CEO'S REVIEW OF OPERATIONS AND OUTLOOK

A composite photograph at Hin Keng Station

“ Building on the successes and achievements of previous years, 2017 was a year of stability and progress for MTR. ”

Dear Shareholders and other Stakeholders,

Building on the successes and achievements of previous years, 2017 was a year of stability and progress for MTR. We continued to deliver on our three-pronged strategy of strengthening and growing the Hong Kong business, accelerating growth in our Mainland of China and international businesses, and enhancing our corporate reputation. This strategy has proven successful over the years and was reaffirmed by a comprehensive review that was undertaken earlier last year. As a result of this strategy, our businesses have grown around the world, as evidenced by a 180% growth in average weekday passenger trips from 2008 to 2017 to a total of 12 million passenger trips globally every weekday in 2017.

In Hong Kong, the economy strengthened in 2017, which supported our local businesses. Our Hong Kong transport operations achieved a 3.0% increase in patronage to 5.76 million passenger trips per weekday, contributed partly by the first full year of operations of the Kwun Tong Line extension and the South Island Line. Train frequency was increased, while both train service delivery and passenger journeys on-time in our heavy rail network were maintained at 99.9%. Our safety performance was likewise world-class. In March 2017 we concluded with Government an important milestone, being the early review of the Fare Adjustment Mechanism (“FAM”), with the resulting arrangements benefiting all passengers, while continuing to maintain the Company’s financial sustainability. Hong Kong’s retail environment improved in the second half of 2017, supporting growth in our station commercial and property rental businesses. These also benefited from the new retail space on the seventh and eighth floors of Telford Plaza II which opened in July 2017 and Maritime Square 2 (formerly known as the Maritime Square extension) that opened in December 2017, as well as more shops in our rail stations. Hong Kong property development profit was derived mainly from sale of inventory units, car parking spaces and other sundry sources. Pre-sales were launched for the Wings at Sea and Wings at Sea II of LOHAS Park Package 4. In our property tendering activities, we awarded our first and second property packages at Wong Chuk Hang Station in February and December 2017 respectively and, as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation (“KCRC”), we awarded Kam Sheung Road Station Package 1 in May 2017.

Outside of Hong Kong, our rail businesses carried an average of around 6.49 million passengers every weekday in 2017. In these markets, we delivered reliable and improved services to the satisfaction of our customers, while selectively pursuing opportunities to expand our presence. In the Mainland of China, we signed the Concession Agreement with the Hangzhou Municipal Government and Hangzhou Metro Group for a Public-Private Partnership (“PPP”) project in respect of Hangzhou Metro Line 5 (“HZL5”). In the UK, our 30% owned associate was awarded the South Western Railway franchise that will run for seven years from August 2017, while in Australia we were awarded a seven-year extension to operate Melbourne’s Metropolitan Rail Service, with an option to extend further for an additional three years. In our property development business in the Mainland of China, we handed over to buyers the high-rise units at Tiara in Shenzhen, and the profits booked contributed to our financial results.

Our near term rail expansion in Hong Kong falls under “Rail Gen 2.0”, our vision for the next generation of rail travel. This is currently led by the two new rail projects under construction, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link. These projects were respectively 98.6% and 81.2% complete as at 31 December 2017. In December 2017, we submitted to Government our revised estimate of the Cost to Complete ("CTC") of the Shatin to Central Link. Government is in the process of reviewing this estimate. Rail Gen 2.0 also covers major asset replacement programmes, notably for trains and signalling systems on our existing network, and these are making reasonable progress. Government's strategy remains for rail to be the backbone of public transportation in Hong Kong, and in the medium term seven new railway projects are proposed under Railway Development Strategy 2014 ("RDS 2014"). We have now submitted proposals for four of these projects, namely, the extension of the West Rail Line to Tuen Mun South, the Northern Link (and Kwu Tung Station), the East Kowloon Line and the Tung Chung West Extension (and Tung Chung East Station). We have also received the invitation from Government to submit a proposal for the fifth project, the North Island Line on Hong Kong Island, which will be submitted in the second half of 2018. Looking even further ahead, the "Strategic Studies on Railways and Major Roads beyond 2030" with reference to the vision depicted in "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030", is planned to be taken forward by Government in 2018. It will identify the major transport corridors including railways, which are required to support Hong Kong's long-term land use strategy.

We are also continuing to examine how to best leverage our existing rail facilities for more residential developments to meet demand for housing. The Environmental Impact Assessment reports for the proposed development above our Siu Ho Wan depot in Lantau were approved by Government in November 2017 and the statutory planning procedures commenced in January 2018. The gazetted road works scheme for another site, the Yau Tong Ventilation Building, was approved in August 2017.

Outside of Hong Kong, we are pursuing a number of rail franchise opportunities in the Mainland of China, the Nordic countries, the UK and Australia, and are also reviewing potential rail related property developments in these countries.

Total revenue for 2017 increased by 22.7% to HK$55,440 million, with operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment increasing by 4.3% to HK$17,677 million. As noted in the Interim Report, the significant increase in revenue was predominately due to the recognition of sales proceeds from the Tiara development in Shenzhen. Excluding the Mainland of China property development, revenue for the year would have increased by 10.5%. Excluding the Company's Mainland of China and international subsidiaries, revenue grew by 3.6% and operating profit by 2.5%, with operating margin declining by 0.6 percentage point to 53.3%. Recurrent profit attributable to equity shareholders, being net profit before property development profits (from both Hong Kong and the Mainland of China) and investment properties revaluation, decreased by 3.8% to HK$8,580 million, mainly due to higher costs, particularly depreciation and interest expenses following the opening of the two new lines in Hong Kong in the last quarter of 2016. Post tax profit from property developments (from both Hong Kong and the Mainland of China) was HK$1,935 million, and was mainly derived from the booking of profit from Tiara in Shenzhen and sundry sources in Hong Kong. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders rose by 11.3% to HK$10,515 million, mainly due to the higher level of property development profits for the year. Gain in revaluation of investment properties was HK$6,314 million, as compared with HK$808 million in 2016. As a result, net profit attributable to equity shareholders was HK$16,829 million, equivalent to earnings per share of HK$2.83 after revaluation. Your Board has proposed a final ordinary dividend of HK$0.87 per share, which together with the interim dividend of HK$0.25 per share brings the full year dividend to HK$1.12 per share, an increase of 4.7%. Additionally, the second and final tranche of the special dividend of HK$2.20 per share relating to the agreement with Government regarding the further funding arrangements for the Express Rail Link ("XRL Agreement") was paid on 12 July 2017, at the same time as payment of the 2016 final ordinary dividend.

