MTR CORPORATION LIMITED
香港鐵路有限公司

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

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016 FINAL DIVIDEND AND SECOND SPECIAL DIVIDEND – BOOK CLOSURE DATES, RECORD DATE AND PAYMENT DATE

HIGHLIGHTS

Financials

- Total revenue of the Group	HK$ 45,189 million	up 8.4%
- Post-tax profit attributable to shareholders of the Company:		
Recurrent business profit	HK$ 8,916 million	up 4.1%
Profit after investment property revaluation	HK$ 10,254 million	down 21.1%

- Final ordinary dividend of HK$0.82 per share recommended (with scrip dividend alternative); Total ordinary dividend for the year of HK$1.07 per share (excluding HK$2.20 per share of the first tranche of Special Dividend under the XRL Agreement)

Hong Kong Business Operations

- Openings of Kwun Tong Line Extension and South Island Line (East) in 2016, connecting all 18 districts in Hong Kong
- Service maintained at world-class 99.9% on-time performance level, with best ever performance in terms of train service reliability since KCRC rail merger in 2007
- Agreed with HKSAR Government for an early joint review of the Fare Adjustment Mechanism. Discussions are on-going regarding this review
- Tenders for LOHAS Park Package 10 and Ho Man Tin Station Package 1 were awarded in 2016. The first of the Wong Chuk Hang Station development packages was awarded in February 2017
- MTR Academy established in November 2016
- First proposal under the Railway Development Strategy 2014, Tuen Mun South Extension, submitted in December 2016

Mainland of China & International Businesses

- Opening of Beijing Metro Line 16 Phase 1 and commencement of Stockholms pendeltåg concession in December 2016
- Development profits for the first batch of units of Tiara in Shenzhen recognised in 2016
- Three proposals submitted for new franchises in the UK and Sweden, and extension of franchise in Melbourne. On-going discussions for two other franchises in the UK and Hangzhou

Outlook

- Openings of the Kwun Tong Line Extension and South Island Line (East) will positively impact passenger volume, albeit related depreciation and interest charges will be higher
- The extension of Maritime Square and expansion of Telford Plaza II are expected to open in the second half of 2017
- High-rise units at Tiara are on schedule for hand over by the middle of 2017
- Over the next 12 months or so, subject to market conditions, the Company expects to tender out six development packages in Hong Kong and as agent for the KCRC, the first package of the Kam Sheung Road Station site

The Directors of the Company are pleased to announce the audited results of the Company and its subsidiaries ("the Group") for the year ended 31 December 2016 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (HK$ MILLION)

	Year ended 31 December	
	2016	2015
Revenue from Hong Kong transport operations	**17,655**	16,916
Revenue from Hong Kong station commercial businesses	**5,544**	5,380
Revenue from Hong Kong property rental and management businesses	**4,741**	4,533
Revenue from Mainland of China and international railway, property rental and management subsidiaries	**13,478**	12,572
Revenue from Mainland of China property development subsidiary	**1,348**	-
Revenue from other businesses	**2,423**	2,300
	45,189	41,701
Expenses relating to Hong Kong transport operations		
- Staff costs and related expenses	**(5,191)**	(4,906)
- Energy and utilities	**(1,511)**	(1,482)
- Operational rent and rates	**(149)**	(231)
- Stores and spares consumed	**(538)**	(557)
- Maintenance and related works	**(1,379)**	(1,324)
- Railway support services	**(277)**	(274)
- General and administration expenses	**(659)**	(610)
- Other expenses	**(318)**	(318)
	(10,022)	(9,702)
Expenses relating to Hong Kong station commercial businesses	**(532)**	(550)
Expenses relating to Hong Kong property rental and management businesses	**(811)**	(865)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	**(12,890)**	(11,846)
Expenses relating to Mainland of China property development subsidiary	**(982)**	(140)
Expenses relating to other businesses	**(2,278)**	(2,174)
Project study and business development expenses	**(361)**	(304)
Operating expenses before depreciation, amortisation and variable annual payment	**(27,876)**	(25,581)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment		
- Arising from recurrent businesses	**16,947**	16,260
- Arising from Mainland of China property development	**366**	(140)
	17,313	16,120
Profit on Hong Kong property development	**311**	2,891

