) Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services
MTR Travel Limited	HK$2,500,000	100%	100%	–	Hong Kong	Travel 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 management
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 management
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network and related services
V-Connect Limited	HK$1,000	100%	100%	–	Hong Kong	Mobile telecommunication services
360 Holidays Limited	HK$500,000	100%	–	100%	Hong Kong	Guided tour services
Metro Trains Melbourne Pty. Ltd.*	AUD16,250,000	60% on ordinary shares; 30% on Class A shares	60% on ordinary shares; 30% on Class A shares	–	Australia	Railway operations and maintenance
MTR Corporation (Australia) Pty. Limited	AUD2	100%	100%	–	Australia	Railway related consultancies and businesses
MTR Corporation (Sydney) NRT Pty. Limited*	AUD2	100%	–	100%	Australia	Design and delivery of railway related systems
Sunstone Resources Pty. Ltd.*	AUD10	60%	–	100%	Australia	Administrative support for railway operations and maintenance
Fasttrack Insurance Ltd.	HK$77,500,000	100%	100%	–	Bermuda	Insurance underwriting
Candiman Limited*	US$1	100%	100%	–	British Virgin Islands	Investment holding
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Finance

28 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 Finance Lease (001) Limited	US$1	100%	100%	–	Cayman Islands/ Hong Kong	Finance
MTR Berlin GmbH	EUR25,000	100%	–	100%	Germany	Project bidding
MTR Beta AB	SEK50,000	100%	–	100%	Sweden	Railway operation and maintenance, property investment and management
MTR Express (Sweden) AB	SEK10,050,000	100%	–	100%	Sweden	Railway operation and maintenance, property investment and management
MTR Nordic AB	SEK40,050,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management
MTR Stockholm AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR (Beijing) Commercial Facilities Management Co. Ltd.	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR (Beijing) Property Services Company Limited	RMB3,000,000	100%	100%	–	The People's Republic of China	Property management
MTR Commercial Management (Beijing) Company Limited*	HK$2,000,000	100%	–	100%	The People's Republic of China	Business management, business consultancy, commercial facilities strategy and consultancy services, and corporate training management
MTR Consultancy (Beijing) Co. Limited	HK$18,200,000	100%	100%	–	The People's Republic of China	Railway consultancy services, marketing and promotion
MTR Consulting (Shenzhen) Co. Ltd.	HK$1,000,000	100%	100%	–	The People's Republic of China	Railway consultancy services
MTR Corporation (Shenzhen) Limited	HK$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operation and management
MTR Corporation (Shenzhen) Training Centre*	RMB2,000,000	100%	–	100%	The People's Republic of China	Provide rail transport training
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	Project bidding
MTR Corporation (Essex Thameside) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Scotrail) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Silverlink) Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
MTR Corporation (TSGN) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (UK) Limited	GBP29	100%	100%	–	United Kingdom	Investment holding
MTR Corporation (UK) NRT Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTRCSR Limited*	GBP1	100%	100%	–	United Kingdom	Project bidding
<u>Subsidiaries established during 2014</u>						
MTR China Services Holding (Hong Kong) Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
MTR Northwest Rapid Transit (Sydney) Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
Metro Trains Sydney Pty. Limited*	AUD100	60%	–	60%	Australia	Railway operation and maintenance

28 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 (Melbourne) DRC Pty. Limited*	AUD2	100%	–	100%	Australia	Investment holding
RTC Finance Company Pty. Limited*	AUD2	100%	100%	–	Australia	Investment holding
MTR Enterprise Management (Shenzhen) Corporation Limited	RMB32,000,000	100%	–	100%	The People's Republic of China	Consultancy and management services
MTR Gamma AB*	SEK50,000	100%	–	100%	Sweden	Railway operation and maintenance, property investment and management
MTR Corporation (UK) DRC Limited*	GBP2	100%	–	100%	United Kingdom	Investment holding

* Subsidiaries not audited by KPMG

29 Interests in Associates

The Group

in HK$ million	**2014**	2013
Share of net assets	**5,797**	5,277

The Group and the Company had interests in the following major associates as at 31 December 2014:

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 2014						
Octopus Holdings Limited (note 55B(ii))	HK$42,000,000	57.4%	57.4%	–	Hong Kong	Investment holding
Beijing MTR Corporation Limited	RMB1,380,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Hangzhou MTR Corporation Limited*	RMB4,540,000,000	49%	–	49%	The People's Republic of China	Railway operation and management
Tianjin TJ – Metro MTR Construction Company Limited*	RMB2,273,000,000	49%	–	49%	The People's Republic of China	Property development, rental and management
Tunnelbanan Teknik Stockholm AB	SEK30,000,000	50%	–	50%	Sweden	Railway maintenance
London Overground Rail Operations Ltd*	GBP2	50%	–	50%	United Kingdom	Railway operation and management
Associates established during 2014						
NRT Holdings 2 Pty. Limited*	–**	20%	–	20%	Australia	Railway operation and maintenance
NRT Holdings Pty. Limited*	AUD100	20%	–	20%	Australia	Railway operation and maintenance
NRT Pty. Limited*	AUD100	20%	–	20%	Australia	Railway operation and maintenance

* Companies not audited by KPMG

** The Group's share of investment in NRT Holdings 2 Pty. Limited is expected to represent additional equity contribution of approximately AUD27.8 million and loans to NRT Holdings 2 Pty. Limited of approximately AUD34.8 million.

29 Interests in Associates *(continued)*

All the associates are accounted for using the equity method in the consolidated accounts and considered to be not individually material.

The summary financial information of the Group's effective interests in associates is as follows:

in HK$ million	**2014**	2013
Assets	**16,906**	11,964
Liabilities	**(11,109)**	(6,687)
Net assets	**5,797**	5,277
Income	**3,671**	2,888
Expenses and others	**(3,478)**	(2,647)
Profit before taxation	**193**	241
Income tax	**(72)**	(83)
Net profit	**121**	158
Other comprehensive income	**(139)**	142
Total comprehensive income	**(18)**	300

In November 2012, Beijing MTR Corporation Limited ("Beijing MTR") initialled 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 future share of additional equity contribution to Beijing MTR in respect of Beijing Metro Line 14 is approximately RMB2.45 billion. 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. The first and second phases of Beijing Metro Line 14 opened in May 2013 and December 2014 respectively. The full line will be opened after 2017. In November 2014, Beijing MTR signed the concession agreement for the Beijing Metro Line 14 with the Beijing Municipal Government. In accordance with the Operation & Maintenance Service Agreement, Beijing MTR is assigned the rights to operate Beijing Metro Line 14 before its full-phased operation.

In February 2013, London Overground Rail Operations ("LOROL") was awarded by Transport for London a two-year extension of the franchise to operate and maintain the London Overground in Greater London until November 2016 after completion of the original seven-year franchise period ended in November 2014. During the year ended 31 December 2014, LOROL distributed GBP2 million (HK$23 million) (2013: GBP2 million or HK$25 million) of dividends to the Group and the Group provided management services to LOROL at a total amount of HK$18 million (2013: HK$19 million).

In August 2013, Tianjin TJ – Metro MTR Construction Company Limited ("Tianjin TJ – Metro MTR"), a company formed by the Company's subsidiary, MTR Property (Tianjin) No.1 Company Limited (49%), and Tianjin Metro (Group) Company Limited (51%), won the bidding for the land use right for a site at Beiyunhe Station on Tianjin Metro Line 6 at a price of RMB2,075 million. Tianjin TJ – Metro MTR was set up on 15 July 2013 with a registered capital of RMB1,800 million, of which 49% is borne by the Group. In January 2014, Tianjin TJ – Metro MTR Construction Company Limited increased its registered capital to RMB2,273 million and the Group had made a further equity contribution of RMB232 million (HK$294 million) to the associate.

In September 2014, NRT Pty. Limited entered into contract with New South Wales Government in Australia for the Operations, Trains and Systems ("OTS") contract of the Sydney North West Rail Link. The OTS contract is a PPP project covering major parts of the design, construction and financing of the North West Rail Link 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 North West Rail Link to Metro Trains Sydney Pty. Limited, a 60%-owned subsidiary of the Group.

In February 2015, Beijing MTR initialled the Concession Agreement with the Beijing Municipal Government for the Beijing Metro Line 16 PPP project. Beijing MTR would participate in the investment, operations and maintenance of the new line. Total capital cost of Beijing Metro Line 16 is approximately RMB49.5 billion and the project's civil work, which represents about 70% of the project's capital cost, is being undertaken by Beijing Infrastructure Investment Corporation Limited. Beijing MTR would be responsible for the work covering electrical and mechanical systems as well as rolling stock which represents about 30% of the project's capital cost at approximately RMB15 billion. The Group may need to further invest up to RMB2.45 billion as additional equity in Beijing MTR for Beijing Metro Line 16. As part of the Concession Agreement, Beijing MTR would undertake the operations and maintenance of Beijing Metro Line 16 for a term of 30 years. The first phase is targeted to open by the end of 2016 while full line operations are expected to commence after 2017. The Concession Agreement is subject to the approval by relevant authorities in the Mainland.

29 Interests in Associates *(continued)*

During the year ended 31 December 2014, the Group provided staff secondment, information technology and other support services to Beijing MTR at a total amount of HK$32 million (2013: HK$33 million). The Group provided services in respect of software licence and maintenance to Hangzhou MTR Corporation Limited at a total amount of HK$11 million (2013: nil). Tunnelbanan Teknik Stockholm AB provided rolling stock maintenance and other supporting services to MTR Stockholm AB at an amount of SEK587 million (HK$670 million) (2013: SEK563 million or HK$670 million). MTR Stockholm AB leased depots, depot equipment and provided other supporting services to Tunnelbanan Teknik Stockholm AB at a total amount of SEK120 million (HK$137 million) (2013: SEK111 million or HK$132 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 AUD7 million (HK$45 million) (2013: nil).

During the year ended 31 December 2014, the Group incurred HK$136 million (2013: HK$129 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly-owned subsidiary of Octopus Holdings Limited. OCL incurred HK$36 million (2013: HK$32 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$20 million (2013: HK$172 million) of dividends to the Group.

30 Investments in Securities

Investments in securities, representing trading securities held by the overseas insurance underwriting subsidiary, comprise:

The Group

in HK$ million	2014	2013
Trading securities listed overseas, at fair value		
– maturing within 1 year	**187**	113
– maturing after 1 year	**340**	359
	527	472

31 Properties Held for Sale

The Group and The Company

in HK$ million	2014	2013
Properties held for sale		
– at cost	**555**	1,054
– at net realisable value	**521**	51
	1,076	1,105

Properties held for sale at 31 December 2014 comprise mainly residential units and car parking spaces at The Riverpark at Che Kung Temple Station and Lake Silver at Wu Kai Sha Station, both along the Ma On Shan Line, and The Palazzo at Fo Tan Station along the East Rail Line. They represent either properties received by the Company as sharing in kind or as part of the profit distribution upon completion of the development. The properties are stated on the balance sheet at the lower of cost, which is deemed to be their fair value upon initial recognition as determined by reference to an independent open market valuation at the date of receipt (notes 2J(iii) and (iv)), and their net realisable value at the balance sheet date. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. The net realisable values as at 31 December 2014 and 2013 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value are stated net of provision of HK$30 million (2013: HK$6 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.