HONG KONG BUSINESSES

Leveraging off the "Rail plus Property" business model, our businesses in Hong Kong centre on our rail network and also include significant station commercial activities, property rental as well as property developments over and around stations and depots.

Transport Operations

Financial Performance

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**18,201**	17,655	3.1
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**7,475**	7,633	(2.1)
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**1,656**	2,572	(35.6)
EBITDA Margin (in %)	**41.1%**	43.2%	(2.1%) pts.
EBIT Margin (in %)	**9.1%**	14.6%	(5.5%) pts.

Total revenue of the Hong Kong transport operations rose by 3.1% to HK$18,201 million in 2017, benefiting mainly from the growth in patronage. EBITDA decreased by 2.1% to HK$7,475 million, mainly due to increases in staff costs, while fare adjustment for 2017/2018 was rolled over to 2018/2019. The opening of the two new lines, as previously highlighted, has increased the depreciation and amortisation charges significantly, resulting in EBIT decreasing by 35.6% to HK$1,656 million.

Safety

Safety is an absolute priority for MTR and in 2017 there were 5.5% fewer reportable events on the Hong Kong heavy rail network and light rail network than in 2016, another excellent performance. During the year numerous initiatives were implemented to promote safety in our network. Programmes to enhance safety on escalators continued, while a Platform Gap Special Task Force was formed to look into improving relevant safety performance further.

Our "safety first" culture was well demonstrated by our response to the arson attack on one of our trains on 10 February 2017. The Executive Review Panel set up to investigate the incident concluded that its handling had been robust, orderly, speedy and effective. The panel's report was submitted to Government on 25 April 2017 and contained various initiatives to raise public awareness and enhance risk management. Several programmes to strengthen customers' awareness about fire safety and improve their knowledge of station evacuation procedures were launched in 2017 and more portable fire extinguishers were installed in stations.

Patronage and Revenue

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

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Fare Revenue			
Domestic Service	**12,840**	12,395	3.6
Cross-boundary Service	**3,277**	3,252	0.8
Airport Express	**1,076**	998	7.8
Light Rail and Bus	**707**	707	–
Intercity	**135**	137	(1.5)
Total Fare Revenue	**18,035**	17,489	3.1

Our patronage benefited from the stronger economy and the opening in 2016 of the two new rail lines. In 2017, for all of our rail and bus passenger services, total patronage increased by 2.6%, for the first time surpassing 2,000.0 million passenger trips per annum. Average weekday patronage increased by 3.0% to 5.76 million.

For the Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail, Ma On Shan and South Island lines), total patronage reached 1,637.9 million, a 3.2% increase over 2016. The Cross-boundary Service to Lo Wu and Lok Ma Chau saw patronage decrease by 0.6% to 112.5 million, mainly as a result of continued strong competition from other modes of transport. Patronage on the Airport Express rose by 3.0% to 16.6 million, supported by an increase in air passenger traffic.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong in 2017 was 49.1%, compared to 48.4% in 2016. Within this total, the share of cross-harbour traffic was 69.6%, compared to 68.6% in 2016. Competition from other modes of transport reduced our share of the Cross-boundary business from 51.2% to 50.8%. Our market share to and from the airport increased marginally from 21.4% to 21.5%.

Fare Adjustments, Promotions and Concessions

On 21 March 2017, we announced that the early review of the FAM, conducted jointly with Government, had concluded, resulting in revised arrangements designed to benefit all passengers, whilst ensuring the financial sustainability of the Company. During the review process, we listened to the opinions of different stakeholders, including passengers and shareholders. Two important pillars of the FAM remain unchanged, namely the FAM formula itself and the "direct-drive" nature of the formula's application. However, new features have been introduced which will benefit all passengers such as a 0.6 percentage point special annual reduction in the fare adjustment rate over each of the six years from 2017/2018 to 2022/2023, a 10% reduction in the overall fare adjustment rate in 2017/2018 and a 3% rebate for Octopus trips for at least six months each year over the six years to 2022/2023. A new HK$0.3 discount will be offered for passengers using Octopus interchanging between MTR and Green Minibus routes from the second quarter of 2018.

The next scheduled review of the FAM will be in 2022/2023, with its application starting in mid-2023.

After applying the FAM formula, the special annual adjustment of 0.6 percentage point and the one-off 10% discount, the calculated Overall Fare Adjustment Rate for 2017/2018 came to +1.49%. This is within the range of ±1.5%, under which, according to the FAM, the adjustment rate has been rolled over to the following year (2018/2019). Hence, there was no adjustment of MTR fares in 2017/2018.

Frequent MTR travellers commuting on medium to long distance journeys to the urban area and across the harbour can continue to enjoy fare savings by using five types of "Monthly Pass Extra" and MTR City Saver. Furthermore, the validity of the MTR City Saver sold from 1 July 2017 onwards has been extended from 30 days to 40 days, counting from the day of first use. The "Early Bird Discount Promotion" Programme has also been extended for one year up to 31 May 2018.

These saving schemes are in addition to our ongoing fare concessions and promotions, which amounted to over HK$2.6 billion in 2017 and target eligible passengers such as students and the elderly. MTR is currently the only major transport operator in Hong Kong to provide discounts to students on every trip.

