



CEO's Review of Operations and Outlook

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Dear Shareholders and other Stakeholders,

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

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

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

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

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

Outside Hong Kong, MTR carried on average 5.6 million passengers every weekday in 2016, with our rail businesses in all locations being recognised, and in many cases receiving awards, for superior service performance. In the year, important milestones were achieved including the opening of Phase 1 of Beijing Metro Line 16 ("BJL16") and another station

on Beijing Metro Line 14 ("BJL14") in the Mainland of China, the taking over of the Stockholms pendeltåg concession in Sweden and the commencement of handover of completed units at our first property development outside Hong Kong, Tiara in Shenzhen.

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

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

Turning to our financial results, total revenue for 2016 increased by 8.4% to HK\$45,189 million, with operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment increasing by 4.2% to HK\$16,947 million. Excluding the Company's Mainland of China and international subsidiaries, revenue grew by 4.2% and operating profit by 5.3%, with operating margin up by 0.6 percentage point to 53.9%. Recurrent profit attributable to equity shareholders, being net profit before property development profits (from both Hong Kong and Mainland of China) and investment

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properties revaluation, increased by 4.1% to HK\$8,916 million. Post tax profit from property developments (from both Hong Kong and Mainland of China) was HK\$530 million, and was mainly derived from profit booking of the first batch of units handed over at Tiara as well as sundry income sources in Hong Kong, such as the sharing in kind of the kindergarten at Hemera. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders fell by 13.3% to HK\$9,446 million mainly due to a lower level of property development profits this year, representing earnings per share of HK\$1.61. Gain in revaluation of investment properties was HK\$808 million, as

compared with HK\$2,100 million in 2015. As a result, net profit attributable to equity shareholders was HK\$10,254 million, equivalent to earnings per share of HK\$1.74 after revaluation.

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



Hong Kong Transport Operations

Safety

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

The results of our "safety first" culture were well demonstrated by our response to an arson attack on one of our trains on 10 February 2017. Investigation revealed that an individual ignited flammable liquid and set fire in the compartment of a Tsuen Wan Line train travelling from Admiralty Station to Tsim Sha Tsui Station during the Friday evening peak hour. The train captain calmly brought the train to Tsim Sha Tsui Station having forewarned colleagues at our Operation Control Centre who had in turn alerted staff in the station. On arrival the train was evacuated and the injured attended to. The station was also quickly and orderly evacuated, all

within a few minutes. Our colleagues responded robustly, professionally and speedily, working in partnership with the Police and Fire Services Department, enabling injuries and damages to be minimised. Unfortunately, 19 passengers were injured in the incident, including the suspect. We convey our sympathy to those injured and wish them a speedy recovery. Our staff's response was the result of safety training provided by the Company, including the provision of clear safety guidelines, regular exercises and drills. In addition, the fire-resistant train car interior minimises the potential damage of incidents of this nature. We salute the professionalism of our MTR colleagues and Hong Kong emergency services personnel and thank our passengers for their assistance and calm and orderly response in the incident.

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

Patronage

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

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

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

Market Share

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

Fare Revenue, Promotions and Concessions

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

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

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

Maintaining the quality of our services and expanding the network to meet future demand requires heavy investment in our people, our existing lines and in new rail lines. In 2016 we

spent more than HK\$8 billion on maintaining, replacing and upgrading our existing network. This annual spending will increase significantly over time.

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

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very affordable travel to our passengers when compared to leading metro companies around the world. Furthermore, under the FAM, between 2008 (the commencement of FAM implementation) and 2016, our fares have increased at an average annual rate of 2.9%¹, which is lower than both average annual consumer price inflation of 3.4% (as recorded by the Composite Consumer Price Index) and the average annual increase of 4.5% in salaries (as measured by the Hong Kong Payroll Index).

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

Service Performance

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

Investing in Network Improvements

Rail Gen 2.0

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

Major Asset Replacements

We are spending HK\$6 billion on 93 new, more comfortable 8-car trains to replace those on the Kwun Tong, Tsuen Wan,

Island and Tseung Kwan O lines. The car body production started in February 2017 and the trains will be delivered between 2018 and 2023.

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

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

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

Major Interfacing Works

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

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

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



Responding to Our Customers

During the year we continued to enhance our communication with our customers. We ran public announcements by celebrities during peak-hours at Admiralty Station to enliven customers' travelling experience. "Time to Next Train" information on gate-top Passenger Information Display Systems was introduced at certain stations, and staff with portable devices are now helping to solve ticketing problems at gates during peak hours. Our MTR Mobile has

also been enhanced with a better customer interface and tourist information. Considerable efforts were also made to ensure a good customer experience during the opening of the two new railway lines.

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

Financial Performance

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

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



Hong Kong Station Commercial Businesses

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

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

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

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

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

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



Hong Kong Property Businesses

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

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

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

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

Property Rental and Management Businesses in Hong Kong

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

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

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

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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

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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

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

Railway Businesses in the Mainland of China

Beijing

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

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

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

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

Shenzhen

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

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

In August 2016, our consultancy company in Shenzhen entered into a project management agreement to supervise the construction of the Northern Extension of SZL4.

This extension will be financed by the Shenzhen Municipal Government.

Hangzhou

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

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

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

Property Businesses in the Mainland of China

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

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



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

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

European Railway Businesses

United Kingdom

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

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

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

Sweden

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

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

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

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

Australian Railway Businesses

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

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

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

Financial Review

Profit and Loss

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

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

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

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

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

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

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

Interest and finance charges were HK\$612 million, representing a slight increase of 2.2% over 2015. Investment property revaluation gain amounted to HK\$808 million. Our share of profit from Octopus Holdings Limited increased by 6.0% to HK\$249 million. Our share of profit from other associates was HK\$286 million, an increase of HK\$160 million

over 2015. The increase was primarily due to improvements in the result of HZMTR, which benefited from HZL1 patronage growth, as well as higher share of profits from BJMTR, mainly resulting from a full 12-month profit contribution from the BJL14 concession.

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

Statement of Financial Position

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

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

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

Cash Flow

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

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

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

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

Human Resources

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

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

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

Culture of Improvement and Innovation

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

MTR Academy

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

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

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

Outlook

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

In Hong Kong many of our businesses have a degree of resilience against an economic slowdown. Although

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

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

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

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

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

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

A handwritten signature in black ink, appearing to read 'L. Leong', with a stylized flourish at the end.

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