	Year ended 31 December 2016	2015
Operating profit before depreciation, amortisation and variable annual payment	**17,624**	19,011
Depreciation and amortisation	**(4,127)**	(3,849)
Variable annual payment	**(1,787)**	(1,649)
Operating profit before interest and finance charges	**11,710**	13,513
Interest and finance charges	**(612)**	(599)
Investment property revaluation	**808**	2,100
Share of profit or loss of associates	**535**	361
Profit before taxation	**12,441**	15,375
Income tax	**(2,093)**	(2,237)
Profit for the year	**10,348**	13,138
Attributable to:		
- Shareholders of the Company	**10,254**	12,994
- Non-controlling interests	**94**	144
Profit for the year	**10,348**	13,138
Profit for the year attributable to shareholders of the Company:		
- Arising from underlying businesses before property development	**8,916**	8,565
- Arising from property development	**530**	2,329
- Arising from underlying businesses	**9,446**	10,894
- Arising from investment property revaluation	**808**	2,100
	10,254	12,994
Earnings per share:		
- Basic	**HK$1.74**	HK$2.22
- Diluted	**HK$1.74**	HK$2.22

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK$ MILLION)

	Year ended 31 December 2016	2015
Profit for the year	**10,348**	13,138
Other comprehensive income for the year (after taxation and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
- Surplus on revaluation of self-occupied land and buildings	**131**	271
- Remeasurement of net liability of defined benefit plans	**123**	(580)
	254	(309)
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences on translation of:		
- financial statements of overseas subsidiaries and associates	**(856)**	(570)
- non-controlling interests	**(7)**	(28)

	Year ended 31 December 2016	2015
- Cash flow hedges: net movement in hedging reserve	**375**	(134)
	(488)	(732)
	(234)	(1,041)
Total comprehensive income for the year	**10,114**	12,097
Attributable to:		
- Shareholders of the Company	**10,027**	11,981
- Non-controlling interests	**87**	116
Total comprehensive income for the year	**10,114**	12,097

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$ MILLION)

	As at 31 December 2016	As at 31 December 2015
Assets		
Fixed assets		
- Investment properties	**70,060**	68,388
- Other property, plant and equipment	**103,613**	79,576
- Service concession assets	**28,269**	27,755
	201,942	175,719
Property management rights	**27**	28
Goodwill	**57**	-
Railway construction in progress	**-**	19,064
Property development in progress	**17,484**	17,983
Deferred expenditure	**463**	288
Interests in associates	**7,015**	5,912
Deferred tax assets	**25**	91
Investments in securities	**370**	336
Properties held for sale	**1,394**	1,139
Derivative financial assets	**183**	81
Stores and spares	**1,484**	1,373
Debtors, deposits and payments in advance	**4,073**	5,135
Amounts due from related parties	**2,171**	1,636
Tax recoverable	**362**	-
Cash, bank balances and deposits	**20,290**	12,318
	257,340	241,103
Liabilities		
Bank overdrafts	**-**	50
Short-term loans	**1,350**	1,599
Creditors and accrued charges	**30,896**	22,860
Current taxation	**123**	953
Contract retentions	**1,012**	994
Amounts due to related parties	**11,783**	1,858
Loans and other obligations	**38,589**	19,162
Obligations under service concession	**10,507**	10,564
Derivative financial liabilities	**569**	830
Loan from holders of non-controlling interests	**109**	110

	As at 31 December 2016	As at 31 December 2015
Deferred income	**721**	743
Deferred tax liabilities	**12,125**	11,209
	107,784	70,932
Net assets	**149,556**	170,171
Capital and reserves		
Share capital	**47,929**	46,317
Shares held for Share Incentive Scheme	**(227)**	(151)
Other reserves	**101,759**	123,889
Total equity attributable to shareholders of the Company	**149,461**	170,055
Non-controlling interests	**95**	116
Total equity	**149,556**	170,171

Notes: -

1. AUDITOR'S REPORT

The results for the year ended 31 December 2016 have been audited in accordance with Hong Kong Standards on Auditing, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by the Group's auditor, KPMG. Unmodified auditor's report of KPMG is included in the annual report to be sent to shareholders. The results have also been reviewed by the Group's Audit Committee.

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2016, as set out in the preliminary announcement, have been compared by KPMG to the amounts set out in the Group's audited consolidated accounts for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the auditor on this announcement.

2. BASIS OF PREPARATION

The preliminary announcement of the Company's annual results has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It was authorised for issue on 7 March 2017.

The financial information relating to the financial years ended 31 December 2016 and 2015 included in this preliminary announcement of the annual results does not constitute the Company's statutory annual consolidated accounts for those years but is derived from those accounts. Further information relating to these statutory accounts required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

- The Company has delivered the accounts for the year ended 31 December 2015 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the accounts for the year ended 31 December 2016 in due course.