Fares on the Airport Express were raised by an average of 9.6% from 18 June 2017. This is the first adjustment to fares for this service since its opening in 1998.

On 11 October 2017, the Chief Executive of the Hong Kong SAR in her inaugural Policy Address proposed a Public Transport Fare Subsidy Scheme. We welcome the scheme and will fully support its implementation.

Service Performance

Train service delivery and passenger journeys on-time in our heavy rail network in 2017 remained at a world-class level of 99.9%, exceeding both the targets in our Operating Agreement and our own, more stringent, Customer Service Pledges. More than 2.11 million train trips were made on our heavy rail network and around 1.09 million trips on our light rail network during the year. In 2017 there were nine delays on the heavy rail network and one delay on the light rail network, each lasting 31 minutes or more which were caused by factors within our control. We continue to work diligently to reduce both the number of delays and their impact on passengers.

On 5 August 2017, a signalling system problem occurred on the Kwun Tong Line that caused delays. We set up an Executive Review Panel to examine the cause of the incident and the handling procedures, and identify areas for improvement. The panel concluded that the incident was managed in a safe manner according to established procedures. It was found that the signalling fault had resulted from intermittent data loss caused by the corrosion of electrical contacts in a junction box near Ngau Tau Kok Station. To reduce the risk of a similar signalling failure incident in future, the copper datalink system concerned was converted to a fibre optic system with a higher fault tolerance in October 2017. Other recommendations by the panel are now being implemented. These include improving passenger communications and information dissemination during such atypical situations and enhancing the regular maintenance of data cables.

Station Commercial Businesses

Financial Performance

The Hong Kong station commercial businesses achieved good results in 2017.

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**4,143**	3,723	11.3
Advertising Revenue	**1,071**	1,090	(1.7)
Telecommunication Income	**635**	561	13.2
Other Station Commercial Income	**126**	170	(25.9)
Total Revenue	**5,975**	5,544	7.8
EBITDA	**5,474**	5,012	9.2
EBIT	**4,722**	4,362	8.3
EBITDA Margin (in %)	**91.6%**	90.4%	1.2% pts.
EBIT Margin (in %)	**79.0%**	78.7%	0.3% pt.

Total revenue of the Hong Kong station commercial businesses increased by 7.8% to HK$5,975 million in 2017. The revenue growth reflected positive rental reversion as a result of continuous trade mix refinements, an increase in the number of shops following the opening of the Kwun Tong Line extension and the South Island Line, and increases in Duty Free Shop rents.

As at 31 December 2017, there were 1,416 station shops, occupying 58,716 square metres of retail space, representing an increase of 24 shops and 1,565 square metres compared with 31 December 2016. The increase was mainly due to the opening of 11 new shops at Hung Hom, Kowloon and Wan Chai stations, as well as the opening of 15 shops at various stations which were previously closed for re-development.

Advertising revenue decreased slightly by 1.7% to HK$1,071 million in 2017, mainly attributable to a downturn in overall advertising spend and the increase in competition from online advertising. Overall advertising spend started to recover in the last quarter of 2017. The number of advertising units in stations and trains increased to 46,735 by 31 December 2017. To improve our competitiveness, we have been developing creative solutions and new digital formats to meet market needs. During the year, two digital zones were created by the installation of 16 new 65-inch high-definition LCD screens at Hong Kong Station and 14 such screens at Airport Station. In addition over 900 advertising light boxes along the Island, Tsuen Wan, Ma On Shan and West Rail lines were revamped.

Revenue from telecommunications in 2017 grew by 13.2% to HK$635 million. The increase was mainly the result of incremental revenue from new service contracts and capacity enhancement projects, as well as the newly opened Kwun Tong Line extension and the South Island Line. Installation of a new mobile phone network in the concourses of ten stations and four tunnel sections during the year increased data capacity and enabled more 4G services. Customers are now able to enjoy enhanced Wi-Fi services at 84 stations following the upgrade of equipment in April 2017.

Property Businesses

In the commercial sector, Grade-A office rents in Central continued to perform well during 2017. Demand from Mainland enterprises and multinational companies remained strong, although there were signs of tenants becoming more cost conscious. However, in the retail segment, rents remained under pressure, despite a rebound in tourist numbers and a recovery in retail sales. The rate at which retail rents declined moderated towards the end of 2017, but the sector continued to be impacted by tourist spend and the popularity of e-commerce.

Residential property prices remained strong in 2017, but there was significant divergence in demand between the primary and secondary property markets. Transaction volumes in the primary market were buoyed by new projects for which the developers offered competitive financing schemes. The secondary market was more impacted by a range of Government cooling measures which progressively took effect. Despite a strong recovery in sales volume during the first six months, transactions were down year-on-year in the second half. However, residential prices continued to rise, with the Mass Centa-City Leading Index increasing to 166.73 by the end of 2017, having started the year at 146.16.

Property Rental and Management Businesses

Financial Performance

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

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**4,608**	4,451	3.5
Revenue from Property Management	**292**	290	0.7
Total Revenue	**4,900**	4,741	3.4
EBITDA	**4,098**	3,930	4.3
EBIT	**4,082**	3,912	4.3
EBITDA Margin (in %)	**83.6%**	82.9%	0.7% pt.
EBIT Margin (in %)	**83.3%**	82.5%	0.8% pt.

Property rental revenue increased by 3.5% in 2017, mainly due to rental increases in accordance with existing lease agreements. Rental reversion in our shopping mall portfolio in Hong Kong recorded a 1.7% fall during the year. As at 31 December 2017, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre were 100% let.

As at 31 December 2017, the Company's attributable share of investment properties in Hong Kong was 218,251 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of offices and 17,764 square metres of property for other use. Our retail properties saw an increase in lettable area with the opening, in July 2017, of the converted retail space at Telford Plaza II (which added 3,400 square metres of gross floor area ("GFA")) and, in December 2017, of Maritime Square 2 (which added another 12,100 square metres GFA of new space). In the fourth quarter of 2017, the second phase of the "sports and wellbeing" zone was progressively opened in Paradise Mall.