32 Derivative Financial Assets and Liabilities

A Fair Value

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of derivative financial instruments outstanding are as follows:

The Group

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2014							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– fair value hedges :	2,093	2					
– inflow			–	–	2,095	–	2,095
– outflow			–	–	(2,093)	–	(2,093)
– cash flow hedges :	347	15					
– inflow			335	–	–	–	335
– outflow			(320)	–	–	–	(320)
Cross currency swaps							
– fair value hedges :	2,404	20					
– inflow			34	34	876	392	1,336
– outflow			(21)	(33)	(868)	(388)	(1,310)
Net settled:							
Interest rate swaps							
– fair value hedges	900	67	27	20	37	–	84
– not qualified for hedge accounting	100	1	(2)	(1)	–	5	2
	5,844	105	53	20	47	9	129
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges :	1,398	1					
– inflow			–	–	1,397	–	1,397
– outflow			–	–	(1,398)	–	(1,398)
– cash flow hedges :	195	19					
– inflow			105	56	15	–	176
– outflow			(116)	(64)	(15)	–	(195)
– not qualified for hedge accounting :	146	8					
– inflow			141	–	–	–	141
– outflow			(150)	–	–	–	(150)
Cross currency swaps							
– fair value hedges :	805	92					
– inflow			23	23	707	–	753
– outflow			(11)	(17)	(812)	–	(840)
– cash flow hedges :	2,437	397					
– inflow			74	73	219	2,805	3,171
– outflow			(92)	(92)	(277)	(3,183)	(3,644)
Net settled:							
Interest rate swaps							
– fair value hedges	1,150	32	8	(1)	(20)	(22)	(35)
– cash flow hedges	900	16	(11)	(5)	(6)	–	(22)
	7,031	565	(29)	(27)	(190)	(400)	(646)
Total	12,875						

32 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Company

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2014							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– fair value hedges :	2,093	2					
– inflow			–	–	2,095	–	2,095
– outflow			–	–	(2,093)	–	(2,093)
Cross currency swaps							
– fair value hedges :	2,404	20					
– inflow			34	34	876	392	1,336
– outflow			(21)	(33)	(868)	(388)	(1,310)
Net settled:							
Interest rate swaps							
– fair value hedges	900	67	27	20	37	–	84
– not qualified for hedge accounting	100	1	(2)	(1)	–	5	2
	5,497	90	38	20	47	9	114
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges :	1,398	1					
– inflow			–	–	1,397	–	1,397
– outflow			–	–	(1,398)	–	(1,398)
– cash flow hedges :	195	19					
– inflow			105	56	15	–	176
– outflow			(116)	(64)	(15)	–	(195)
– not qualified for hedge accounting :	146	8					
– inflow			141	–	–	–	141
– outflow			(150)	–	–	–	(150)
Cross currency swaps							
– fair value hedges :	805	92					
– inflow			23	23	707	–	753
– outflow			(11)	(17)	(812)	–	(840)
– cash flow hedges :	2,437	397					
– inflow			74	73	219	2,805	3,171
– outflow			(92)	(92)	(277)	(3,183)	(3,644)
Net settled:							
Interest rate swaps							
– fair value hedges	1,150	32	8	(1)	(20)	(22)	(35)
– cash flow hedges	900	16	(11)	(5)	(6)	–	(22)
	7,031	565	(29)	(27)	(190)	(400)	(646)
Total	12,528						

32 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
2013							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– fair value hedges :	3,491	10					
– inflow			–	–	3,501	–	3,501
– outflow			–	–	(3,491)	–	(3,491)
– cash flow hedges :	102	3					
– inflow			59	30	16	–	105
– outflow			(58)	(29)	(15)	–	(102)
– not qualified for hedge accounting :	124	4					
– inflow			126	15	–	–	141
– outflow			(123)	(14)	–	–	(137)
Cross currency swaps							
– fair value hedges :	1,629	13					
– inflow			25	25	1,281	–	1,331
– outflow			(15)	(19)	(1,284)	–	(1,318)
Net settled:							
Interest rate swaps							
– fair value hedges	2,563	85	56	25	47	–	128
	7,909	115	70	33	55	–	158
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges :	47	3					
– inflow			37	6	1	–	44
– outflow			(40)	(6)	(1)	–	(47)
– not qualified for hedge accounting :	27	–					
– inflow			9	–	–	–	9
– outflow			(9)	–	–	–	(9)
Cross currency swaps							
– fair value hedges :	5,856	75					
– inflow			5,850	32	371	–	6,253
– outflow			(5,845)	(19)	(459)	–	(6,323)
– cash flow hedges :	1,887	227					
– inflow			51	50	148	2,403	2,652
– outflow			(72)	(72)	(214)	(2,534)	(2,892)
Net settled:							
Interest rate swaps							
– fair value hedges	1,150	65	8	5	(27)	(60)	(74)
– cash flow hedges	1,482	19	(17)	(9)	(2)	–	(28)
	10,449	389	(28)	(13)	(183)	(191)	(415)
Total	18,358						

32 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps, and the relevant interest rate swap curves as of 31 December 2014 and 2013 were used to discount the cash flows of financial instruments. Interest rates used ranged from 0.130% to 2.525% (2013: 0.085% to 2.984%) for Hong Kong dollars, 0.175% to 2.576% (2013: 0.169% to 1.828%) for US dollars, 2.861% to 3.531% (2013: 2.565% to 5.150%) for Australian dollars and 0.110% to 0.885% (2013: 0.111% to 1.429%) for Japanese yen.

The table above details the remaining contractual maturities at the balance sheet date of the Group's and the Company's derivative financial assets and liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay. The details of the fair value measurement are disclosed in note 48.

B Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") is an integral part of its risk management policies. The Model specifies, amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Group's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management policies and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Group are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient cash balance and/or undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 6 to 15 months of projected cash requirements as specified in the Model. The Group also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

The following table details the remaining contractual maturities at the balance sheet date 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 balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2014				2013			
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	**7,137**	**3,118**	**615**	**10,870**	6,965	3,551	604	11,120
Amounts repayable within a period of between 2 and 5 years	**7,391**	**2,280**	**3**	**9,674**	8,466	2,238	3	10,707
Amounts repayable within a period of between 1 and 2 years	**1,615**	**1,338**	**–**	**2,953**	905	1,082	–	1,987
Amounts repayable within 1 year	**928**	**1,270**	**–**	**2,198**	5,682	844	3	6,529
	17,071	**8,006**	**618**	**25,695**	22,018	7,715	610	30,343

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32 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Company

in HK$ million	2014 Capital market instruments	2014 Bank loans and overdrafts	2014 Others	2014 Total	2013 Capital market instruments	2013 Bank loans and overdrafts	2013 Others	2013 Total
Loans and other obligations								
Amounts repayable beyond 5 years	**1,689**	**–**	**615**	**2,304**	1,605	–	604	2,209
Amounts repayable within a period of between 2 and 5 years	**634**	**629**	**3**	**1,266**	675	512	3	1,190
Amounts repayable within a period of between 1 and 2 years	**69**	**11**	**–**	**80**	70	443	–	513
Amounts repayable within 1 year	**69**	**685**	**–**	**754**	69	247	–	316
	2,461	**1,325**	**618**	**4,404**	2,419	1,202	607	4,228

Others represent obligations under lease out/lease back transaction (note 21E).

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities. 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 by maintaining a level of fixed rate debt between 40% and 65% (2013: 50% and 80%) 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 2014, 52% (2013: 58%) of the Group's total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps.

The Group's exposure due to its floating rate borrowings is offset by the floating rate interest income it earns from its cash balances, bank deposits and other investment instruments. As at 31 December 2014, the Group had total cash, bank balances and deposits of HK$18,358 million (2013: HK$16,748 million) from which it derived floating rate interest income, compared with total floating rate borrowings of HK$9,908 million (2013: HK$10,168 million).

As at 31 December 2014, 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$112 million/HK$98 million. Other components of consolidated equity would increase/decrease by approximately HK$81 million/HK$86 million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date 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 balance sheet date.

In 2013, 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$136 million/HK$123 million. Other components of consolidated equity would increase/decrease by approximately HK$72 million/HK$76 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency other than the functional currency of the Group's companies to which they relate. For the Group, it arises principally from its borrowing as well as overseas investment and procurement activities.

The Group manages and controls its foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt as specified by the Model, and minimal foreign exchange open positions created by its investments and procurements overseas. Where the currency of a borrowing is not matched with that of the expected cash flows for servicing the debt, the Group would convert its foreign currency exposure resulting from the borrowing to Hong Kong dollar exposure through cross currency swaps. For investment and procurement in foreign currencies, the Group would purchase the foreign currencies in advance or enter into foreign exchange forward contracts to secure the necessary foreign currencies at pre-determined exchange rates for settlement.

The Group's exposure to US dollars due to its foreign currency borrowings is also offset by the amount of US dollar cash balances, bank deposits and investments that it maintains.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars 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.

32 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 21E). 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 balance sheet date, 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 balance sheet. As at balance sheet date, 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 34.

33 Stores and Spares

	The Group		The Company	
in HK$ million	**2014**	2013	**2014**	2013
Stores and spares expected to be consumed:				
– within 1 year	**944**	821	**701**	637
– after 1 year	**427**	466	**364**	377
	1,371	1,287	**1,065**	1,014
Less: Provision for obsolete stock	**(6)**	(6)	**(6)**	(6)
	1,365	1,281	**1,059**	1,008

Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

34 Debtors, Deposits and Payments in Advance

	The Group		The Company	
in HK$ million	**2014**	2013	**2014**	2013
Debtors, deposits and payments in advance relate to:				
– Property development projects	**1,363**	1,389	**1,363**	1,389
– Railway-related subsidiaries outside of Hong Kong	**1,308**	1,106	**–**	–
– Hong Kong operations and others	**1,126**	1,126	**964**	952
	3,797	3,621	**2,327**	2,341

The Group's credit policies in respect of receivables arising from its principal activities are as follows:

(i) The majority of fare revenue from Hong Kong transport operation is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.

(ii) Fare revenue from Shenzhen Metro Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types.

34 Debtors, Deposits and Payments in Advance *(continued)*

(iii) Franchise revenue in Melbourne is collected either weekly or monthly depending on the revenue nature. The majority of the franchise revenue in Stockholm is collected in the transaction month with the remainder being collected in the following month.

(iv) Rentals, advertising and telecommunications service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

(v) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.

(vi) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.

(vii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.

(viii) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing of debtors is analysed as follows:

	The Group		The Company	
in HK$ million	**2014**	2013	**2014**	2013
Amounts not yet due	**2,913**	2,596	**2,099**	1,892
Overdue by 30 days	**149**	387	**65**	287
Overdue by 60 days	**24**	50	**16**	20
Overdue by 90 days	**26**	9	**24**	1
Overdue by more than 90 days	**17**	4	**13**	2
Total debtors	**3,129**	3,046	**2,217**	2,202
Deposits and payments in advance	**668**	575	**110**	139
	3,797	3,621	**2,327**	2,341

Included in amounts not yet due as at 31 December 2014 was HK$1,363 million (2013: HK$1,389 million) in respect of property development, comprising receivable on profits distributable based on the terms of the development agreements and sales and purchase agreements, receivable from certain stakeholding funds (note 26C) awaiting finalisation of the respective development accounts as well as other receivables on miscellaneous recoverable expenses.

As at 31 December 2014, all debtors, deposits and payments in advance were expected to be recovered within one year except for amounts relating to deposits and receivables of HK$102 million (2013: HK$279 million) and of HK$18 million (2013: HK$37 million) respectively in the Group and the Company which were expected to be recovered after more than one year. The nominal values less impairment losses for bad and doubtful debts are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors, deposits and payments in advance are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
in million	**2014**	2013	**2014**	2013
Swiss Franc	**–**	19	**–**	–
United States dollars	**3**	6	**3**	6

35 Amounts Due from Related Parties

in HK$ million	The Group 2014	The Group 2013	The Company 2014	The Company 2013
Amounts due from:				
– HKSAR Government	**1,028**	600	**1,028**	600
– KCRC	**5**	9	**5**	9
– associates	**40**	45	**40**	45
– subsidiaries (net of impairment losses)	**–**	–	**10,722**	10,229
	1,073	654	**11,795**	10,883

As at 31 December 2014, the amount due from HKSAR Government 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 Island Line Extension, South Island Line (East) and Kwun Tong Line Extension projects, reimbursement of the fare revenue difference in relation to the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, agency fee receivables and reimbursable costs in respect of West Rail property development (note 26D), as well as receivables and retention for other entrustment and maintenance works.

The amount due from KCRC related to the recoverable cost for certain capital works and property enabling works in accordance with the agreements in relation to the Rail Merger.

The amounts due from associates as at 31 December 2014 included the outstanding balance of loan to Tunnelbanan Teknik Stockholm AB ("TBT") amounting to HK$11 million (SEK11 million) (2013: HK$12 million or SEK11 million) which bears an interest rate of 4% per annum above the 3-month Stockholm Inter Bank Offer Rate published by the Riksbank with repayment due by 1 November 2017.