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

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

- Annual Improvements to HKFRSs 2012 – 2014 Cycle
- Amendments to HKFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to HKAS 1, *Disclosure Initiative*
- Amendments to HKAS 16 and 38, *Clarification of Acceptable Methods of Depreciation and Amortisation*

The application of these amendments to HKFRSs in the current accounting period does not have an impact on the Group's consolidated accounts.

3. RETAINED PROFITS

The movements of the retained profits during the years ended 31 December 2016 and 2015 are as follows:

HK$ Million	
Balance as at 1 January 2016	**121,144**
Profit for the year attributable to shareholders of the Company	**10,254**
Other comprehensive income for the year	**123**
Award shares of Share Incentive Scheme forfeited	**3**
Employee share options forfeited	**1**
Dividends declared and approved	**(32,133)**
Balance as at 31 December 2016	**99,392**

HK$ Million	
Balance as at 1 January 2015	114,863
Profit for the year attributable to shareholders of the Company	12,994
Other comprehensive income for the year	(580)
Employee share options forfeited	1
Dividends declared and approved	(6,134)
Balance as at 31 December 2015	121,144

4. PROFIT ON HONG KONG PROPERTY DEVELOPMENT

Profit on Hong Kong property development comprises:

HK$ Million	Year ended 31 December **2016**	2015
Share of surplus from property development	**270**	2,898
Income from receipt of properties for investment purpose	**83**	-
Agency fee and other income from West Rail property development	**48**	30
Other overhead costs net of miscellaneous income	**(90)**	(37)
	311	2,891

5. INCOME TAX

HK$ Million	Year ended 31 December **2016**	2015
Current tax		
- Hong Kong Profits Tax	**989**	1,791
- Mainland of China and overseas tax	**326**	190
	1,315	1,981
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(75)**	(23)
	1,240	1,958
Deferred tax		
- Origination and reversal of temporary differences on:		
- tax losses	**49**	(36)
- depreciation allowances in excess of related depreciation	**771**	435
- provisions and others	**33**	(120)
	853	279
Income tax in the consolidated profit and loss account	**2,093**	2,237
Share of income tax expense of associates	**141**	121

Current tax provision for Hong Kong Profits Tax for the year ended 31 December 2016 is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current taxes for the Mainland of China and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2015: 16.5%) while those arising in the Mainland of China and overseas are calculated at the appropriate current rates of taxation ruling in the relevant countries.

6. DIVIDENDS

The Board has recommended to pay a final dividend of HK$0.82 per share and proposes that a scrip dividend option will be offered to all shareholders except for shareholders with registered addresses in New Zealand and the United States of America or any of its territories or possessions. Subject to the approval of the shareholders at the forthcoming Annual

General Meeting, the proposed 2016 final dividend, with a scrip dividend option, is expected to be distributed on 12 July 2017 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 26 May 2017.

The Board also announces that the Second Special Dividend (which term shall bear the same meaning as in the circular of the Company dated 7 January 2016) in the amount of HK$2.20 per share is expected to be distributed at the same time as payment of the 2016 final dividend. There will be no scrip dividend option for the Second Special Dividend.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the year ended 31 December 2016 of HK$10,254 million (2015: HK$12,994 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme during the year amounting to 5,878,480,682 (2015: 5,840,842,013).

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the year ended 31 December 2016 of HK$10,254 million (2015: HK$12,994 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme during the year after adjusting for the dilutive effect of the Company's share option scheme and Share Incentive Scheme amounting to 5,892,940,736 (2015: 5,855,204,923).

Basic and diluted earnings per share would have been HK$1.61 (2015: HK$1.87) and HK$1.60 (2015: HK$1.86) respectively, if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$9,446 million (2015: HK$10,894 million).

8. SEGMENTAL INFORMATION

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

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

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

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

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

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

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

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

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

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

	Turnover		**Contribution to profit**	
	Year ended 31 December		**Year ended 31 December**	
HK$ Million	**2016**	2015	**2016**	2015
Hong Kong transport operations	**17,655**	16,916	**2,572**	2,493
Hong Kong station commercial businesses	**5,544**	5,380	**4,362**	4,230
Hong Kong property rental and management businesses	**4,741**	4,533	**3,912**	3,650
Mainland of China and international railway, property rental and management businesses	**13,478**	12,572	**468**	633
Mainland of China property development	**1,348**	-	**366**	(140)
Other businesses	**2,423**	2,300	**80**	60
	45,189	41,701	**11,760**	10,926
Hong Kong property development			**311**	2,891
Project study and business development expenses			**(361)**	(304)
			11,710	13,513
Interest and finance charges			**(612)**	(599)
Investment property revaluation			**808**	2,100
Share of profit or loss of associates			**535**	361
Income tax			**(2,093)**	(2,237)
Profit for the year			**10,348**	13,138