Hong Kong property management revenue in 2017 increased by 0.7% to HK$292 million. As at 31 December 2017, over 96,000 residential units and over 772,000 square metres of commercial space were managed by MTR.

Property Development

Profit from Hong Kong property development in 2017 amounted to HK$1,097 million, and was derived from sundry sources, such as agency fee income from West Rail property developments (including Cullinan West and Cullinan West II, Ocean Pride, Ocean Supreme, THE PAVILIA BAY, PARC CITY as well as The Spectra), the sale of inventory units and car parking spaces, as well as further profit bookings arising from the finalisation of development accounts for completed property development projects.

Pre-sales were launched for Wings at Sea and Wings at Sea II of LOHAS Park Package 4 in September and October 2017 respectively. By year end, about 97% of the 1,040 units of Wings at Sea and about 36% of the 1,132 units of Wings at Sea II had been sold. Pre-sales for MALIBU of LOHAS Park Package 5 are planned to be launched in March 2018.

For West Rail property development projects where we are the agent for the relevant subsidiaries of KCRC, a series of pre-sales were launched during the year. THE PAVILIA BAY (the Tsuen Wan West Station (TW6) site) was launched in January 2017 with about 98% of 983 units sold by year end. Cullinan West and Cullinan West II at Nam Cheong Station were launched in March and November 2017 respectively, with about 92% of 1,050 units and about 44% of 1,188 units respectively sold by year end. May and July 2017 saw the launches respectively of Ocean Pride and Ocean Supreme (the Tsuen Wan West Station (TW5) Bayside site), with about 99% of 970 units and 87% of 1,436 units sold respectively by the end of the year. The launch of PARC CITY (the Tsuen Wan West Station (TW5) Cityside site) followed in August 2017 with all 953 units sold. Pre-sales also continued at The Spectra (the Long Ping Station (North) site), with about 96% of 912 units sold by year end.

In our property tendering, Wong Chuk Hang Station Package 1 was awarded to a consortium formed by Road King Infrastructure Limited and Ping An Real Estate Company Limited in February 2017. In December 2017, Wong Chuk Hang Station Package 2 was awarded to a consortium formed by Kerry Properties Limited and Sino Land Company Limited. As agent for the relevant subsidiary of KCRC, we awarded Kam Sheung Road Station Package 1 to a consortium formed by Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited in May 2017.

HONG KONG BUSINESSES GROWTH

Growing our Hong Kong Rail Business

Rail Gen 2.0 encapsulates our near term rail business growth in Hong Kong which, in addition to the two new rail projects under construction, also covers major upgrades and replacements to the existing rail network, as well as initiatives to enhance customer experience through the use of technology. Beyond Rail Gen 2.0, with rail as the backbone of public transportation, projects under RDS 2014 will potentially increase the Hong Kong rail network by 35 km whilst in the long term, Government's "Strategic Studies on Railways and Major Roads beyond 2030" may add even further rail development.

Rail Gen 2.0

New Lines under Construction

Our Hong Kong rail network covers 230.9 km. Over the coming years, under Rail Gen 2.0, the two current railway projects under construction, namely the Express Rail Link and the Shatin to Central Link, will add another 43 km route length to the overall Hong Kong rail network.

Express Rail Link

The 26-km high-speed cross-boundary Express Rail Link will connect Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. It will be served by the approximately 400,000-square metre (usable floor area) West Kowloon Station, one of the largest underground high-speed rail stations in the world. MTR has been entrusted by Government to manage the construction of the Express Rail Link.

This key project was 98.6% complete overall as at 31 December 2017, with civil works at West Kowloon Station 97.8% complete, all tracks in tunnels laid and overhead lines energised. Statutory inspection of the station by the Fire Services Department commenced in May 2017, followed by other statutory inspections. The signalling and communication systems of the Hong Kong and Mainland sections of the line were connected on 5 July 2017. Installation of the glass panels for the iconic roof of the Station Entrance Building was completed in July 2017.

The structural work at West Kowloon Station is substantially complete. Architectural Builder's Works and Finishes and Building Services works are underway. In particular, works in the Customs, Immigration & Quarantine ("CIQ") areas under the purview of the Corporation are in line with the programme, but the timely completion of all the CIQ facilities remains on the critical path.

In August 2017 all nine trains for the new line had arrived in Hong Kong from the factory in Qingdao and cross-boundary dynamic testing was completed in December 2017. To give members of the public a preview of the trains, XRL Train Open Days were held at the Shek Kong Stabling Sidings in October 2017, providing visitors with an in-train experience through guided tours.

The target opening date of the Express Rail Link remains the third quarter of 2018 and trial operations are expected to commence in the second quarter. We are in discussion with Government regarding the future operation and maintenance arrangements for this line.

We welcomed the announcement made on 25 July 2017 by Government regarding the proposed co-location arrangement for the Express Rail Link. The co-location arrangement will maximise the service convenience for passengers and help realise the line's full transport, social and economic benefits.

In accordance with the "Three-step Process" to implement these arrangements, on 18 November 2017 the Government of the HKSAR and the People's Government of Guangdong Province signed the Co-operation Arrangement between the Mainland and the HKSAR on the Establishment of the Port at the West Kowloon Station for Implementing Co-location Arrangement ("Co-operation Arrangement") to kick-start the necessary work to implement the future clearance procedures for the Express Rail Link. The Co-operation Arrangement was subsequently approved by the Standing Committee of the National People's Congress on 27 December 2017. We welcome these two steps in the process and look forward to completion of the third and final step, which is the enactment of the necessary legislation by the Legislative Council of the HKSAR ("LegCo").