All contract retentions on the entrusted works mentioned above were due for release within one year. Except the outstanding balance of loan to TBT that was expected to be settled in 2017, all other amounts due from the HKSAR Government and other related parties were expected to be received within 24 months. The nominal values of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

36 Cash, Bank Balances and Deposits

in HK$ million	The Group 2014	The Group 2013	The Company 2014	The Company 2013
Deposits with banks and other financial institutions	**16,765**	15,835	**16,244**	15,392
Cash at banks and on hand	**2,128**	1,462	**288**	286
Cash, bank balances and deposits	**18,893**	17,297	**16,532**	15,678
Less: Bank deposits with more than three months to maturity when placed or pledged (note 37D)	**(3,434)**	(10,041)	**(3,110)**	(9,673)
Less: Bank overdrafts (note 37A)	**(46)**	(47)	**(46)**	(47)
Cash and cash equivalents in the cash flow statement	**15,413**	7,209	**13,376**	5,958

Included in cash, bank balance and deposits in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	The Group 2014	The Group 2013	The Company 2014	The Company 2013
Australian dollars	**22**	14	**22**	14
Euros	**19**	10	**19**	10
Japanese yen	**25**	28	**25**	28
New Taiwan dollars	**16**	14	**16**	14
Renminbi	**2,451**	538	**2,451**	534
United States dollars	**532**	793	**530**	792

37 Loans and Other Obligations

A By Type

The Group

in HK$ million	2014 Carrying amount	2014 Fair value	2014 Repayable amount	2013 Carrying amount	2013 Fair value	2013 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2017 to 2043 (2013: due during 2014 to 2043)	**5,271**	**5,592**	**5,307**	9,622	9,728	9,628
Unlisted:						
Debt issuance programme notes due during 2015 to 2043 (2013: due during 2014 to 2043)	**8,346**	**9,139**	**8,727**	8,869	9,444	9,019
Total capital market instruments	**13,617**	**14,731**	**14,034**	18,491	19,172	18,647
Bank loans	**5,949**	**5,949**	**5,954**	5,593	5,593	5,593
Others	**395**	**497**	**395**	380	439	380
Loans and others	**19,961**	**21,177**	**20,383**	24,464	25,204	24,620
Bank overdrafts	**46**	**46**	**46**	47	47	47
Short-term loans	**500**	**500**	**500**	–	–	–
Total	**20,507**	**21,723**	**20,929**	24,511	25,251	24,667

The Company

in HK$ million	2014 Carrying amount	2014 Fair value	2014 Repayable amount	2013 Carrying amount	2013 Fair value	2013 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due in 2043 (2013: due in 2043)	**665**	**833**	**698**	664	663	698
Unlisted:						
Debt issuance programme notes due during 2018 to 2028 (2013: due during 2018 to 2028)	**787**	**934**	**857**	832	980	857
Total capital market instruments	**1,452**	**1,767**	**1,555**	1,496	1,643	1,555
Bank loans	**727**	**727**	**732**	1,120	1,120	1,120
Others	**395**	**497**	**395**	377	437	377
Loans and others	**2,574**	**2,991**	**2,682**	2,993	3,200	3,052
Bank overdrafts	**46**	**46**	**46**	47	47	47
Short-term loans	**500**	**500**	**500**	–	–	–
Total	**3,120**	**3,537**	**3,228**	3,040	3,247	3,099

Others include non-defeased obligations under lease out/lease back transaction (note 21E).

As at 31 December 2014, the Group had a number of uncommitted facilities with undrawn amounts totalling HK$20,780 million (2013: HK$16,042 million), comprising a debt issuance programme and short-term bank loan facilities.

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that is available to the Group for similar financial instruments. The carrying amounts of short-term loans and bank overdrafts approximated their fair values. Details of the fair value measurement are disclosed in note 48.

37 Loans and Other Obligations *(continued)*

A By Type *(continued)*

The amounts of borrowings, denominated in a currency other than the functional currency of the entity to which they relate, before and after currency hedging activities are as follows:

The Group

in million	Before hedging activities 2014	Before hedging activities 2013	After hedging activities 2014	After hedging activities 2013
Australian dollars	**230**	150	**–**	–
Japanese yen	**15,000**	15,000	**–**	–
United States dollars	**700**	1,300	**40**	90

The Company

in million	Before hedging activities 2014	Before hedging activities 2013	After hedging activities 2014	After hedging activities 2013
Japanese yen	**5,000**	5,000	**–**	–
United States dollars	**150**	150	**40**	90

B By Repayment Terms

The Group

in HK$ million	2014 Capital market instruments	2014 Bank loans and overdrafts	2014 Others	2014 Total	2013 Capital market instruments	2013 Bank loans and overdrafts	2013 Others	2013 Total
Long-term loans and others								
Amounts repayable beyond 5 years	**5,635**	**2,688**	**395**	**8,718**	5,385	3,042	377	8,804
Amounts repayable within a period of between 2 and 5 years	**6,699**	**1,762**	**–**	**8,461**	7,599	1,458	–	9,057
Amounts repayable within a period of between 1 and 2 years	**1,200**	**1,089**	**–**	**2,289**	500	722	–	1,222
Amounts repayable within 1 year	**500**	**415**	**–**	**915**	5,163	371	3	5,537
	14,034	**5,954**	**395**	**20,383**	18,647	5,593	380	24,620
Bank overdrafts	**–**	**46**	**–**	**46**	–	47	–	47
Short-term loans	**–**	**500**	**–**	**500**	–	–	–	–
	14,034	**6,500**	**395**	**20,929**	18,647	5,640	380	24,667
Less: Unamortised discount/premium/ finance charges outstanding	**(39)**	**(5)**	**–**	**(44)**	(37)	–	–	(37)
Adjustment due to fair value change of financial instruments	**(378)**	**–**	**–**	**(378)**	(119)	–	–	(119)
Total carrying amount of debt	**13,617**	**6,495**	**395**	**20,507**	18,491	5,640	380	24,511

37 Loans and Other Obligations *(continued)*

B By Repayment Terms *(continued)*

The Company

in HK$ million	2014 Capital market instruments	2014 Bank loans and overdrafts	2014 Others	2014 Total	2013 Capital market instruments	2013 Bank loans and overdrafts	2013 Others	2013 Total
Long-term loans and others								
Amounts repayable beyond 5 years	**1,090**	**–**	**395**	**1,485**	1,090	–	377	1,467
Amounts repayable within a period of between 2 and 5 years	**465**	**600**	**–**	**1,065**	465	500	–	965
Amounts repayable within a period of between 1 and 2 years	**–**	**–**	**–**	**–**	–	431	–	431
Amounts repayable within 1 year	**–**	**132**	**–**	**132**	–	189	–	189
	1,555	**732**	**395**	**2,682**	1,555	1,120	377	3,052
Bank overdrafts	**–**	**46**	**–**	**46**	–	47	–	47
Short-term loans	**–**	**500**	**–**	**500**	–	–	–	–
	1,555	**1,278**	**395**	**3,228**	1,555	1,167	377	3,099
Less: Unamortised discount/premium/ finance charges outstanding	**(36)**	**(5)**	**–**	**(41)**	(37)	–	–	(37)
Adjustment due to fair value change of financial instruments	**(67)**	**–**	**–**	**(67)**	(22)	–	–	(22)
Total carrying amount of debt	**1,452**	**1,273**	**395**	**3,120**	1,496	1,167	377	3,040

The amounts repayable within 1 year in respect of capital market instruments and bank loans are included in long-term loans as these amounts are intended to be refinanced on a long-term basis.

C Bonds and Notes Issued and Redeemed

Notes issued during the years ended 31 December 2014 and 2013 comprise:

The Group

in HK$ million	2014 Principal amount	2014 Net consideration received	2013 Principal amount	2013 Net consideration received
Debt issuance programme notes	**550**	**544**	3,285	3,248

The Company

in HK$ million	2014 Principal amount	2014 Net consideration received	2013 Principal amount	2013 Net consideration received
Debt issuance programme notes	**–**	**–**	1,091	1,057

During the year ended 31 December 2014, notes of AUD80 million (or HK$550 million) (2013: HK$700 million, AUD100 million (or HK$700 million) and JPY10 billion (or HK$794 million)) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited while the Company did not issue any debt securities (2013: US$90 million (or HK$698 million) and JPY5 billion (or HK$393 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 2014, the Group redeemed HK$500 million of its unlisted debt securities (2013: HK$3,336 million) and US$600 million (or HK$4,658 million) of its listed debt securities (2013: nil).

37 Loans and Other Obligations *(continued)*

D 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 2014 and 2013.

(ii) As at 31 December 2014, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for a RMB3,280 million (2013: RMB4,000 million) bank loan facility granted to it.

(iii) As at 31 December 2014, MTR Property Development (Shenzhen) Company Limited, an indirectly wholly owned subsidiary of the Company in the Mainland of China, has mortgaged its land use rights and pledged its accounts receivable in relation to the property development project at Shenzhen Metro Longhua Line Depot Site Lot 1 as security for a RMB1,950 million (2013: RMB1,950 million) bank loan facility granted to it.

Save as disclosed above and those disclosed elsewhere in the accounts, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2014.

38 Creditors and Accrued Charges

	The Group		The Company	
in HK$ million	**2014**	2013	**2014**	2013
Creditors and accrued charges				
– Island Line Extension Project	**1,350**	486	**1,350**	486
– South Island Line (East) Project	**1,057**	473	**1,057**	473
– Kwun Tong Line Extension Project	**314**	260	**314**	260
– Shenzhen Metro Longhua Line Project	**676**	599	**–**	–
– Hong Kong property development projects	**704**	603	**704**	603
– Mainland of China property development project	**165**	144	**–**	–
– Railway-related subsidiaries outside of Hong Kong	**1,949**	1,424	**–**	–
– Hong Kong operations and others	**10,206**	9,784	**9,678**	9,087
Government grant on Island Line Extension Project un-utilised	**–**	20	**–**	20
	16,421	13,793	**13,103**	10,929

The analysis of creditors by due dates is as follows:

	The Group		The Company	
in HK$ million	**2014**	2013	**2014**	2013
Due within 30 days or on demand	**3,998**	4,820	**1,875**	2,567
Due after 30 days but within 60 days	**3,783**	2,031	**3,590**	1,973
Due after 60 days but within 90 days	**613**	534	**561**	501
Due after 90 days	**3,019**	2,351	**2,323**	2,048
	11,413	9,736	**8,349**	7,089
Rental and other refundable deposits	**2,739**	2,657	**2,665**	2,580
Accrued employee benefits	**2,269**	1,380	**2,089**	1,240
Government grant on Island Line Extension Project un-utilised	**–**	20	**–**	20
	16,421	13,793	**13,103**	10,929

Creditors and accrued charges were expected to be settled within one year except for HK$4,861 million (2013: HK$3,896 million) in the Group and HK$4,619 million (2013: HK$3,657 million) in the Company which were expected to be settled after one year. The amounts due after one year are mainly rental deposits received from investment property and station kiosk tenants and advance income received from telecommunication service operators, majority of which are due to be repaid within three years. The Group considers the effect of discounting these deposits would be immaterial.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

38 Creditors and Accrued Charges *(continued)*

Included in creditors and accrued charges are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	The Group 2014	The Group 2013	The Company 2014	The Company 2013
Australian dollars	**5**	3	**–**	1
Euros	**17**	6	**17**	6
Japanese yen	**303**	115	**280**	91
United States dollars	**5**	18	**2**	2

39 Contract Retentions

The Group

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2014			
Hong Kong railway extension projects	**92**	**474**	**566**
Hong Kong businesses	**111**	**176**	**287**
Mainland of China and international subsidiaries	**159**	**82**	**241**
	362	**732**	**1,094**
2013			
Hong Kong railway extension projects	81	560	641
Hong Kong businesses	96	97	193
Mainland of China and international subsidiaries	149	3	152
	326	660	986

The Company

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2014			
Hong Kong railway extension projects	**92**	**474**	**566**
Hong Kong businesses	**111**	**176**	**287**
	203	**650**	**853**
2013			
Hong Kong railway extension projects	81	560	641
Hong Kong businesses	96	97	193
	177	657	834

The effect of discounting these contract retentions is considered immaterial as these amounts are substantially due to be released within 24 months.

40 Amounts Due to Related Parties

in HK$ million	The Group 2014	The Group 2013	The Company 2014	The Company 2013
Amounts due to:				
– HKSAR Government	**3**	4	**3**	4
– KCRC	**1,597**	1,371	**1,597**	1,371
– an associate	**7**	13	**–**	–
– subsidiaries	**–**	–	**12,596**	17,636
	1,607	1,388	**14,196**	19,011

The amount due to the HKSAR Government relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2014 relates to mandatory payments and related interest payable to KCRC in respect of the property development site along the Light Rail as well as 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 an associate relates to rolling stock maintenance service fees payable to Tunnelbanan Teknik Stockholm AB and is expected to be settled within 12 months.

The amount due to the Company's subsidiaries included HK$12,242 million (2013: HK$17,231 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 37C). 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 2014, HK$11,371 million (2013: HK$11,887 million) is expected to be settled after one year.

41 Obligations under Service Concession

Movements of the Group's and the Company's obligations under service concessions are as follows:

in HK$ million	The Group 2014	The Group 2013	The Company 2014	The Company 2013
Balance as at 1 January	**10,658**	10,690	**10,480**	10,520
Add: Net increase in interest payable	**3**	3	**–**	–
Less: Amount repaid/payable during the year	**(42)**	(40)	**(42)**	(40)
Exchange difference	**(5)**	5	**–**	–
Balance as at 31 December	**10,614**	10,658	**10,438**	10,480

The outstanding balances as at 31 December 2014 and 2013 are repayable as follows:

The Group

	2014			2013		
in HK$ million	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	**10,354**	**18,423**	**28,777**	10,415	19,127	29,542
Amounts repayable within a period of between 2 and 5 years	**166**	**2,103**	**2,269**	156	2,113	2,269
Amounts repayable within a period of between 1 and 2 years	**49**	**707**	**756**	45	711	756
Amounts repayable within 1 year	**45**	**711**	**756**	42	714	756
	10,614	**21,944**	**32,558**	10,658	22,665	33,323

41 Obligations under Service Concession *(continued)*

The Company

in HK$ million	2014 Present value of payment obligations	2014 Interest expense relating to future periods	2014 Total payment obligations	2013 Present value of payment obligations	2013 Interest expense relating to future periods	2013 Total payment obligations
Amounts repayable beyond 5 years	**10,177**	**18,260**	**28,437**	10,237	18,950	29,187
Amounts repayable within a period of between 2 and 5 years	**166**	**2,084**	**2,250**	156	2,094	2,250
Amounts repayable within a period of between 1 and 2 years	**49**	**701**	**750**	45	705	750
Amounts repayable within 1 year	**46**	**705**	**751**	42	708	750
	10,438	**21,750**	**32,188**	10,480	22,457	32,937

42 Loan from Holders of Non-controlling Interests

Loan from holders of non-controlling interests represents that portion of total shareholder loan of AUD48.75 million (HK$310 million) granted to Metro Trains Melbourne Pty. Ltd. ("MTM") by the holders of its non-controlling interests. The loan carries an interest rate of 7.5% (2013: 7.5%) per annum and is repayable at the discretion of MTM or on the expiry of the operation and maintenance franchise on 29 November 2017, whichever is earlier.