HK$ Million	Assets As at 31 December 2016	2015	Liabilities As at 31 December 2016	2015
Hong Kong transport operations	**123,739**	116,952	**34,705**	20,845
Hong Kong station commercial businesses	**2,358**	2,239	**2,989**	1,996
Hong Kong property rental and management businesses	**70,487**	68,795	**2,005**	1,858
Mainland of China and international railway, property rental and management businesses	**16,545**	15,986	**7,389**	7,790
Mainland of China property development	**10,570**	8,956	**7,267**	5,689
Other businesses	**4,132**	3,381	**2,019**	1,805
Hong Kong property development	**16,087**	17,392	**2,339**	1,289
	243,918	233,701	**58,713**	41,272
Unallocated assets/liabilities	**13,422**	7,402	**49,071**	29,660
Total	**257,340**	241,103	**107,784**	70,932

Unallocated assets/liabilities mainly comprise cash, bank balances and deposits, derivative financial assets and liabilities, interest-bearing loans and borrowings as well as deferred tax liabilities.

For the year ended 31 December 2016, revenue from one (2015: one) customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue. Approximately 14.38% (2015: 17.17%) of the Group's total turnover was attributable to this customer.

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, property management rights, goodwill, railway construction in progress, property development in progress, deferred expenditure and interests in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment, railway construction in progress and property development in progress, the location of the proposed capital project in the case of deferred expenditure, the location of the operation to which they are related in the case of service concession assets, property management rights and goodwill, and the location of operation in the case of interests in associates.

HK$ Million	Revenue from external customers Year ended 31 December 2016	2015	Specified non-current assets As at 31 December 2016	2015
Hong Kong (place of domicile)	**30,246**	29,070	**210,120**	201,258
Australia	**8,641**	8,248	**355**	305
Mainland of China	**2,176**	850	**15,702**	16,590
Sweden	**2,952**	2,792	**719**	750
United Kingdom	**1,086**	730	**92**	91
Other countries	**88**	11	**-**	-
	14,943	12,631	**16,868**	17,736
	45,189	41,701	**226,988**	218,994

9. RAILWAY CONSTRUCTION IN PROGRESS

A. ISLAND LINE EXTENSION PROJECT

On 13 July 2009, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the extension of Island Line to the Western District and related services and facilities.

Pursuant to the agreement, the HKSAR Government provided a grant of HK$12.3 billion to the Company in March 2010 (having already made HK$0.4 billion available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism whereby, within 24 months of commercial operations of the extension of Island Line to the Western District i.e. December 2016 (based on commencement of commercial operation on 28 December 2014), the Company has to pay to the HKSAR Government amounts to reflect the excess of the original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest). Under a supplemental agreement signed in December 2016, the Company and the HKSAR Government agreed to extend the timeframe for the repayment mechanism to not later than 30 June 2018. During the year ended 31 December 2016, the Company has recognised and prepaid an amount with a principal of HK$48 million and interest of HK$18 million to the HKSAR Government under the repayment mechanism (2015: principal of HK$142 million and interest of HK$44 million).

During the year ended 31 December 2016, Sai Ying Pun Station's Ki Ling Lane Entrance commenced service on 27 March 2016. As at 31 December 2016, the Company has no authorised outstanding commitments on contracts (2015: HK$25 million) for this project.

B. SOUTH ISLAND LINE (EAST) ("SIL(E)") PROJECT

On 17 May 2011, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the SIL(E).

As at 31 December 2016, the project cost estimate is revised from HK$16.9 billion to HK$17.2 billion (before capitalised interest expense of HK$1.0 billion).

As at 31 December 2016, the Company has incurred cumulative expenditure of HK$17.6 billion (2015: HK$13.7 billion). During the year ended 31 December 2016, HK$17.6 billion has been transferred out from Railway Construction in Progress to Other Property, Plant and Equipment upon the opening of the South Island Line (East) on 28 December 2016. As at 31 December 2016, the Company has authorised outstanding commitments on contracts totalling HK$0.4 billion (2015: HK$0.9 billion) for this project.

C. KWUN TONG LINE EXTENSION ("KTE") PROJECT

On 17 May 2011, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the KTE.