Shatin to Central Link

The ten-station 17-km Shatin to Central Link, which was entrusted to MTR by Government, will create vital new links across Hong Kong. It is a strategic railway that connects and extends the existing network. The first phase of the Shatin to Central Link is the 11-km Tai Wai to Hung Hom Section and the second phase is the 6-km Hung Hom to Admiralty Section. When the Tai Wai to Hung Hom Section is completed, it will extend the existing Ma On Shan Line from Tai Wai via six stations to the West Rail Line to form the "East West Corridor". When the Hung Hom to Admiralty Section is completed, it will extend the existing East Rail Line across the harbour to Exhibition Centre Station (formerly known as Exhibition Station) and Admiralty Station through Hung Hom to form the "North South Corridor".

Upon completion, the Shatin to Central Link will connect several existing railway lines and enhance the connectivity of the entire Hong Kong railway network. Travelling time will be reduced significantly between New Territories North, Kowloon and Hong Kong. Alternative routes will also become available to travellers, which will provide customers with more route choices particularly in the busy cross-harbour section of the Tsuen Wan Line and the Tai Wai to Kowloon Tong section of East Rail Line.

Overall, this project was about 81.2% complete by 31 December 2017, with the Tai Wai to Hung Hom Section and Hung Hom to Admiralty Section 93.9% and 63.6% complete respectively.

For the Tai Wai to Hung Hom Section, track laying works have been completed, as have the structural works for the last two new stations, namely To Kwa Wan Station (formerly known as Ma Tau Wai Station) and Sung Wong Toi Station (formerly known as To Kwa Wan Station). This signifies the substantial completion of all civil and structural works on this section of the line. The final report of the archaeological works for the Sung Wong Toi Station works site was accepted by the Antiquities and Monuments Office in June 2017. Steady progress is now being made on the electrical and mechanical ("E&M") works and interior fitting out works at stations. As the new section will connect to the existing West Rail and Ma On Shan lines, the commissioning and testing works of this rail corridor will be highly complex, involving multi-disciplinary interfaces and integration with various new and old systems in the operating railway. To ensure that normal operation of existing railway lines is not affected, some of the necessary works, including dynamic testing, are being carried out at night during non-traffic hours.

For the Hung Hom to Admiralty Section, all tunnel-boring excavation works have been completed. For the cross-harbour rail tunnel connecting the Hung Hom and Causeway Bay areas, nine of the 11 immersed tube units have been installed on the seabed of Victoria Harbour as at February 2018.

Exhibition Centre Station, which has been affected by late site handover, incomplete entrusted works by other parties and unfavourable ground conditions, was 54.8% complete by the end of 2017. Construction work for the diaphragm walls of Exhibition Centre Station is substantially complete and full excavation of the station is progressing. Due to space limitations 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 while reducing the impact on road users.

Admiralty Station will become a major interchange hub for the Shatin to Central Link, Island, Tsuen Wan and South Island lines. To cater for the Shatin to Central Link, in the extended part of the station, structural works and building service installation are well underway.

As part of the Hung Hom to Admiralty Section, the existing East Rail Line will be re-signalled. The dynamic testing of the new signalling systems with East Rail Line trains during non-traffic hours is now in full swing on the whole of the East Rail Line, and we target the works to be completed in mid-2019.

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 Tai Wai to Hung Hom Section, the discovery of archaeological relics in the Sung Wong Toi Station area led to an 11-month delay. However, with hard work by the teams involved and the successful implementation of a number of delay recovery measures, the length of the delay has been reduced and the estimated completion of this section has been advanced by six months to mid-2019. For the Hung Hom to Admiralty Section, we had previously reported a six-month delay due to a number of external factors, including the late handover by a third party of construction sites for the new Exhibition Centre Station. As a result of incomplete entrusted works handed over by another third party contractor at another site at Wan Chai North, the completion of this section has been further delayed by an additional three months (to a total expected delay of nine months). However, the Hung Hom to Admiralty Section is still targeted for completion in 2021.

For both the Tai Wai to Hung Hom Section and the Hung Hom to Admiralty Section, our project teams continue to work diligently to explore and implement measures to improve progress and recover delays caused by external events and third parties.

The amount entrusted to the Company by Government for the advance works under the 2011 Entrustment Agreement for Advance Works Relating to the Shatin to Central Link ("SCL Advance Works Entrustment Agreement") was HK$7,350 million. In January 2017, Government submitted to the LegCo Public Works Subcommittee the application for additional funding needed in excess of amounts retained by Government from the original funding. The additional funding of HK$848 million was approved by LegCo Finance Committee in June 2017.

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

The Company completed a detailed review of the estimated CTC for the main construction works under the SCL Entrustment Agreement and the latest estimate was submitted to Government for review on 5 December 2017. Taking into account a number of factors, including issues such as the archaeological finds, Government requests for additional scope and late or incomplete handover of construction sites, the Company has increased the latest estimate of the main construction works of the Shatin to Central Link by HK$16,501 million from HK$70,827 million to $87,328 million, representing an increase of 23% of the cost of the main works. In our assessment, around 70% of the increase (net of contingencies) is attributable to additional costs arising from external factors, such as the handling of archaeological finds at the work sites of Sung Wong Toi Station, the late or incomplete handover of construction sites in Wan Chai North, as well as unbudgeted additional scope (including foundation works for a future top-side development at Exhibition Centre Station).

Major Asset Upgrades and Replacements on the Existing Network

Major asset upgrades and replacements in the Hong Kong rail network include the purchase of new trains and light rail vehicles, and the replacement of signalling systems and chiller systems and so on. In 2017, more than HK$8.6 billion was spent on maintaining, upgrading and renewing our Hong Kong railway assets.

A total of HK$6 billion is being spent on 93 new, more comfortable 8-car trains to replace those on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. The first 8-car train was delivered to Hong Kong in January 2018, with the final batch of trains due to be delivered in 2023. The trains will undergo stringent testing and commissioning procedures in Hong Kong before they are put into service.