43 Deferred Income

Movements of deferred income are as follows:

The Group

in HK$ million	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange difference	Balance at 31 December
2014						
Deferred income on property development (note 26B)	**50**	**–**	**(24)**	**–**	**–**	**26**
Deferred income on transfer of assets from customers	**96**	**102**	**–**	**(24)**	**–**	**174**
Deferred income on government subsidy for Shenzhen Metro Longhua Line operation	**477**	**652**	**–**	**(557)**	**(7)**	**565**
	623	**754**	**(24)**	**(581)**	**(7)**	**765**
2013						
Deferred income on property development (note 26B)	60	–	(10)	–	–	50
Deferred income on transfer of assets from customers	49	64	–	(17)	–	96
Deferred income on government subsidy for Shenzhen Metro Longhua Line operation	379	661	–	(572)	9	477
	488	725	(10)	(589)	9	623

The Company

in HK$ million	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange difference	Balance at 31 December
2014						
Deferred income on property development (note 26B)	**50**	**–**	**(24)**	**–**	**–**	**26**
2013						
Deferred income on property development (note 26B)	60	–	(10)	–	–	50

44 Income Tax in the Balance Sheets

A Current taxation in the consolidated balance sheet comprises provision for Hong Kong Profits Tax for the Company and certain subsidiaries for the year ended 31 December 2014, chargeable at Hong Kong Profits Tax Rate at 16.5% (2013: 16.5%) and after netting off provisional tax paid, and Mainland of China and overseas tax chargeable at the appropriate current rates of taxation ruling in the relevant countries.

	The Group		The Company	
in HK$ million	**2014**	2013	**2014**	2013
Provision for Hong Kong Profits Tax for the year (note 14)	**1,583**	1,118	**1,541**	1,090
Hong Kong Provisional Profits Tax paid	**(665)**	(830)	**(633)**	(815)
	918	288	**908**	275
Balance relating to Mainland of China and overseas tax	**78**	61	**8**	–
	996	349	**916**	275

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the balance sheet and the movements during the year are as follows:

The Group

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2014						
Balance as at 1 January 2014	**9,833**	**498**	**(30)**	**(24)**	**(17)**	**10,260**
Charged/(credited) to consolidated profit and loss account	**760**	**–**	**(37)**	**–**	**(15)**	**708**
Charged/(credited) to reserves	**–**	**22**	**(73)**	**9**	**–**	**(42)**
Exchange difference	**(1)**	**–**	**1**	**–**	**1**	**1**
Balance as at 31 December 2014	**10,592**	**520**	**(139)**	**(15)**	**(31)**	**10,927**
2013						
Balance as at 1 January 2013	9,332	440	(182)	(12)	(12)	9,566
Charged/(credited) to consolidated profit and loss account	506	–	19	–	(5)	520
Charged/(credited) to reserves	–	58	136	(12)	–	182
Exchange difference	(5)	–	(3)	–	–	(8)
Balance as at 31 December 2013	9,833	498	(30)	(24)	(17)	10,260

The Company

	Deferred tax arising from				
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Total
2014					
Balance as at 1 January 2014	**9,778**	**498**	**(34)**	**(24)**	**10,218**
Charged/(credited) to profit and loss account	**757**	**–**	**(40)**	**–**	**717**
Charged/(credited) to reserves	**–**	**22**	**(73)**	**5**	**(46)**
Balance as at 31 December 2014	**10,535**	**520**	**(147)**	**(19)**	**10,889**
2013					
Balance as at 1 January 2013	9,270	440	(189)	(12)	9,509
Charged to profit and loss account	508	–	19	–	527
Charged/(credited) to reserves	–	58	136	(12)	182
Balance as at 31 December 2013	9,778	498	(34)	(24)	10,218

44 Income Tax in the Balance Sheets *(continued)*

B Deferred Tax Assets and Liabilities Recognised *(continued)*

in HK$ million	The Group 2014	The Group 2013	The Company 2014	The Company 2013
Net deferred tax assets recognised in the balance sheet	**(50)**	(29)	**–**	–
Net deferred tax liabilities recognised in the balance sheet	**10,977**	10,289	**10,889**	10,218
	10,927	10,260	**10,889**	10,218

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$237 million (2013: HK$227 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.

45 Share Capital, Other Statutory Capital Reserves and Capital Management

The components of share capital and other statutory capital reserves are as follows:

in HK$ million	2014	2013
Share capital	**45,280**	5,798
Other statutory capital reserves	**–**	38,644
	45,280	44,442

A Share Capital

	2014 Number of shares	2014 HK$ million	2013 Number of shares	2013 HK$ million
Authorised: (note 45A(i))				
Ordinary shares of HK$1.00 each (note 45A(ii))	**–**	**–**	6,500,000,000	6,500
Ordinary shares, issued and fully paid:				
At 1 January	**5,798,541,650**	**5,798**	5,793,196,650	5,793
Shares issued under share option schemes before 3 March 2014	**143,500**	**1**	5,345,000	5
Transition to no-par value regime on 3 March 2014 (note 45A(iii))	**–**	**38,647**	–	–
Shares issued in respect of scrip dividend of 2013 final dividend	**11,595,971**	**335**	–	–
Shares issued in respect of scrip dividend of 2014 interim dividend	**1,934,026**	**61**	–	–
Shares issued under share option schemes on or after 3 March 2014	**14,319,200**	**438**	–	–
At 31 December	**5,826,534,347**	**45,280**	5,798,541,650	5,798

Notes:

(i) Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

(ii) In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

(iii) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), any amount standing to the credit of the share premium account and the capital reserve has become part of the Company's share capital on 3 March 2014.

B Other Statutory Capital Reserves

in HK$ million	2014	2013
At 1 January	**38,644**	38,488
Employee share options exercised before 3 March 2014	**3**	156
Transition to no-par value regime on 3 March 2014 (note 45A(iii))	**(38,647)**	–
At 31 December	**–**	38,644

45 Share Capital, Other Statutory Capital Reserves and Capital Management *(continued)*

B Other Statutory Capital Reserves *(continued)*

Prior to 3 March 2014, share premium represented the amount by which the issue price of shares exceeded the par value of those shares. The application of the share premium account was governed by section 48B of the predecessor Hong Kong Companies Ordinance (Cap. 32). Pursuant to the Articles of Association of the Company, the capital reserve can only be applied in paying up in full unissued shares to be allotted and distributed as fully paid bonus shares to the shareholders of the Company.

In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), any amount standing to the credit of the share premium account and the capital reserve has become part of the Company's share capital on 3 March 2014. The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

New shares issued and fully paid up during the year comprise:

			Proceeds received/Transfer from employee share-based capital reserve		
	Number of shares	Weighted average exercise price	Share capital account	Share premium account	Total
		HK$	HK$ million	HK$ million	HK$ million
Employee share options exercised before 3 March 2014:					
– 2007 Share Option Scheme	**143,500**	**21.51**	**1**	**3**	**4**
Transition to no-par value regime on 3 March 2014 (note 45A(iii))	**–**	**–**	**3**	**(3)**	**–**
Employee share options exercised on or after 3 March 2014: (note 45B(i))					
– New Joiners Share Option Scheme	**84,500**	**19.97**	**2**	**–**	**2**
– 2007 Share Option Scheme	**14,234,700**	**26.16**	**436**	**–**	**436**
	14,462,700		**442**	**–**	**442**

Note:

(i) The amount in the employee share-based capital reserve is transferred out directly to share capital account upon share options exercised since the new Hong Kong Companies Ordinance (Cap. 622) commenced operation on 3 March 2014.

An analysis of the Company's outstanding share options as at 31 December 2014 is disclosed in note 49.

C Capital Management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide an adequate return to its shareholders.

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of the HKSAR Government is the majority shareholder of the Company holding 4,434,552,207 shares as at 31 December 2014, representing 76.1% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt-to-equity ratio, which is calculated on net borrowings as a percentage of the total equity, where net borrowings are represented by the aggregate of loans and other obligations, bank overdrafts, obligations under service concession and loan from holders of non-controlling interests net of cash and cash equivalents and bank medium term notes. The Group's net debt-to-equity ratios over the past years had been trending downward since the Rail Merger from 46.5% at 31 December 2007 to 7.6% at 31 December 2014.

Fasttrack Insurance Ltd. is required to maintain a minimum level of shareholders' fund based on the Bermuda Insurance Act. MTR Corporation (Shenzhen) Limited is required to maintain a registered capital at or above 40% of the total investment for the Shenzhen Metro Longhua Line project in accordance with the concession agreement. MTR Property Development (Shenzhen) Company Limited is required to maintain a registered capital at or above 50% of the total investment based on Jianzhufang [2006] No. 171. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. MTR Stockholm AB, MTR Beta AB, MTR Express AB and MTR Nordic AB are required to maintain total shareholders' fund at or above 50% of their respective registered share capital based on the Swedish Companies Act. MTR Travel Limited is required to maintain a certain level of paid-up capital in order to maintain membership of the Travel Industry Council of Hong Kong. As at 31 December 2014, 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.

46 Other Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

in HK$ million	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	Total other reserves
2014					
Balance as at 1 January 2014	**2,525**	**(128)**	**240**	**103,057**	**105,694**
Profit for the year	**–**	**–**	**–**	**15,332**	**15,332**
Other comprehensive income for the year	**116**	**26**	**–**	**(370)**	**(228)**
Total comprehensive income for the year	**116**	**26**	**–**	**14,962**	**15,104**
2013 final dividend	**–**	**–**	**–**	**(3,886)**	**(3,886)**
2014 interim dividend	**–**	**–**	**–**	**(1,455)**	**(1,455)**
Employee share-based payments	**–**	**–**	**42**	**–**	**42**
Employee share options exercised	**–**	**–**	**(65)**	**–**	**(65)**
Employee share options forfeited	**–**	**–**	**(3)**	**3**	**–**
Balance as at 31 December 2014	**2,641**	**(102)**	**214**	**112,681**	**115,434**
2013					
Balance as at 1 January 2013	2,227	(67)	219	94,247	96,626
Profit for the year	–	–	–	12,702	12,702
Other comprehensive income for the year	298	(61)	–	686	923
Total comprehensive income for the year	298	(61)	–	13,388	13,625
2012 final dividend	–	–	–	(3,130)	(3,130)
2013 interim dividend	–	–	–	(1,450)	(1,450)
Employee share-based payments	–	–	48	–	48
Employee share options exercised	–	–	(25)	–	(25)
Employee share options forfeited	–	–	(2)	2	–
Balance as at 31 December 2013	2,525	(128)	240	103,057	105,694

The fixed assets revaluation reserve is used to deal with the surpluses or deficits arising from the revaluation of self-occupied land and buildings (note 2E(ii)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as explained in note 2S(ii).

The employee share-based capital reserve comprises the fair value of share options granted which are yet to be exercised, as explained in the accounting policy under note 2T(iii). The amount will either be transferred to the share premium account when the option is exercised, or be released directly to retained profits if the option is lapsed or forfeited.

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign enterprises. The reserve is dealt with in accordance with the accounting policy set out in note 2BB.

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties of HK$45,957 million (2013: HK$42,005 million) included in retained profits are non-distributable as they do not constitute realised profits. As at 31 December 2014, the Company considers that the total amount of reserves available for distribution to equity shareholders amounted to HK$66,622 million (2013: HK$60,924 million).

Included in the Group's retained profits as at 31 December 2014 is an amount of HK$695 million (2013: HK$617 million), being the retained profits attributable to the associates.

47 Cash Generated from Operations

Reconciliation of operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment to cash generated from operations is as follows:

in HK$ million	2014	2013
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	**15,423**	14,399
Adjustments for:		
– Loss on disposal of fixed assets	**36**	37
– Amortisation of deferred income from transfers of assets from customers	**(24)**	(17)
– (Increase)/decrease in fair value of derivative instruments	**(1)**	85
– Unrealised loss on revaluation of investment in securities	**1**	2
– Employee share-based payment expenses	**43**	52
– Exchange loss/(gain)	**35**	(7)
Operating profit from recurrent businesses before working capital changes	**15,513**	14,551
(Increase)/decrease in debtors, deposits and payments in advance	**(538)**	36
Increase in stores and spares	**(102)**	(88)
Increase in creditors and accrued charges	**1,646**	947
Cash generated from operations	**16,519**	15,446

48 Fair Value Measurement

In accordance with HKFRS 13, *Fair Value Measurement*, the level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3: Fair value measured using significant unobservable inputs

A Fair Value Measurements of Fixed Assets

All of the Group's investment properties measured at fair value on a recurring basis are categorised as Level 3 of the fair value hierarchy.