As at 31 December 2016, the project cost estimate is revised from HK$7.2 billion to HK$6.9 billion (before capitalised interest expense of HK$0.3 billion).

As at 31 December 2016, the Company has incurred cumulative expenditure of HK$6.8 billion (2015: HK$5.3 billion). During the year ended 31 December 2016, HK$6.8 billion has been transferred out from Railway Construction in Progress to Other Property, Plant and Equipment upon the opening of the Kwun Tong Line Extension on 23 October 2016. As at 31 December 2016, the Company has authorised outstanding commitments on contracts totalling HK$4 million (2015: HK$0.2 billion) for this project.

10. OTHER RAILWAY CONSTRUCTION IN PROGRESS UNDER ENTRUSTMENT BY THE HKSAR GOVERNMENT

A. HONG KONG SECTION OF THE GUANGZHOU-SHENZHEN-HONG KONG EXPRESS RAIL LINK ("XRL") PROJECT

On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the XRL (the "XRL Preliminary Entrustment Agreement"). Pursuant to the XRL Preliminary Entrustment Agreement, the HKSAR Government is obligated to pay the Company the Company's in-house design costs and certain on-costs, preliminary costs and staff costs.

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the XRL on the understanding that the Company would subsequently be invited to undertake the operation of the XRL under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the XRL (the "XRL Entrustment Agreement"). Pursuant to the XRL Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the XRL and the HKSAR Government, as owner of XRL, is responsible for bearing and financing the full amount of the total cost of such activities (the "Entrustment Cost") and for paying to the Company a fee in accordance with an agreed payment schedule (the "Project Management Fee") (subsequent amendments to these arrangements are described below). As at 31 December 2016 and up to the date of the annual report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

The HKSAR Government has the right to claim against the Company if the Company breaches the XRL Entrustment Agreement and, under the XRL Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the XRL Entrustment Agreement or breach by the Company of the XRL Entrustment Agreement. Under the XRL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the XRL Preliminary Entrustment Agreement and the XRL Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the Project Management Fee and any other fees that the Company receives under the XRL Entrustment Agreement and certain fees received by the Company under the XRL Preliminary Entrustment Agreement (the "Liability Cap"). Up to the date of the annual report, no claim has been received from the HKSAR Government.

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

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

- the XRL being completed in the third quarter of 2018 (including programme contingency of six months) (the "XRL Revised Programme"); and
- the total project cost of HK$85.3 billion (including contingency), based on the XRL Revised Programme.

As a result of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "Revised Cost Estimate").

On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "XRL Agreement") relating to the further funding and completion of the XRL. The XRL

Agreement contains an integrated package of terms (subject to conditions as set out in note 10A(vi)) and provides that:

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

(ii) The Company will, if the project exceeds HK$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "Further Cost Overrun") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the XRL Agreement);

(iii) The Company will pay a Special Dividend of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share in cash in each tranche). The first tranche will be paid in cash within a reasonable period after the XRL Agreement becomes fully unconditional and effective (the first tranche was paid on 13 July 2016) and the second tranche will be paid in cash approximately 12 months thereafter (which is expected to be in the second half of 2017). There will be no scrip alternative;

(iv) The HKSAR Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the XRL Preliminary Entrustment Agreement and XRL Entrustment Agreement ("Entrustment Agreements") (including any question the HKSAR Government may have regarding the validity of the Liability Cap). The Entrustment Agreements contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under the XRL Entrustment Agreement, the Liability Cap is equal to the Project Management Cost and any other fees that the Company receives under XRL Entrustment Agreement and certain fees received by the Company under the Preliminary Entrustment Agreement. Accordingly, the Liability Cap increases from up to HK$4.94 billion to up to HK$6.69 billion as the Project Management Cost is increased in accordance with the XRL Agreement (as it will be equal to the increased Project Management Cost under the XRL Entrustment Agreement of HK$6.34 billion plus the additional fees referred to above). If the arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;

- seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and

- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;

(v) Certain amendments are made to the XRL Entrustment Agreement to reflect the arrangements contained in the XRL Agreement, including an increase in Project Management Fee payable to the Company under XRL Entrustment Agreement to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations under XRL Entrustment Agreement in relation to XRL project) and to reflect the XRL Revised Programme;

(vi) The arrangements under the XRL Agreement (including the payment of the Special Dividend) were conditional on:

- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and

- HKSAR Legislative Council approval in respect of the HKSAR Government's additional funding obligations,

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

The Company has not made any provision in its accounts in respect of:

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe there is any need to revise further the XRL Revised Programme or the Revised Cost Estimate of HK$84.42 billion;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in paragraph (iv) above), given that (a) the Company has not received any notification from Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the XRL Agreement, cannot take place until after commencement of commercial operations on the XRL) (as of 31 December 2016 and up to the date of the annual report); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the XRL Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and

(iii) any possible insufficiency of the Project Management Fee to enable the Company to recover fully its internal costs incurred in performing its obligations in relation to the XRL project, given that the Company estimates that the increased Project Management Fee under XRL Agreement should be sufficient to cover such costs (based on current known circumstances),

and, where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).