With demand for our light rail services increasing, we are replacing 30 light rail vehicles and purchasing ten additional vehicles, all at a cost of HK$745 million. The first batch of light rail vehicles will be delivered to Hong Kong in 2018 and the vehicles will enter passenger service progressively between 2019 and 2023.

The existing signalling systems on the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express, are undergoing replacement at a total cost of HK$3.3 billion. The Tsuen Wan Line is being re-signalled first, and installation of new signalling equipment along the trackside and in indoor areas has been substantially completed. Train testing during non-traffic hours is underway. The Tsuen Wan Line re-signalling is targeted for completion towards the end of 2018 or early 2019. It will be followed by other lines progressively. The overall completion is expected in 2026.

Contracts for the replacement of 160 chillers at 38 stations and four depots were awarded. Installation works for the replacement of the first 29 chillers in seven stations and two depots commenced in December 2017, with targeted completion in April 2018. This will be followed by the replacement of chillers in our other stations and depots.

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 31 December 2017, 24 of the converted 8-car trains had entered service on the West Rail Line and all are targeted to be in service by mid-2018. On the Ma On Shan Line, all of the 4-car trains had been replaced by 8-car trains by December 2017. Our project to retrofit Automatic Platform Gates on the Ma On Shan Line was also completed in December 2017, one year earlier than the original target.

Enhancing the Customer Experience through Technology

Under Rail Gen 2.0, in addition to new lines and major asset upgrades, we aim to enhance our passengers' journey experience through the application of new technology. We have launched a series of digital initiatives, including improvements to the MTR Mobile app, which leverage on innovative technology to provide more personalised services to customers while facilitating smoother railway operations.

These improvements saw MTR named "Asia Pacific Digital Transformer of the Year 2017" in the "IDC Digital Transformation Awards", an award recognising institutions that have significantly transformed markets using digital and disruptive technologies in the Asia Pacific region.

The MTR Mobile app has over 1 million monthly active users and in September 2017, two new functions, "In-station Finder" and "Fast Exit" were launched. In-station Finder, for which Admiralty Station served as a pilot station, allows users to find their way to interchange platforms and station facilities more easily. Fast Exit, which applies to all railway stations, recommends to passengers the specific train car and door that will be nearest to their desired exit at their destination station. The enhanced Traffic News function now provides more timely operational and alternative transportation information to passengers in the event of extended train service delays. To help passengers plan their journeys ahead even better, Green, Yellow and Red indicators have been introduced to represent the real-time status of each rail line in the MTR Mobile app and on the MTR website. A new "Ticket Suggestion" function was also launched on the MTR website and in the MTR Mobile app in June 2017. This new function helps passengers choose the ticket type with the lowest fare based on their travel patterns. In January 2018, a "Chatbot" function was launched for the MTR Mobile app that provides customers with information about their destination, as well as offering a more personalised experience.

With electronic payments becoming increasingly popular, in December 2017 we rolled out a trial scheme to accept Alipay and WeChat Pay at certain ticket machines at Lo Wu and Lok Ma Chau stations. The trial scheme will be gradually extended to Tsim Sha Tsui, East Tsim Sha Tsui and Causeway Bay stations by the first half of 2018.

New Rail Projects beyond Rail Gen 2.0

Beyond the two new Rail Gen 2.0 projects under construction, Government has identified seven additional rail projects to be implemented under RDS 2014 and has invited us to submit proposals for five of these projects, namely the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station), the East Kowloon Line, the Tung Chung West Extension (and Tung Chung East Station) and the North Island Line.

We are now in discussion with Government on the submitted project proposals for the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station) and the East Kowloon Line. We have also submitted the project proposal for the Tung Chung West Extension (and Tung Chung East Station), while that for the North Island Line will be submitted in the second half of 2018. We await Government's invitation in respect of the remaining two projects, namely Hung Shui Kiu Station and the South Island Line (West).

Government is conducting the planning study, "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030" to examine Hong Kong's future development. To meet the longer term demand for transport with rail as the backbone of public transport, Government is planning to take forward the related "Strategic Studies on Railways and Major Roads beyond 2030" in 2018. This study will examine the strategic transport infrastructure network (including rail) required to satisfy transport needs beyond 2030, including the demand arising from the two strategic growth areas, the East Lantau Metropolis and New Territories North.

Expanding the Property Portfolio

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

Over the next four years or so our investment properties portfolio in Hong Kong will expand through the addition of a further 105,120 square metres GFA to the retail portfolio, increasing attributable GFA by approximately 34%. Following completion of Maritime Square 2 and seventh and eighth floors of Telford Plaza II, two projects remain underway, namely the new LOHAS Park shopping centre and the Tai Wai shopping centre. Foundation and superstructure works at both developments are in progress, with the projects targeted for completion by the end of 2020 and 2022 respectively.

In our residential development, during the past four years or so, 12 MTR property development packages have been tendered out and are now in various stages of planning and construction. Over 18,000 residential units, with a total GFA of over 1.15 million square metres, will be completed over the next six years.

We continue to look for other opportunities to develop property along our railway lines. Above our depot in Siu Ho Wan on Lantau Island around 14,000 residential units could be built, subject to the necessary zoning and other statutory approvals. The Environmental Impact Assessment reports were approved by Government in November 2017. The statutory planning procedures commenced with the draft Siu Ho Wan Outline Zoning Plan being agreed by the Town Planning Board for District Council consultation on 5 January 2018. The rezoning process for a second site, the Yau Tong Ventilation Building, was completed in April 2017 and the gazetted road works scheme was approved in August 2017. At this preliminary stage there is no assurance that either project would be commercially viable.

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

Outside of Hong Kong, we have leveraged our expertise to build a portfolio of railway related businesses in the Mainland of China, Europe and Australia. Our railway businesses outside of Hong Kong carried an average of around 6.49 million passengers per weekday in 2017.