During the year ended 31 December 2014, 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 2014 and 2013 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The Group's senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The fair value of all the Group's self-occupied land and buildings is determined on a recurring basis using primarily the direct comparison approach assuming sale of properties in their existing state with vacant possession.

The property interests of all the shopping malls and office accommodation held by the Group as investment properties have been valued using the income capitalisation approach. Under this approach, the market value is derived from the capitalisation of the rental revenue to be received under existing tenancies and the estimated full market rental value to be received upon expiry of the existing tenancies with reference to the market rental levels prevailing as at the date of valuation by an appropriate single market yield rate. The range of market yield rate adopted for the valuation of major investment properties as at 31 December 2014 was 4.25% – 7.50% (2013: 4.25% – 7.50%) with a weighted average of 5.4% (2013: 5.4%). The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2014 are shown in note 20. All the fair value adjustment related to investment properties held as at 31 December 2014 and was recognised under investment property revaluation in the consolidated profit and loss account.

48 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments

(i) Financial Assets and Liabilities Carried at Fair Value

The level of fair value hierarchy within which the recurring fair value measurements are categorised is analysed below:

The Group

in HK$ million	**Fair value at 31 December 2014**	**Fair value measurements as at 31 December 2014** Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**17**	**–**	**17**
– Cross currency swaps	**20**	**–**	**20**
– Interest rate swaps	**68**	**–**	**68**
	105	**–**	**105**
Investments in securities	**527**	**527**	**–**
	632	**527**	**105**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**28**	**–**	**28**
– Cross currency swaps	**489**	**–**	**489**
– Interest rate swaps	**48**	**–**	**48**
	565	**–**	**565**

in HK$ million	Fair value at 31 December 2013	Fair value measurements as at 31 December 2013 Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	17	–	17
– Cross currency swaps	13	–	13
– Interest rate swaps	85	–	85
	115	–	115
Investments in securities	472	472	–
	587	472	115
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	3	–	3
– Cross currency swaps	302	–	302
– Interest rate swaps	84	–	84
	389	–	389

48 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

The Company

in HK$ million	Fair value at 31 December 2014	Fair value measurements as at 31 December 2014	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**2**	**–**	**2**
– Cross currency swaps	**20**	**–**	**20**
– Interest rate swaps	**68**	**–**	**68**
	90	**–**	**90**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**28**	**–**	**28**
– Cross currency swaps	**489**	**–**	**489**
– Interest rate swaps	**48**	**–**	**48**
	565	**–**	**565**

in HK$ million	Fair value at 31 December 2013	Fair value measurements as at 31 December 2013	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	17	–	17
– Cross currency swaps	13	–	13
– Interest rate swaps	85	–	85
	115	–	115
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	3	–	3
– Cross currency swaps	302	–	302
– Interest rate swaps	84	–	84
	389	–	389

There are no Level 3 measurements of financial instruments. During the years ended 31 December 2014 and 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments. For interest rate swaps, cross currency swaps and foreign exchange forward contracts, the discount rates used were derived from the swap curves of the respective currencies at the balance sheet date. Closing exchange rates at the balance sheet date were used to convert value in foreign currency to local currency.

48 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 2014 and 2013 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

The Group

	At 31 December 2014		At 31 December 2013	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**13,617**	**14,731**	18,491	19,172
Other obligations	**395**	**497**	380	439

The Company

	At 31 December 2014		At 31 December 2013	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**1,452**	**1,767**	1,496	1,643
Other obligations	**395**	**497**	377	437

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 balance sheet date. Closing exchange rates at the balance sheet date were used to convert value in foreign currency to local currency.

49 Share-based Payments

A Equity-settled Share-based Payments

The Group granted equity-settled share options to its Members of the Executive Directorate and certain employees under share option schemes. As at 31 December 2014, the Company maintained two share option schemes, namely, the New Joiners Share Option Scheme and the 2007 Share Option Scheme. Details of the schemes are as follows:

(i) New Joiners Share Option Scheme

In May 2002, the New Joiners Share Option Scheme (the "New Option Scheme") was adopted at the 2002 Annual General Meeting to provide share options to new members of the top and senior management of the Company who did not participate in the Pre-IPO Option Scheme (which expired and the options were lapsed in 2010). Under the Rules of the New Option Scheme, a maximum of 5,056,431 shares may be issued pursuant to the exercise of options granted under the New Option Scheme. Options granted will be evenly vested in respect of their underlying shares over a period of three years from the date on which the relevant option is offered. The exercise price of any option granted under the New 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. The New Option Scheme expired on 16 May 2007 and no options can be granted under this Scheme on or after that date. All options granted under the New Option Scheme had either been exercised or lapsed as at 31 December 2014.

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2014		2013	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**84,500**	**19.974**	297,500	17.107
Exercised during the year	**(84,500)**	**19.974**	(213,000)	15.970
Outstanding at 31 December	**–**	**–**	84,500	19.974
Exercisable at 31 December	**–**	**–**	84,500	19.974

The weighted average closing price in respect of the share options exercised during the year was HK$31.074 (2013: HK$28.100).

49 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

Share options outstanding at 31 December 2014 had the following exercise prices and remaining contractual lives:

Exercise price	2014 Number of share options	2014 Remaining contractual life years	2013 Number of share options	2013 Remaining contractual life years
HK$20.66	–	–	22,000	2
HK$19.732	–	–	62,500	3
	–		84,500	

(ii) 2007 Share Option Scheme

Following the expiry of 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.

As at 31 December 2014, 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	8,273,000	11 December 2007 to 7 January 2008
	26 March 2008	2,749,000	28 March 2008 to 23 April 2008
2009 Award	8 December 2008	12,712,000	8 December 2008 to 30 December 2008
	12 June 2009	345,000	18 June 2009 to 9 July 2009
2010 Award	8 December 2009	15,718,000	9 December 2009 to 22 December 2009
	28 June 2010	355,000	21 July 2010
2011 Award	16 December 2010	15,546,500	16 December 2010 to 23 December 2010
	27 June 2011	215,000	7 July 2011
2012 Award	23 March 2012	16,917,000	30 March 2012
2013 Award	26 April 2013	21,605,000	6 May 2013
	25 October 2013	384,500	1 November 2013
2014 Award	23 May 2014	19,895,500	30 May 2014

49 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

The following table summarises the outstanding share options as at 31 December 2014 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2008 Award			
28 March 2008	54,000	26.52	on or prior to 26 March 2015
31 March 2008	81,000	26.52	on or prior to 26 March 2015
1 April 2008	127,000	26.52	on or prior to 26 March 2015
2 April 2008	159,000	26.52	on or prior to 26 March 2015
3 April 2008	55,000	26.52	on or prior to 26 March 2015
7 April 2008	130,000	26.52	on or prior to 26 March 2015
9 April 2008	23,000	26.52	on or prior to 26 March 2015
10 April 2008	58,000	26.52	on or prior to 26 March 2015
11 April 2008	70,000	26.52	on or prior to 26 March 2015
12 April 2008	31,000	26.52	on or prior to 26 March 2015
14 April 2008	40,000	26.52	on or prior to 26 March 2015
15 April 2008	17,000	26.52	on or prior to 26 March 2015
16 April 2008	40,000	26.52	on or prior to 26 March 2015
17 April 2008	90,000	26.52	on or prior to 26 March 2015
18 April 2008	15,000	26.52	on or prior to 26 March 2015
21 April 2008	58,000	26.52	on or prior to 26 March 2015
23 April 2008	19,000	26.52	on or prior to 26 March 2015
2009 Award			
8 December 2008	20,000	18.30	on or prior to 8 December 2015
9 December 2008	257,000	18.30	on or prior to 8 December 2015
10 December 2008	484,700	18.30	on or prior to 8 December 2015
11 December 2008	370,000	18.30	on or prior to 8 December 2015
12 December 2008	463,500	18.30	on or prior to 8 December 2015
13 December 2008	40,500	18.30	on or prior to 8 December 2015
15 December 2008	228,700	18.30	on or prior to 8 December 2015
16 December 2008	134,000	18.30	on or prior to 8 December 2015
17 December 2008	171,500	18.30	on or prior to 8 December 2015
18 December 2008	19,000	18.30	on or prior to 8 December 2015
19 December 2008	44,000	18.30	on or prior to 8 December 2015
22 December 2008	136,500	18.30	on or prior to 8 December 2015
23 December 2008	44,000	18.30	on or prior to 8 December 2015
24 December 2008	109,000	18.30	on or prior to 8 December 2015
25 December 2008	45,000	18.30	on or prior to 8 December 2015
18 June 2009	130,000	24.50	on or prior to 12 June 2016
6 July 2009	45,000	24.50	on or prior to 12 June 2016
2010 Award			
9 December 2009	520,000	26.85	on or prior to 8 December 2016
10 December 2009	1,664,000	26.85	on or prior to 8 December 2016
11 December 2009	1,316,000	26.85	on or prior to 8 December 2016
12 December 2009	290,000	26.85	on or prior to 8 December 2016
14 December 2009	1,397,000	26.85	on or prior to 8 December 2016
15 December 2009	1,257,500	26.85	on or prior to 8 December 2016
16 December 2009	581,500	26.85	on or prior to 8 December 2016

49 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

Date of grant	Number of share options	Exercise price HK$	Exercisable period
17 December 2009	290,000	26.85	on or prior to 8 December 2016
18 December 2009	228,500	26.85	on or prior to 8 December 2016
19 December 2009	70,000	26.85	on or prior to 8 December 2016
20 December 2009	75,000	26.85	on or prior to 8 December 2016
21 December 2009	279,000	26.85	on or prior to 8 December 2016
22 December 2009	147,000	26.85	on or prior to 8 December 2016
21 July 2010	130,000	27.73	on or prior to 28 June 2017
2011 Award			
16 December 2010	104,000	28.84	on or prior to 16 December 2017
17 December 2010	4,023,000	28.84	on or prior to 16 December 2017
18 December 2010	608,000	28.84	on or prior to 16 December 2017
19 December 2010	98,000	28.84	on or prior to 16 December 2017
20 December 2010	3,151,000	28.84	on or prior to 16 December 2017
21 December 2010	1,929,000	28.84	on or prior to 16 December 2017
22 December 2010	682,000	28.84	on or prior to 16 December 2017
23 December 2010	119,000	28.84	on or prior to 16 December 2017
7 July 2011	123,000	26.96	on or prior to 27 June 2018
2012 Award			
30 March 2012	13,564,000	27.48	on or prior to 23 March 2019
2013 Award			
6 May 2013	20,311,000	31.40	on or prior to 26 April 2020
1 November 2013	384,500	29.87	on or prior to 25 October 2020
2014 Award			
30 May 2014	19,634,000	28.65	on or prior to 23 May 2021

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2014		2013	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**73,001,100**	**28.151**	57,087,100	26.720
Granted during the year	**19,895,500**	**28.650**	21,989,500	31.373
Exercised during the year	**(14,378,200)**	**26.114**	(5,132,000)	25.861
Forfeited during the year	**(1,648,000)**	**29.939**	(943,500)	29.153
Lapsed during the year	**(85,000)**	**27.600**	–	–
Outstanding at 31 December	**76,785,400**	**28.624**	73,001,100	28.151
Exercisable at 31 December	**38,331,400**	**27.782**	40,518,600	26.610

The weighted average closing price in respect of the share options exercised during the year was HK$30.622 (2013: HK$31.006).

49 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

Share options outstanding at 31 December 2014 had the following exercise prices and remaining contractual lives:

Exercise price	**2014** Number of share options	**2014** Remaining contractual life	2013 Number of share options	2013 Remaining contractual life
		years		years
HK$27.60	**–**	**–**	4,308,000	1
HK$26.52	**1,067,000**	**–**	1,701,000	1
HK$18.30	**2,567,400**	**1**	4,866,100	2
HK$24.50	**175,000**	**1**	175,000	2
HK$26.85	**8,115,500**	**2**	10,871,000	3
HK$27.73	**130,000**	**2**	175,000	3
HK$28.84	**10,714,000**	**3**	13,135,000	4
HK$26.96	**123,000**	**3**	163,000	4
HK$27.48	**13,564,000**	**4**	15,950,500	5
HK$31.40	**20,311,000**	**5**	21,272,000	6
HK$29.87	**384,500**	**6**	384,500	7
HK$28.65	**19,634,000**	**6**	–	–
	76,785,400		73,001,100	

According to the Black-Scholes pricing model, the fair values of options granted during the year ended 31 December 2014 were as follows:

Date of grant	Fair value of options granted	Inputs into the Black-Scholes pricing model: Share price immediately before grant date	Exercise price	Expected volatility	Expected life	Risk-free interest rate	Expected dividend per share
	HK$	HK$	HK$		years	%	HK$
30 May 2014	**2.11**	**29.40**	**28.65**	**0.14**	**3.5**	**0.76**	**0.92**

When computing fair values of the options granted, expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3.5 years and the expected life adopted was assumed to be 3.5 years after granting of the options, with expected dividends based on historical dividends. In addition, vesting terms under the grants have been taken into account whilst no market conditions associated with the share option grants have been considered. Changes in the subjective input assumptions could materially affect the fair value estimate.