During the year ended 31 December 2016, Project Management Fee of HK$811 million (2015: HK$823 million) was recognised in the consolidated profit and loss account.

B. SHATIN TO CENTRAL LINK ("SCL") PROJECT

On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the SCL ("SCL Preliminary Entrustment Agreement"). Pursuant to the SCL Preliminary Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible to fund directly the total cost of such activities.

On 17 May 2011, the Company entered into another entrustment agreement with the HKSAR Government for the financing, construction, procurement of services and equipment and other matters associated with certain enabling works in relation to the SCL ("SCL Advance Works Entrustment Agreement"). Pursuant to the SCL Advance Works Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the agreed works while the HKSAR Government is responsible to bear and pay to the Company all the work costs ("SCL Advance Works Costs").

In August 2015, the Company notified the HKSAR Government that the Company estimated that the cost for the works carried out under the SCL Advance Works Entrustment Agreement will exceed the original estimate of HK$7,350 million in respect thereof by HK$1,274 million (including contingency). In February 2016, the Company notified the HKSAR Government that the estimated exceedance will be adjusted to HK$1,267 million (including contingency). In December 2016, the Company completed its review for the project cost estimate of the works under the SCL Advance Works Entrustment Agreement and notified the HKSAR Government of the Company's revised estimate for the entrustment cost for such works of HK$8,617.1 million. In December 2016, the HKSAR Government consulted the Legislative Council Panel on Transport Subcommittee on Matters Relating to Railways regarding such additional funding requirement before submitting the funding application to the Legislative Council Public Works Subcommittee in 2017.

On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("SCL Entrustment Agreement"). Pursuant to the SCL Entrustment Agreement, the HKSAR Government is responsible to bear all the work costs specified in the SCL Entrustment Agreement including costs to contractors and costs to the Company ("Interface Works Costs") except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The Company is responsible to carry out or procure the carrying out of the works specified in the SCL Preliminary Entrustment Agreement, the SCL Advance Works Entrustment Agreement and the SCL Entrustment Agreement (together, the "SCL Agreements") for a total project management fee of HK$7,893 million. As at 31 December 2016 and up to the date of the annual report, the Company has received payments of the project management fee from the HKSAR Government in accordance with the original agreed payment schedule.

In May 2014, the Company notified the HKSAR Government of the delays to the completion of the East West Corridor and North South Corridor. The programme for delivery of the Shatin to Central Link has been impacted by certain key external events. For the East West Corridor, the discovery of archaeological relics in the To Kwa Wan area has led to an 11-month delay but with the hard work of the teams involved and the successful implementation of a number of delay recovery measures, the length of this delay has now been reduced with the estimated completion of this corridor in mid-2019. For the North South Corridor, the Company had previously reported a six-month delay due to a number of external factors including the anticipated late handover by a third party of construction sites for the new Exhibition Station. The Company had also stated that any further delay in site handover beyond those reported, will result in additional delay to the completion of this corridor. Now, as a result of the late site handover with incomplete entrusted works by another third party contractor at Wan Chai North, the completion of this corridor has been further delayed by an additional three months (to a total expected delay of nine months). However, the North South Corridor is still targeted to complete in 2021. Any additional delays by third parties in site handover or site handover with incomplete work may result in further delays in the completion of the North South Corridor.

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

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

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements and, under each SCL Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the relevant SCL Agreement. Under the SCL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. Up to the date of the annual report, no claim has been received from the HKSAR Government.

Given (i) the SCL Agreements, provide that the HKSAR Government shall bear and finance the full amount of the relevant costs to the extent described above; and (ii) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company in relation to any SCL Agreement (as of 31 December 2016 and up to the date of the annual report), the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any) arising from the matters described above.

During the year ended 31 December 2016, project management fee of HK$979 million (2015: HK$913 million) was recognised in the consolidated profit and loss account. Additionally, during the year ended 31 December 2016, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK$1,597 million (2015: HK$1,442 million). As at 31 December 2016, the amount of the SCL Advance Works Costs and the Interface Works Costs which remained to be paid to the Company by the HKSAR Government was HK$1,359 million (2015: HK$984 million).