Financial Performance

In HK$ million	Year ended 31 December 2017	2016	Inc./(Dec.) %
Mainland of China Businesses			
Railway, Property Rental and Property Management Subsidiaries			
Revenue	**811**	814	(0.4)
EBITDA	**144**	167	(13.8)
EBIT	**137**	159	(13.8)
Property Development Subsidiaries			
Revenue	**6,996**	1,348	419.0
EBITDA	**2,314**	366	532.2
EBIT	**2,314**	366	532.2
Share of Profit of Associates and Joint Venture	**290**	226	28.3
International Businesses			
Railway Subsidiaries			
Revenue	**16,179**	12,664	27.8
EBITDA	**758**	421	80.0
EBIT	**629**	309	103.6
Share of Profit of Associates	**31**	60	(48.3)
Mainland of China and International Businesses			
Total EBITDA	**3,216**	954	237.1
Total EBIT	**3,080**	834	269.3
Total EBITDA Margin (in %)	**13.4%**	6.4%	7.0% pts.
Total EBIT Margin (in %)	**12.8%**	5.6%	7.2% 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 and Joint Venture (before interest and tax)	**1,467**	888	65.2
Profit for the year attributable to shareholders of the Company:			
– Arising from the Mainland of China and International Railway, Property Rental and Management Businesses	**879**	516	70.3
– Arising from the Mainland of China Property Development Businesses	**1,019**	263	287.5
Total	**1,898**	779	143.6
Number of passengers carried by our Railway Subsidiaries and Associates outside of Hong Kong (in million)	**1,940**	1,828	6.1

In the Mainland of China, EBITDA from our railway, property rental and property management subsidiaries decreased by 13.8% to HK$144 million in 2017, mainly due to higher operating expenses at Shenzhen Metro Line 4 ("SZL4"). With the handover of high-rise and podium units in Tiara in Shenzhen, the sales proceeds and related costs were booked during the year. In our International businesses, the increase of 80.0% to HK$758 million in EBITDA from our railway subsidiaries was mainly due to initial profit recognition from the design and delivery works of the Sydney Metro Northwest ("SMNW") PPP project, as well as a full-year contribution from our new franchise, MTR Pendeltågen AB in Sweden, which we took over in December 2016. The decrease in share of profit of associates was mainly due to the end of the concession for London Overground Rail Operations Ltd. ("LOROL") in November 2016, partly offset by the contribution from operating the South Western Railway franchise since August 2017. Excluding the Mainland of China property development, our railway, property rental and management subsidiaries, associates and joint venture outside of Hong Kong contributed net after tax profits of HK$879 million on an attributable basis, representing 10.2% of our total recurrent profits.

Railway Businesses in the Mainland of China

Beijing

In Beijing, our 49% associate Beijing MTR Corporation Limited ("BJMTR") operates four lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14") and the Northern Section of Beijing Metro Line 16 ("BJL16").

On-time performance in 2017 averaged 99.9% across the four lines. For the year, the combined ridership of BJL4 and the Daxing Line was about 451 million passenger trips and average weekday patronage was more than 1.33 million, respectively 2.1% and 3.1% higher than 2016.

The first three phases of BJL14, which are now operational, recorded a combined 220 million passenger trips and average weekday patronage of about 687,000 in 2017. The new Pingleyuan Station on this line opened in December 2017.

BJL16 is a PPP project and the first phase, the 19.6-km Northern Section, commenced operation on 31 December 2016. In 2017 the line recorded 25 million passenger trips and average weekday patronage of about 77,000. Full line operation, which will mark the start of the operating concession, is targeted after 2018. The line's new Nongdananlu Station opened in December 2017.

Shenzhen

SZL4, operated by MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), achieved good operational performance during 2017, with patronage growing by 5.4 % to 210 million and average weekday patronage reaching 580,000. On-time performance was 99.9%.

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

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

Hangzhou

Our 49% associate in Hangzhou, Hangzhou MTR Corporation Limited, operates Hangzhou Metro Line 1. Patronage on this line is growing and increased by 13% in 2017 to 225 million, with average weekday patronage of 616,000. Operational performance was excellent, with on-time train performance at 99.9%. The share of loss increased to HK$68 million in 2017 mainly due to a one-off provision.

The Concession Agreement for HZL5, another PPP project, was signed by the Company with the Hangzhou Municipal Government and Hangzhou Metro Group on 26 June 2017. The 51.5 km HZL5 is an underground metro line running from Xiangzhanglu Station in Xiaoshan District to Lutinglu Station in Yuhang District, with a total of 38 stations. It is expected to enter service around the end of 2019.

The construction of the HZL5 project is divided into Part A and Part B. Part A relates to the line's civil construction and Part B covers the E&M systems and rolling stock. Hangzhou Metro Group is responsible for the investment in, and construction of, Part A. We and Hangzhou Metro Group formed a joint-venture company in September 2017 to undertake the investment in, and construction of, Part B, as well as the operations and maintenance for 25 years after commencement of passenger service. We have a 60% interest in this joint venture company. The total Part B investment is estimated at RMB 10.9 billion which will be financed by the joint venture company through bank borrowings and equity investments from shareholders. We anticipate an equity investment from MTR of RMB 2.616 billion into this joint venture. Tendering and construction works of the line are now in full swing.

Property Businesses in the Mainland of China

Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1 saw the previously sold high-rise residential units, which form the vast majority of the development, handed over to buyers in June 2017. The project has a total developable GFA of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA), which is scheduled to open in late 2018, subject to approval by the Shenzhen Municipal Government. Profits were booked in 2017 in respect of all the units handed over to buyers.

In March 2017, a framework agreement was signed with a subsidiary of Beijing Capital Land Limited for the disposal of our 49% interest in Tianjin TJ-Metro MTR Construction Company Limited, as well as the conditional future acquisition of a shopping centre to be developed on the Beiyunhe Station site. Relevant government approval was obtained for the disposal of our 49% interest in July 2017 and the Sale and Purchase Agreement for the shopping centre was signed on 26 January 2018.