(iii) During the year ended 31 December 2014, the equity-settled share-based payments recognised as an expense amounted to HK$41.6 million (2013: HK$47.5 million), all relating to the 2007 Share Option Scheme.

(iv) 2014 Share Incentive Scheme

On 15 August 2014, the Board of the Company approved the adoption of the 2014 Share Incentive Scheme ("2014 Scheme"), following the expiry of the 2007 Share Option Scheme on 6 June 2014. The purposes of the 2014 Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company. The 2014 Scheme took effect on 1 January 2015 for a term of 10 years, under which an award holder may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded on the basis of individual performance. Performance Shares are awarded which vest subject to the performance of the Company, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions.

Subject to the Scheme Rules, the Remuneration Committee shall determine from time to time the vesting criteria and conditions or periods for the Award Shares to be vested. An award of Restricted Shares will vest rateably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved. The 2014 Scheme will be administered by the Company in accordance with the Scheme Rules and the Company has entered into a Trust deed with the Trustee for the purpose of implementing the Scheme. The number of Award Shares will be acquired in the market at the cost of the Company by the Trustee. Award Shares will be held on trust by the Trustee until the end of each vesting period.

The details of the 2014 Scheme are disclosed in the Remuneration Report.

49 Share-based Payments *(continued)*

B Cash-settled Share-based Payments

Jay H Walder is entitled to an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office expired. An amount of HK$8,805,000 was paid to him on 2 July 2014 (at a price of HK$29.35 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 30 June 2014). On 30 August 2013, Jay H Walder was re-appointed as the Chief Executive Officer until 31 August 2015. He is entitled to an equivalent value in cash of 230,000 shares in the Company upon completion of his extended term of office on 31 August 2015. Jay H Walder stepped down as the Chief Executive Officer of the Company from 15 August 2014. On 15 August 2014, an amount of HK$725,428, forming part of the contractual settlement amount referred to in section (i) of Note 10A, was paid to him, being the equivalent value in cash of 24,378 shares (at a price of HK$29.7575 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 25 July 2014). His remaining derivative interest in 205,622 shares in the Company lapsed on 15 August 2014. For the year ended 31 December 2014, HK$1.3 million (2013: HK$4.3 million) was recorded as share-based payment expense.

50 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 five retirement schemes under trust in Hong Kong during the year ended 31 December 2014, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Retention Bonus Scheme (the "MTR RBS"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme".

Currently, new eligible employees can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme while the MTR MPF Scheme covers employees who did not opt for or who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) ("ORSO") and has been granted with an MPF Exemption by the Mandatory Provident Fund Schemes Authority ("MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management, employee representatives and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined with reference to an actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2014, the total membership was 4,460 (2013: 4,661). In 2014, members contributed HK$75 million (2013: HK$73 million) and the Company contributed HK$127 million (2013: HK$125 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contribution as at 31 December 2014 was HK$8,866 million (2013: HK$9,031 million).

The actuarial valuations as at 31 December 2013 and 2014 to determine the accounting obligations in accordance with Revised HKAS 19, *Employee benefits*, were carried out by an independent actuarial consulting firm, Towers Watson, using the Projected Unit Credit Method. The results of the valuation are shown in note 51.

The actuarial valuations as at 31 December 2013 and 2014 to determine the cash funding requirements were also carried out by Towers Watson using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2014 included a long-term rate of investment return net of salary increases of 1.4% (2013: 1.9%) per annum, together with appropriate allowances for expected rates of mortality, turnover and retirement. Towers Watson confirmed that, as at the valuation date of 31 December 2014:

(a) the MTR Retirement Scheme was solvent, with assets more than adequate to cover the aggregate value of members' vested benefits had all members left the MTR Retirement Scheme; and

(b) on the assumption that the MTR Retirement Scheme continued in force, the value of assets was more than sufficient to cover the aggregate past service liability, with a funding level of 103.0% (2013: 107.6%).

(ii) MTR RBS

The MTR RBS is a defined benefit scheme registered under the ORSO and is administered in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and an independent non-employer trustee. It is a top-up scheme to supplement the MTR Retirement Scheme for employees who are classified by the Company as staff working on designated projects and who are not on gratuity terms. It provides eligible members with benefits only in the event of redundancy for service accrued up to 31 December 2002, offset by any benefits payable from the MTR Retirement Scheme and other applicable schemes. Members are not required to contribute to the MTR RBS while the Company's contributions are determined with reference to an actuarial valuation carried out by an independent actuarial consulting firm. According to the Trust Deed of MTR RBS, membership of the MTR RBS shall automatically cease either upon termination of employment or if earlier, after 16 years of services. Since all the members in the MTR RBS have attained 16 years of services by the end of July 2014, the MTR RBS has been dissolved effective 7 September 2014 as endorsed by the Board of Trustees.

50 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

During the year ended 31 December 2013 and the period up to 6 September 2014, the Company was not required to make any contribution to the MTR RBS. The net asset value of the MTR RBS as at 31 December 2013 was HK$0.5 million. The remaining net asset value of HK$0.5 million was transferred back to the Company during the year as a result of the dissolution of the MTR RBS.

(iii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and granted with MPF Exemption by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated with reference to the Company's contributions and members' own contributions, together with investment returns on these contributions. Both the Company's and members' contributions are based on fixed percentages of members' base salary.

As at 31 December 2014, the total number of employees participating in the MTR Provident Fund Scheme was 8,133 (2013: 7,569). In 2014, total members' contributions were HK$87 million (2013: HK$76 million) and total contribution from the Company was HK$236 million (2013: HK$209 million). The net asset value as at 31 December 2014 was HK$4,805 million (2013: HK$4,577 million).

(iv) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the MPF Ordinance. The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

As at 31 December 2014, the total number of employees of the Company participating in the MTR MPF Scheme was 5,556 (2013: 4,993). In 2014, total members' contributions were HK$45 million (2013: HK$36 million) and total contribution from the Company was HK$49 million (2013: HK$40 million).

(v) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF Scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPF Ordinance.

As at 31 December 2014, the total number of employees of the Company participating in the KCRC MPF Scheme was 695 (2013: 738). In 2014, total members' contributions were HK$6 million (2013: HK$6 million) and total contribution from the Company was HK$7 million (2013: HK$7 million).

B Retirement Schemes for Employees of Mainland of China and Overseas Offices and Subsidiaries

Employees not eligible for joining the retirement schemes operated by the Company in Hong Kong are covered by the retirement schemes established by their respective subsidiary companies or in accordance with respective applicable labour regulations.

(i) Defined Benefit Plan

Certain employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2014, total number of the Group's employees participating in this scheme was 734 (2013: 763). In 2014, total members' contributions were HK$31 million (2013: HK$36 million) and total contribution from the Group was HK$43 million (2013: HK$46 million).

(ii) Defined Contribution Plans

Except for the defined benefit plan stated in note 50B(i), all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland of China or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPF Ordinance in Hong Kong. For the Mainland of China or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2014, the total number of employees of the Group participating in these schemes was 8,516 (2013: 8,116). In 2014, total members' contributions were HK$106 million (2013: HK$110 million) and total contribution from the Group was HK$340 million (2013: HK$304 million).

51 Defined Benefit Retirement Plan

During the year ended 31 December 2014, 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 50). This defined benefit scheme expose the Group to actuarial risks, such as interest rate, salary increase and investment risks. The information about the MTR Retirement Scheme is summarised as below:

A The amounts recognised in the consolidated balance sheet are as follows:

The Group and The Company

in HK$ million	**2014**	2013
Present value of defined benefit obligations	**(10,295)**	(9,839)
Fair value of plan assets	**8,866**	9,031
Net assets/(liabilities)	**(1,429)**	(808)

A portion of the above assets/(liabilities) is expected to be recovered/paid after more than one year. However, it is not practicable to segregate this amount from the amounts to be recovered/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$207 million in contribution to the MTR Retirement Scheme in 2015.

B Plan assets consist of the following:

The Group and The Company

in HK$ million	**2014**	2013
Equity securities		
– Financial institutions	**713**	803
– Non-financial institutions	**3,967**	4,025
	4,680	4,828
Bonds		
– Government	**1,471**	1,810
– Non-government	**2,515**	2,248
	3,986	4,058
Cash	**321**	256
	8,987	9,142
Voluntary units	**(121)**	(111)
	8,866	9,031

The plan assets include no investment in the ordinary shares and the debt securities of the Company in 2013 and 2014. All of the equity securities and bonds have quoted prices in active markets.

An asset-liability modelling review is performed periodically to analyse the strategic investment policies of the MTR Retirement Scheme. Based on the latest study, the strategic asset allocation of the MTR Retirement Scheme is 52.5% in equities and 47.5% in bonds (2013: 50.0% in equities and 50.0% in bonds).

51 Defined Benefit Retirement Plan *(continued)*

C Movements in the Present Value of the Defined Benefit Obligations

The Group and The Company

in HK$ million	2014	2013
At 1 January	**9,839**	10,122
Remeasurements:		
– Actuarial (gains)/losses arising from changes in liability experience	**(97)**	229
– Actuarial losses arising from changes in demographic assumptions	**20**	–
– Actuarial losses/(gains) arising from changes in financial assumptions	**455**	(641)
	378	(412)
Members' contributions paid to the scheme	**75**	73
Benefits paid by the scheme	**(607)**	(511)
Current service cost	**275**	303
Interest cost	**335**	264
At 31 December	**10,295**	9,839

The weighted average duration of the present value of the defined benefit obligations is 7.9 years (2013: 8.0 years).

D Movements in Plan Assets

The Group and The Company

in HK$ million	2014	2013
At 1 January	**9,031**	8,709
Company's contributions paid to the scheme	**127**	125
Members' contributions paid to the scheme	**75**	73
Benefits paid by the scheme	**(607)**	(511)
Administrative expenses paid from plan assets	**(5)**	(5)
Interest income	**310**	230
Return on plan assets, excluding interest income	**(65)**	410
At 31 December	**8,866**	9,031

E Expenses recognised in the profit and loss and other comprehensive income are as follows:

in HK$ million	2014	2013
Current service cost	**275**	303
Net interest on net defined benefit liability	**25**	34
Administrative expenses paid from plan assets	**5**	5
	305	342
Less: Amount capitalised	**(51)**	(54)
Net amount recognised in profit or loss	**254**	288
Actuarial losses/(gains)	**378**	(412)
Return on plan assets, excluding interest income	**65**	(410)
Amount recognised in other comprehensive income	**443**	(822)

The retirement scheme expense is recognised under staff costs and related expenses in the consolidated profit and loss account.

51 Defined Benefit Retirement Plan *(continued)*

F The significant actuarial assumptions (expressed as weighted average) and sensitivity analysis are as follows:

	2014	2013
Discount rate	**3.2%**	3.5%
Future salary increases	**4.6%**	4.1%
Unit value increase	**6.0%**	6.0%

The below analysis shows how the present value of the defined benefit obligations as at 31 December 2014 would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2014		2013	
	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	**(192)**	**199**	(188)	194
Future salary increases	**114**	**(100)**	51	(41)
Unit value increase	**91**	**(78)**	148	(134)

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.

52 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 2014:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Hong Kong Station	Office/Retail/Hotel	415,894	Completed by phases from 1998–2005
Kowloon Station			
Package One	Residential	147,547	Completed in 2000
Package Two	Residential	210,319	Completed by phases from 2002–2003
Package Three	Residential/Cross Border Bus Terminus	105,113	Completed in 2005
Package Four	Residential	128,845	Completed in 2003
Package Five, Six and Seven	Residential/Office/Retail/Hotel/ Service Apartment/Kindergarten	504,345	Completed by phases from 2006–2010
Olympic Station			
Package One	Residential/Office/Retail/ Indoor Sports Hall	309,069	Completed in 2000
Package Two	Residential/Retail/Market	268,650	Completed in 2001
Package Three	Residential/Kindergarten	104,452	Completed in 2006
Tsing Yi Station	Residential/Retail/Kindergarten	292,795	Completed in 1999
Tung Chung Station			
Package One	Residential/Office/Retail/ Hotel/Kindergarten	361,531	Completed by phases from 1999–2005
Package Two	Residential/Retail/Kindergarten	255,949	Completed by phases from 2002–2008
Package Three	Residential/Retail/Wet Market/ Kindergarten	413,154	Completed by phases from 2002–2008
Hang Hau Station	Residential/Retail	142,152	Completed in 2004
Tiu Keng Leng Station	Residential/Retail	253,765	Completed by phases from 2006–2007
Tseung Kwan O Station			
Area 55b	Residential/Retail	96,797	Completed in 2006
Area 57a	Residential/Retail	29,642	Completed in 2005
Area 56	Residential/Hotel/Retail/Office	163,130	Completed by phases from 2011–2012

52 Interests in Joint Operations in Respect of Hong Kong Property Development *(continued)*

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Tseung Kwan O Area 86			
Package One	Residential/Retail/ Residential Care Home for the Elderly	139,840	Completed in 2008
Package Two	Residential/Kindergarten	310,496	Completed by phases from 2010–2012
Package Three	Residential/Kindergarten	129,544	Completed in 2014
Package Four	Residential	122,302	2020
Package Five	Residential	102,336	2020
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

* Completion based on issuance of occupation permit

The Group's assets held in relation to these joint operations include various site foundation works and related staff and overhead costs, land costs, acquisition cost of development rights and interest expense. These are set off against any payments received from developers in relation to that development package, and the balance is shown on the balance sheet either as property development in progress (note 26) or deferred income (note 43) as the case may be. As at 31 December 2014, total property development in progress in respect of these joint operations was HK$1,336 million (2013: HK$4,654 million) and total deferred income was HK$26 million (2013: HK$50 million).