11. DEBTORS AND CREDITORS

A As at 31 December 2016, the Group's debtors, deposits and payments in advance amounted to HK$4,073 million (2015: HK$5,135 million), of which debtors accounted for HK$2,902 million (2015: HK$4,283 million). Receivables in respect of rentals, advertising and telecommunication activities are due from immediately to 50 days. Receivables in respect of income from railway subsidiaries outside of Hong Kong are due within 30 days or in the following month. Receivables relating to consultancy services and entrustment works are due within 30 days. Receivables under interest rate and currency swap agreements are due in accordance with the terms of the agreements. Receivables relating to property development are due in accordance with the terms of the relevant development agreements or sale and purchase agreements. As at 31 December 2016, HK$540 million (2015: HK$467 million) were overdue, out of which HK$110 million (2015: HK$79 million) were overdue by more than 30 days.

B As at 31 December 2016, creditors and accrued charges amounted to HK$30,896 million (2015: HK$22,860 million). As at 31 December 2016, HK$5,000 million (2015: HK$4,098 million) of creditors and accrued charges were due within 30 days or on demand whilst the remainder was not yet due.

12. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, sell or redeem any of the Group's listed securities during the year ended 31 December 2016. However, the Trustee of the 2014 Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the 2014 Share Incentive Scheme, purchased on Hong Kong Stock Exchange a total of 2,588,350 Ordinary Shares of the Company (2015: 4,029,200 Ordinary Shares) for a total consideration of approximately HK$99 million (2015: HK$150 million) during the year ended 31 December 2016.

13. CHARGE ON GROUP ASSETS

As at 31 December 2016, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB2,734 million bank loan facility granted to it.

Saved as disclosed above, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2016.

14. ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 17 May 2017. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 7 April 2017.

15. CORPORATE GOVERNANCE

During the year ended 31 December 2016, the Company has complied with the Code Provisions set out in the Corporate Governance Code, contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

16. PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website at www.mtr.com.hk and the website of the Stock Exchange. The Annual Report will also be available at the Company's and the Stock Exchange's websites and will be despatched to shareholders of the Company in mid-April 2017.

KEY STATISTICS

	Year ended 31 December	
	2016	2015
Total passenger boardings in Hong Kong (in millions)		
- Domestic Service	**1,586.5**	1,577.5
- Cross-boundary Service	**113.3**	114.2
- Airport Express	**16.1**	15.7
- Light Rail and Bus	**229.1**	226.7
Average number of passengers (in thousands)		
- Domestic Service (weekday)	**4,608**	4,577
- Cross-boundary Service (daily)	**309.5**	313.0
- Airport Express (daily)	**44.1**	43.1
- Light Rail and Bus (weekday)	**644.7**	637.4
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment as a percentage of turnover ("EBITDA margin")		
- Excluding Mainland of China and international subsidiaries	**53.9%**	53.3%
- Including Mainland of China and international subsidiaries	**38.3%**	38.7%

MANAGEMENT REVIEW AND OUTLOOK

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

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

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

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

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

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

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

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

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

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

Hong Kong Transport Operations

Safety

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

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

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

Patronage

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

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

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

Market Share

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

Fare Revenue, Promotions and Concessions

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

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

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

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

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

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

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

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

Major Asset Replacements
We are spending HK$6 billion on 93 new, more comfortable 8-car trains to replace those on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. The car body production started in February 2017 and the trains will be delivered between 2018 and 2023.

The existing signalling systems on the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines as well as the Airport Express are being replaced at a total cost of HK$3.3 billion. This will increase these lines' carrying capacity by about 10%. The Tsuen Wan Line will be re-signalled first, targeted to complete by the end of 2018, and work is well underway. For the Island, Kwun Tong and Tseung Kwan O lines, site surveys began earlier in 2016.

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

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

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

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

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

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

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

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

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

Hong Kong Station Commercial Businesses

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

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

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

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

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

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

Hong Kong Property Businesses

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

Hong Kong property rental and property management businesses (In HK$ million)	**Year ended 31 December** **2016**	2015	Inc./(Dec.) %
Revenue from Property Rental	**4,451**	4,267	4.3
Revenue from Property Management	**290**	266	9.0
Total Revenue	**4,741**	4,533	4.6
EBITDA	**3,930**	3,668	7.1
EBIT	**3,912**	3,650	7.2

Hong Kong property rental and property management businesses	**Year ended 31 December**		
(In HK$ million)	**2016**	2015	Inc./(Dec.) %
EBITDA Margin (in %)	**82.9%**	80.9%	2.0% pts
EBIT Margin (in %)	**82.5%**	80.5%	2.0% pts

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

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

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

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

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

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

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

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

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

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

Wan West Station (TW6) site) in January 2017 with about 78% of 983 units sold up to the end of February 2017.