During the year ended 31 December 2014, profits attributable to joint operations of HK$4,004 million (2013: HK$1,462 million) were recognised (note 11).

In connection with the Rail Merger, the Company entered into agreements with KCRC relating to the property development projects on the following three awarded sites:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Fo Tan Station			
Ho Tung Lau	Residential/Retail	122,900	Completed in 2008
Wu Kai Sha Station	Residential/Retail/Kindergarten	172,650	Completed in 2009
Tai Wai Maintenance Centre	Residential	313,955	Completed by phases from 2010-2011

* Completion based on issuance of occupation permit

Under these agreements, the Company was appointed as KCRC's agent to exercise the rights and to perform the obligations of KCRC as stipulated in the agreements. The Company received a right to share the net surplus from the sale of these property development projects.

53 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 76.1% of the Company's issued share capital on trust for the HKSAR Government, is the majority shareholder of the Company. Transactions between the Group and the HKSAR Government departments or agencies, or entities controlled by the HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised), *Related party disclosures*, and are identified separately in these accounts.

Members of the Board and Members of the Executive Directorate and parties related to them, including their close family members, are also considered to be related parties of the Group. Transactions with these parties, except for those involving a Member of the Board or his related parties where the relevant Member abstains from voting, are separately disclosed in the accounts.

53 Material Related Party Transactions *(continued)*

Major related party transactions entered into by the Group which are relevant for the current year include:

A On 30 June 2000, the Company was granted by the HKSAR Government a franchise, for an initial period of 50 years, to operate the then existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company and the HKSAR Government entered into an Operating Agreement ("OA") which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. Pursuant to the terms of the OA, the Company's franchise will be extended for further periods of 50 years upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The OA also provides that upon extension of the franchise and subject to the HKSAR Government's prevailing land policy on the date on which the franchise is extended, certain consequential amendments will be made to agreements between the HKSAR Government and the Company in relation to the mass transit railway, including the renewal of various railway running line leases and land leases at nominal cost. With the Rail Merger, the OA was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 53C below.

B On 14 July 2000, the Company received a comfort letter from the HKSAR Government pursuant to which the HKSAR Government agreed to extend the period of certain of the Company's land interests so that they are coterminous with the Company's franchise period. To prepare for the Rail Merger, on 3 August 2007, the HKSAR Government wrote to KCRC confirming that, subject to all necessary approvals being obtained, the period of certain of KCRC's land interests (which are the subject of the service concession under the Rail Merger) will be extended so that they are coterminous with the concession period of the Rail Merger.

C In connection with the Rail Merger (note 3), on 9 August 2007, the Company and the HKSAR Government entered into a new operating agreement ("new OA"), which is based on the then existing OA referred to in note 53A above. On the Appointed Day, the Company's then existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the then existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). The new OA detailed the design, construction, maintenance and operation of the railways under the expanded franchise. Pursuant to the terms of the new OA and the MTR Ordinance, the Company's franchise may be extended for further periods of 50 years (from the date of the extension) upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The new OA also sets out a framework for the award of new railway projects in Hong Kong and introduces a fare adjustment mechanism which is subject to review periodically. A detailed description of the new OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger.

D Other than the new OA described in note 53C 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 54E.

The above transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" of the Report of the Members of the Board.

53 Material Related Party Transactions *(continued)*

E The Company entered into project agreements with the HKSAR Government for the design, construction, financing and operation of new railway extensions and, where applicable, the granting of land for commercial and residential property developments along these railway extensions. Project agreements on railway extensions that are still under construction or the property developments in respect of which have not been completed in the current year include:

(i) TKE Project Agreement in respect of the Tseung Kwan O Extension, which was signed on 4 November 1998 and includes the granting of property development rights at four sites along the extension;

(ii) Preliminary Project Agreement, which was signed on 6 February 2008, and Project Agreement, which was signed on 13 July 2009 in respect of the Island Line Extension to the Western District. Pursuant to the agreements, the Company has received from the HKSAR Government a total of HK$12,652 million of government grant as funding support subject to a repayment mechanism (note 24A). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of the above agreement is contained under the paragraph "Continuing Connected Transactions" of the Report of the Members of the Board;

(iii) Project Agreement in respect of the SIL(E), which was signed on 17 May 2011 and includes the granting of property development rights at a site in Wong Chuk Hang (note 24B). The transaction constitutes a continuing connected transaction as defined under the Listing Rules. However it is exempt from the disclosure requirements under Chapter 14A of the Listing Rules pursuant to the waiver granted by The Stock Exchange of Hong Kong Limited on 21 December 2004 (as amended from time to time); and

(iv) Project Agreement in respect of the KTE, which was signed on 17 May 2011 and includes the granting of property development rights at a site in Ho Man Tin (note 24C). The transaction constitutes a continuing connected transaction as defined under the Listing Rules. However it is exempt from the disclosure requirements under Chapter 14A of the Listing Rules pursuant to the waiver granted by The Stock Exchange of Hong Kong Limited on 21 December 2004 (as amended from time to time).

F The Company entered into entrustment agreements with the HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of new railway extensions, pursuant to which the HKSAR Government funds the costs of such activities while the Company is paid a fee for its project management service. Entrustment agreements on railway extensions that are still under construction in the year ended 31 December 2014 include:

(i) The XRL Preliminary Entrustment Agreement, which was signed on 24 November 2008, and the XRL Entrustment Agreement, which was signed on 26 January 2010, in respect of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL"). The two agreements together entrust the Company with the project management of activities leading to the completion of XRL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2014 are provided in note 25A; 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 2014 are provided in note 25B.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" of the Report of the Members of the Board.

G On 19 November 2003, the Company entered into a project agreement with the HKSAR Government to develop the Tung Chung Cable Car system together with a Theme Village at Ngong Ping on the Lantau Island under a franchise granted by the HKSAR Government for a period of 30 years commencing 24 December 2003. The project was completed with operation commencement on 18 September 2006.

H In connection with the construction of various railway projects, certain essential project works are embedded within the infrastructure works to be undertaken by the HKSAR Government or certain of its related parties. These works have been entrusted to the HKSAR Government and its related parties and are payable on an actual cost basis according to architectural certifications. The HKSAR Government and certain of its related parties, on the other hand, have entered into entrustment agreements with the Company for the construction of various other infrastructure works that are also reimbursable according to actual costs certified. Details of the amounts receivable and the amounts paid and payable as at 31 December 2014 are provided in notes 35 and 40 respectively.

53 Material Related Party Transactions *(continued)*

I In connection with certain property developments along the railway system, the Company has been granted land lots by and paid land premiums to the HKSAR Government in accordance with the terms of the development agreements in respect of the following sites during the year:

Property development site	Land grant acceptance date	Total land premium in HK$ million	Land premium settlement date
Tsing Yi Town Lot No. 135	4 November 2013	126	4 November 2013
		1,136	13 January 2014
		1,262	
Site O of Tseung Kwan O Town Lot No. 70	5 May 2014	2,710	23 July 2014
Sha Tin Town Lot No. 520	27 October 2014	1,036	27 October 2014
		9,320	19 January 2015
		10,356	
Site G of Tseung Kwan O Town Lot No. 70	3 December 2014	2,064	30 December 2014

In January 2015, the Company accepted a land grant from the Government in respect of Site N of Tseung Kwan O Town Lot No. 70 subject to the Company's acceptance of the Government's assessment of the land premium amounting to HK$3,345 million.

In March 2015, the Company accepted a land grant from the Government in respect of Tin Shui Wai Town Lot No. 23 at a land premium of HK$1,519 million.

J On 16 November 2011, the Company and KCRC entered into an Outsourcing Agreement pursuant to which the Company will provide certain administrative and financial activities to KCRC. The Agreement has no specific term but can be terminated by either party giving notice period specified in the Agreement. The fee payable pursuant to the Agreement and the scope of services are to be reviewed on an annual basis and amended upon the mutual agreement of the parties.

K On 5 July 2013, the Company renewed the maintenance agreement with the Hong Kong Airport Authority in respect of the automatic people mover system serving the Hong Kong International Airport upon the expiry of the previous five-year agreement. The renewed agreement covers a period of seven years effective from 6 July 2013. In respect of the service provided, HK$64 million was recognised as consultancy income during the year ended 31 December 2014 (2013: HK$48 million). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules.

L Other than those stated in notes 53A to 53K, 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 29, 35 and 40.

M The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 10A. In addition, Members of the Executive Directorate were granted share options under the Company's New Joiners Share Option Scheme and 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	**2014**	2013
Short-term employee benefits	**75.5**	65.4
Post-employment benefits	**5.2**	4.6
Equity compensation benefits	**4.1**	8.5
	84.8	78.5

The above remuneration is included in staff costs and related expenses disclosed in note 9A.

N During the year, the following dividends were paid to the Financial Secretary Incorporated of the HKSAR Government:

in HK$ million	**2014**	2013
Cash dividends paid	**4,080**	3,503

Notes to the Accounts

54 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2014 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
2014					
Authorised but not yet contracted for	**5,114**	**–**	**2,550**	**37**	**7,701**
Authorised and contracted for	**5,284**	**1,505**	**7,995**	**1,326**	**16,110**
	10,398	**1,505**	**10,545**	**1,363**	**23,811**
2013					
Authorised but not yet contracted for	3,017	–	89	3	3,109
Authorised and contracted for	5,602	4,439	500	2,363	12,904
	8,619	4,439	589	2,366	16,013

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
2014				
Authorised but not yet contracted for	**5,091**	**–**	**2,539**	**7,630**
Authorised and contracted for	**5,282**	**1,505**	**7,987**	**14,774**
	10,373	**1,505**	**10,526**	**22,404**
2013				
Authorised but not yet contracted for	2,958	–	88	3,046
Authorised and contracted for	5,561	4,439	500	10,500
	8,519	4,439	588	13,546

(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
2014				
Authorised but not yet contracted for	**2,398**	**352**	**2,364**	**5,114**
Authorised and contracted for	**532**	**191**	**4,561**	**5,284**
	2,930	**543**	**6,925**	**10,398**
2013				
Authorised but not yet contracted for	1,432	247	1,338	3,017
Authorised and contracted for	529	199	4,874	5,602
	1,961	446	6,212	8,619

54 Commitments *(continued)*

A Capital Commitments *(continued)*

The Company

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
2014				
Authorised but not yet contracted for	**2,375**	**352**	**2,364**	**5,091**
Authorised and contracted for	**530**	**191**	**4,561**	**5,282**
	2,905	**543**	**6,925**	**10,373**
2013				
Authorised but not yet contracted for	1,373	247	1,338	2,958
Authorised and contracted for	488	199	4,874	5,561
	1,861	446	6,212	8,519

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 2014. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		**The Company**	
in HK$ million	**2014**	2013	**2014**	2013
Payable within one year	**136**	143	**9**	13
Payable after one but within five years	**4**	12	**4**	10
	140	155	**13**	23

In addition to the above, the Group has future operating lease commitments of HK$3,485 million (2013: HK$3,883 million) in respect of railway-related subsidiaries outside of Hong Kong over the respective franchise periods, of which HK$988 million (2013: HK$1,032 million) is payable within one year, HK$1,923 million (2013: HK$2,848 million) is payable after one but within five years and HK$574 million (2013: HK$3 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 2014, the Group had total outstanding liabilities and contractual commitments of HK$1,841 million (2013: HK$1,859 million) in respect of these works and services. Cash funds totalling HK$1,821 million (2013: HK$1,860 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 37C), the Company has provided guarantees to the investors of approximately HK$12,124 million (in notional amount) as at 31 December 2014. The proceeds from the debts issued are on lent to the Company. As such, the primary liabilities have been recorded in the Company's balance sheet.

In respect of the lease out/lease back transaction ("Lease Transaction") (note 21E), 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$115 million (HK$888 million) as at 31 December 2014. 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$45 million (HK$348 million) as at 31 December 2014.

54 Commitments *(continued)*

D Material Financial and Performance Guarantees *(continued)*

In respect of the operating lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB12.5 million (HK$16 million) and a parent company guarantee of RMB52.5 million (HK$66 million) in respect of the quarterly rental payments to the landlord.

In respect of the Melbourne Metropolitan Train Franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), have provided to the Public Transport Victoria a joint and several parent company guarantee of AUD142.6 million (HK$905 million) and a performance bond of AUD85.5 million (HK$543 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 AUD1.8 million (HK$11 million) for the monthly rental payments to the landlords. In respect of the project activities, MTM has provided a bank guarantee of AUD0.2 million (HK$1 million) to the contractor for contract payments.

In respect of the Stockholm Metro Franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$1,002 million), which can be called if the franchise is terminated early as a result of default by MTR Stockholm AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the London Overground Franchise, the Group has provided a performance bond of GBP6 million (HK$74 million) to Transport for London (TfL) which may be called by TfL if the franchise is terminated early as a result of default.

In respect of the Shenzhen property development, the Group has provided payment guarantees of RMB98.5 million (HK$123 million) to the counterparties of the construction contracts.

In respect of the London Crossrail Franchise, the Group has provided to the Rail for London Limited a parent company guarantee of GBP80 million (HK$966 million) and a performance bond of GBP15 million (HK$181 million) for MTR Corporation (Crossrail) Limited's performance and other obligations under the franchise agreement

In respect of the Sydney North West Rail Link Franchise, the Group has provided to NRT Pty. Limited, an associate of the Group, several parent company guarantees of AUD122 million (HK$774 million) for the design and construction contract as well as the operation and management contract and a performance bond of AUD54 million (HK$340 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 AUD63 million (HK$398 million) as at 31 December 2014 to cover the equity and preferred equity to be invested in the Sydney North West Rail Link project.

E US Cross Border Lease ("CBL") Agreements

In connection with the Rail Merger, the Company entered into a number of agreements ("US CBL Assumption Agreements") with respect to the CBLs that KCRC had entered into with its CBL counterparties in relation to certain of its property and equipment ("CBL Property") between 1998 and 2003. Pursuant to the US CBL Assumption Agreements, the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs.

In addition, the Company has entered into a US CBL Allocation Agreement with KCRC, whereby the rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between the Company and KCRC. Generally, the Company is responsible for operational matters, such as repair, maintenance and insurance of the CBL Property, and KCRC is responsible for all other obligations, including payment of periodic rents and collateral related obligations. Despite this allocation of obligations, the Company is prima facie jointly and severally liable to the CBL counterparties for any failure of KCRC to perform its obligations under the CBLs.

KCRC and the HKSAR Government have agreed to indemnify the Company for its reasonable costs incurred as a result of the due and proper performance by the Company of its obligations under the CBLs (unless such costs would have been incurred in any event). In addition, KCRC has agreed to indemnify the Company for losses and reasonable costs incurred arising from KCRC not complying with its obligations under the CBLs or from any breach of KCRC's representations, covenants and agreements provided for in relation to the CBLs.

The Company has agreed to indemnify each of the HKSAR Government and KCRC for losses and reasonable costs incurred arising from any breach of the Company's representations, covenants and agreements provided for in relation to the CBLs.

F Service Concession in respect of the Rail Merger

Pursuant to the Rail Merger, the Company is obliged under the Service Concession Agreement ("SCA") to pay an annual fixed payment of HK$750 million to KCRC over the period of the service concession. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds. Furthermore, under the SCA, the Company is obliged to maintain, repair, replace and/or upgrade the KCRC system over the period of the service concession which is to be returned at the expiry of the service concession.

55 Accounting Estimates and Judgements

A Key sources of accounting estimates and estimation uncertainty include the following:

(i) Estimated Useful Life and Depreciation and Amortisation of Property, Plant and Equipment and Service Concession Assets

The Group estimates the useful lives of the various categories of property, plant and equipment and service concession assets on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives (note 2H).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at each balance sheet date according to accounting policies set out in note 2G(ii). In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the MTR Retirement Scheme. The determination of the Group's obligation and expense for the defined benefit element of the plan is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 50A(i) and 51F.

(iv) Revenue Recognition on Hong Kong Property Development

Recognition of Hong Kong property development profits requires management's estimation of the final project costs upon completion, assessment of outstanding transactions and market values of unsold units and, in the case of sharing-in-kind properties, the properties' fair value upon recognition. The Group takes into account independent qualified surveyors' reports, past experience on sales and marketing costs when estimating final project costs on completion and makes reference to professionally qualified valuers' reports in determining the estimated fair value of sharing-in-kind properties.

(v) Properties Held for Sale

The Group values unsold properties at the lower of their costs and net realisable values (note 31) at each balance sheet date. In ascertaining the properties' net realisable values, which are represented by the estimated selling prices less costs to be incurred in relation to the sales, the Group employs independent valuation professionals to assess the properties' estimated selling prices and makes estimations on further selling and property holding costs to be incurred based on past experience and with reference to general market practice.

(vi) Valuation of Investment Properties

The valuation of investment properties requires management's input of various assumptions and factors relevant to the valuation. The Group conducts semi-annual revaluation of its investment properties by independent professionally qualified valuers based on these assumptions agreed with the valuers prior to adoption.

(vii) Franchise in Hong Kong

The current franchise under which the Group is operating in Hong Kong allows the Group to run the mass transit railway system in Hong Kong until 1 December 2057. Pursuant to the terms stipulated in the new Operating Agreement with the HKSAR Government, the Company considers that it has the legal right to extend the franchise for further periods of 50 years upon expiry of each franchise term (note 53C). The Group's depreciation policies (note 2H) in respect of certain assets' lives which extend beyond 2057 are set on this basis.

(viii) Income Tax

Certain treatments adopted by the Group in its Hong Kong Profits Tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the 2013 accounts, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

(ix) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(x) Deferred Expenditure

As disclosed in note 2I(i), the Group capitalises proposed railway and property development project costs in deferred expenditure when the projects are at a detailed study stage and having been approved in principle by the Members of the Board. Such decision involves the Board's judgement on the outcome of the proposed project.

(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 each balance sheet date. 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.

55 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following: *(continued)*

(xii) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

B Critical accounting judgements in applying the Group's accounting policies include the following:

(i) Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. As at 31 December 2014, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits from the Group.

(ii) Associates

The Group regards Octopus Holdings Limited and its subsidiaries (the "OHL Group") as associates. In determining whether the Group has control over these associates, the Group has taken into account its voting right conferred to it under the Shareholder's Agreement of OHL and the effective influence it may exercise over the decision of OHL's Board. Throughout the year ended 31 December 2014, the Group considered that its voting right in the OHL Group has been maintained at 49% despite an equity interest of 57.4%. As such, the OHL Group was accounted for as associates in the Group's accounts.

56 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2014

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2014 and have not been adopted in these accounts. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 19 (Amendments), *Defined Benefit Plans: Employee Contributions*	1 July 2014
Amendments to HKFRSs, *Annual improvements to HKFRSs 2010 – 2012 cycle*	1 July 2014
Amendments to HKFRSs, *Annual improvements to HKFRSs 2011 – 2013 cycle*	1 July 2014
HKAS 16 and 38 (Amendments), *Clarification of Acceptance Methods of Depreciation and Amortisation*	1 January 2016
Amendments to HKFRS 11, *Joint Arrangement – Accounting for Acquisitions of Interests in Joint Operations*	1 January 2016
HKFRS 15, *Revenue from Contracts with Customers*	1 January 2017
HKFRS 9 (2014), *Financial Instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these new issues or amendments is expected to be in the period of initial application. So far, the Group considers that the adoption of them is unlikely to have a significant impact on the Group's accounts.

57 Approval of Accounts

The accounts were approved by the Board on 16 March 2015.

Glossary

Airport Express	Train Service provided between AsiaWorld-Expo Station and Hong Kong Station
Appointed Day or Day One or Merger Date	2 December 2007 when the Rail Merger was completed
Articles of Association	The articles of association of the Company
BJL4	Beijing Metro Line 4, which provided train service between Anheqiao North Station and Gongyixiqiao Station, and connected with its extension Daxing line providing service between Gongyixiqiao Station and Tiangongyuan Station
BJL14	Beijing Metro Line 14, which has 37 stations with ten interchange stations, stretching from Zhangguozhuang Station in the southern Fengtai District to Shangezhuang Station in the eastern Chaoyang District. Phase 1 opened on 5 May 2013, has seven stations, running from Zhangguozhuang Station to Xiju Station in the south-western part of Beijing. Phase 2 East Section, opened on 28 December 2014, has 12 stations (with two currently bypassed), and running from Shangezhuang Station to Jintailu Station.
BJMTR	Beijing MTR Corporation Limited
Board	The board of directors of the Company
Bus	Feeder bus services operated in support of West Rail Line, East Rail Line and Light Rail
Company or MTR Corporation	MTR Corporation Limited 香港鐵路有限公司, a company which was incorporated under the Companies Ordinance on 26 April 2000
Companies Ordinance	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong or Chapter 32 of the Laws of Hong Kong (as the case may be))
Computershare	Computershare Hong Kong Investor Services Limited, the share registrar of the Company
Cross-boundary Service or Cross-boundary	Journeys with the destination to/commencing from Lo Wu and Lok Ma Chau stations
Customer Service Pledge	Annually published performance targets in accordance with the Operating Agreement
Director or Member of the Board	A member of the Board
Domestic Service	Collective name for Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines
Express Rail Link	Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link
Fare Index	A measure of customer satisfaction for the fares charged for Domestic and Cross-boundary services, Airport Express, Light Rail and Bus based on satisfaction scores for different fare attributes weighted by the corresponding importance rating from the customer research
FSI	The Financial Secretary Incorporated, a corporation solely established under the Financial Secretary Incorporation Ordinance (Chapter 1015 of the Laws of Hong Kong)
Government	The Government of the Hong Kong SAR
Group	The Company and its subsidiaries
HZL1	Hangzhou Metro Line 1, which provided train service between Linping Station and Xianghu Station, and connected with its extension service to Wenze Road Station
HKSE or Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong or Hong Kong SAR or HKSAR	The Hong Kong Special Administrative Region of the People's Republic of China
Intercity	Intercity passenger services operated between Hong Kong and six major cities in the Mainland of China such as Beijing, Shanghai and Guangzhou
Interest Cover	Operating profit before depreciation, amortisation and variable annual payment divided by gross interest and finance charges before capitalisation, utilization 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
LOROL	London Overground Rail Operations Limited
Mainland or Mainland China or Mainland of China	The People's Republic of China excluding Hong Kong SAR
MTM	Metro Trains Melbourne Pty. Ltd.
MTRS	MTR Stockholm AB
MTR Ordinance	The Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)
Net Debt-to-equity Ratio	Loans and other obligations, bank overdrafts, short-term loans, obligations under service concession and loan from holders of non-controlling interests net of cash, bank balances and deposits, and investment in bank medium term notes in the consolidated balance sheet as a percentage of the total equity
Operating Agreement	The agreement entered into by the Company and the Government on 30 June 2000 for the operation of our rail services before the Rail Merger and a new agreement entered on 9 August 2007 for the operation of all of our rail and bus passenger services after the Rail Merger
Operating Margin	Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment for rail concessions as a percentage of turnover
Ordinary Shares	Ordinary shares in the capital of the Company
Rail Merger or Merger	The merger of the rail operations of MTR Corporation and KCRC and the acquisition of certain property interests by MTR Corporation from KCRC, full details of which are set out in the Rail Merger Circular. The Rail Merger was completed on 2 December 2007.
Rail Merger Ordinance	The Rail Merger Ordinance (Ordinance No.11 of 2007)
Rail Merger Circular	Refers to the circular dated 3 September 2007 despatched to the Company's shareholders in connection with the Rail Merger
Return on Average Equity Attributable to Equity Shareholders	Profit attributable to equity shareholders of the Company as a percentage of the average of the beginning and closing total equity attributable to equity shareholders of the Company of the period
Service Concession	A contract to provide services for a particular period which is awarded by a public sector entity to an operator; in the context of concession projects in Hong Kong, service concession refers to the concession granted or to be granted by KCRC and/or Government to the Company to operate, maintain and renew certain railway lines under the Service Concession Agreement or a Supplemental Service Concession Agreement, as more particularly described in the Rail Merger Circular; in the context of concession projects in the Mainland of China and Overseas, service concession refers to the concession granted by the government or relevant public sector entity to a subsidiary or associate of the Company to provide certain specified services for a specified period under a negotiated concession agreement.
Service Quality Index	A measure of customer satisfaction for the services provided by Domestic and Cross-boundary services, Airport Express, Light Rail and Bus based on satisfaction scores for different service attributes (excluding fares) weighted by the corresponding importance rating from the customer research
SZL4	Shenzhen Metro Longhua Line, which provided train service between Futian Checkpoint Station to Qinghu Station
SZMTR	MTR Corporation (Shenzhen) Limited
TBT	Tunnelbanan Teknik Stockholm AB

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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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