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

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

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

Hong Kong Network Expansion

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

New Rail Projects Owned by MTR

Kwun Tong Line Extension

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

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

South Island Line

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

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

New Rail Projects Entrusted to MTR by Government

Express Rail Link

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

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

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

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

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

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

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

Shatin to Central Link

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

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

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

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

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

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

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

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

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

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

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

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

New Railway Projects Under Discussion

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

Mainland of China and International Businesses

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

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

Railway Businesses in the Mainland of China

Beijing

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

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

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

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

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

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

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

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

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

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

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

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

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

European Railway Businesses

United Kingdom

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

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

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

Sweden

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

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

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

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

Australian Railway Businesses

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

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

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

Financial Review

Profit and Loss

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

Operating profit from recurrent businesses (being operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment) increased by 4.2% to HK$16,947 million. The increase was mainly due to the adjustment in fares under the FAM, positive rental reversions of station shops, and increases in base rents in accordance with lease contracts of Duty Free Shops, as well as an average of 3.4% positive rental reversions in our shopping malls in Hong Kong. The increase was partly offset by higher costs of our Hong Kong Transport Operations due to increased train trips and staff salaries, as well as lower profit contribution from MTM in Australia resulting from refranchising costs. Operating margin from recurrent businesses decreased by 0.3 percentage point to 38.7%. Excluding the Company's Mainland of China and international subsidiaries, operating margin increased by 0.6 percentage point to 53.9%.

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

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

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

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

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

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

Statement of Financial Position

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

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

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

Cash Flow

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

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

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

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

Human Resources

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

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

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

Culture of Improvement and Innovations

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

MTR Academy

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

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

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

Outlook

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

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

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

For our businesses outside Hong Kong, currency movements will play a role, as they affect profits when translated back into our reporting currency, Hong Kong dollars. However, the recent opening of Phase 1 of BJL16 and the Stockholms pendeltåg operations will add to our overseas revenues. In Australia, we await the results of the franchise extension of MTM. In property development in the Mainland of China, we aim to hand over the high-rise units at Tiara in Shenzhen in the middle of 2017, which form the bulk of the development. Profits will be booked on handover of units.

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

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

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

Hong Kong, 7 March 2017

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 23 May 2017 to 26 May 2017 (both dates inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for the proposed 2016 final dividend and the Second Special Dividend, all transfer documents, accompanied by the relevant share certificates, have to be lodged for registration with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 22 May 2017. The proposed 2016 final dividend, with a scrip dividend option (except for shareholders with registered addresses in New Zealand and the United States of America or any of its territories or possessions), and the Second Special Dividend (in relation to which there will be no scrip dividend option) is expected to be distributed on 12 July 2017 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 26 May 2017.

As at the date of this announcement:

Members of the Board: Professor Frederick Ma Si-hang *(Chairman)* **, Lincoln Leong Kwok-kuen *(Chief Executive Officer)*, Pamela Chan Wong Shui*, Dr Dorothy Chan Yuen Tak-fai*, Vincent Cheng Hoi-chuen*, Anthony Chow Wing-kin*, Dr Eddy Fong Ching*, James Kwan Yuk-choi*, Lau Ping-cheung, Kaizer*, Lucia Li Li Ka-lai*, Alasdair George Morrison*, Ng Leung-sing*, Abraham Shek Lai-him*, Benjamin Tang Kwok-bun*, Dr Allan Wong Chi-yun*, 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) (Hon Chi-keung)** and Commissioner for Transport (Ingrid Yeung Ho Poi-yan)**

Members of the Executive Directorate: Lincoln Leong Kwok-kuen, Jacob Kam Chak-pui, Margaret Cheng Wai-ching, Morris Cheung Siu-wa, Peter Ronald Ewen, Herbert Hui Leung-wah, Adi Lau Tin-shing, Gillian Elizabeth Meller, Linda So Ka-pik, David Tang Chi-fai, Philco Wong Nai-keung and Jeny Yeung Mei-chun

* *independent non-executive Director*
** *non-executive Director*

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