Our property development businesses in the Mainland of China achieved significant growth in revenue and profit due to development bookings related to Tiara. The Company also manages self-developed and other third party properties in the Mainland of China which, as at 31 December 2017, had a total GFA of 390,000 square metres. Our shopping mall in Beijing, Ginza Mall, is undergoing a partial revamp and was 99% occupied as at 31 December 2017 excluding the area under revamp.

European Railway Businesses

United Kingdom

MTR Corporation (Crossrail) Limited, a wholly owned subsidiary of the Company, operates services under the "TfL Rail" brand on a 32.5-km, 14-station route between Liverpool Street Station and Shenfield as the first phase in the Crossrail operating concession. The next phase, providing services between Paddington Station and Heathrow Airport, is planned to start in May 2018. TfL Rail will be renamed the Elizabeth Line when the tunnel section through central London is completed and becomes operational, targeted for December 2018. It will eventually extend to 118 km from east to west across London and serve 40 stations. Since June 2017, new trains have been progressively introduced into operation.

Through our associate, First MTR South Western Trains Ltd, we have partnered with FirstGroup plc on the South Western Railway franchise, as a 30% shareholder. The tender was awarded in March 2017 by the Department for Transport ("DfT") and the franchise was taken over in August 2017. South Western Railway is one of the UK's largest rail networks, with a route length of 998 km serving 203 stations, covering London and south western England. Since taking over the franchise, services have been affected by industrial action, which has been taken across a number of UK franchises at the same time. We have made every effort to maintain our railway services and minimise the associated disruption to passengers.

Nordic Region

MTR is the largest rail operator in Sweden in terms of passenger volume. We operate three key rail businesses in the country, namely Stockholm Metro, MTR Express and the Stockholm commuter rail ("Stockholms pendeltåg").

The operational performance of Stockholm Metro in 2017 was good, with new highs recorded for operational performance and customer satisfaction. Annual ridership was estimated at 353 million and average weekday patronage at 1.25 million.

MTR Tech AB, which carries out rolling stock maintenance for Stockholm Metro, also performed satisfactorily and was awarded the contract for a mid-life upgrade programme for part of the metro fleet.

MTR Express (Sweden) AB, our wholly-owned subsidiary which operates the MTR Express intercity service between Stockholm and Gothenburg, delivered excellent operational and customer service performance, making it the leading rail operator in the Swedish Quality Index 2017. Weekly departures have increased to 104 per week since December 2016. Passenger numbers have continued to rise, albeit below our original expectations. As a result, the subsidiary continued to report a loss in 2017, and we are making every effort to stem this loss through increasing patronage by way of continued delivery of quality services, enhanced marketing, and our own loyalty programme.

Our wholly-owned subsidiary MTR Pendeltågen AB operates the Stockholms pendeltåg service under a concession that runs for ten years to December 2026, with an option to extend for four more years. The concession includes the maintenance of rolling stock undertaken by Emtrain AB, a 50% owned associate together with EuroMaint Rail AB. Stockholms pendeltåg serves the greater Stockholm area, has 53 stations and a total route length of 247 km. Financial performance has been satisfactory. From an operational and customer service perspective, improvements have been seen since the takeover of the concession, although the introduction of a new timetable in December 2017 proved challenging, resulting in a withholding of service payments by our client. We are working hard to ensure the delivery of our committed service level.

Australian Railway Businesses

In Melbourne, our 60% owned subsidiary Metro Trains Melbourne Pty. Ltd. ("MTM") operates the 390-km Melbourne metro network. Operational performance was satisfactory in 2017, with punctuality recorded at 92%, against 87% when the franchise was taken over in 2009. The original eight-year concession ended in November 2017, and in September 2017 the Government of Victoria announced the award of a new concession for seven years to MTM, with a three years extension option. Under the new operations and maintenance agreement, MTM is committed to delivering further enhancements to railway operations, asset maintenance and customer service in Melbourne. These include adding more peak services, increasing maintenance to improve infrastructure and rolling stock reliability, upgrading CCTV cameras, providing more passenger information, cleaner trains and stations, as well as creating more career opportunities.

In Sydney, MTR is a member of a consortium which is responsible for the design, construction and financing, as well as the future operations and maintenance of the SMNW PPP project, which is the first stage of Sydney Metro. The 36-km SMNW line includes eight new metro stations and five existing stations upgraded to metro standards. Construction works for the depot and stations, as well as pre-operational planning for the project, are progressing. The first train was delivered to Sydney in September 2017 and has been undergoing testing. Future stages of Sydney Metro will see metro service extending into the central business district, with an ultimate capacity to provide metro train service every two minutes in each direction.

Growth Outside of Hong Kong

Growth outside our home market of Hong Kong comes from expanding in existing markets not only through existing types of businesses but also by seeking new opportunities such as rail-related property developments and PPP's, as well as the potential to expand into new markets.

Mainland of China and Macau

MTR signed a Cooperation Framework Agreement with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and BJMTR in November 2016 to conduct joint preliminary studies on integrated property development above selected existing station and depot sites along BJL4 and the Daxing Line (including the Nanzhaolu Depot). In January 2017 we signed a Letter of Intent ("LoI") with BIIC to extend the strategic co-operation to other, predominantly rail-related property development projects in Beijing in addition to investment in, construction and operation of other railway projects.

In November 2017, the Company signed a LoI with the Daxing District People's Government of Beijing Municipality, BIIC and BJMTR for studies on the southward extension of the Beijing Daxing Line, Nanzhaolu Depot capacity expansion, and integrated property development above the depot.

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BJMTR is also seeking other railway opportunities in Beijing to expand its network further.

In August 2017, we signed a LoI with Chengdu Rail Transit Group covering strategic cooperation on metro, metro related property development and metro operations management training. We are now investigating the metro PPP and transit-oriented development opportunities in the city.

In Hangzhou, we are in discussion on another metro PPP project and are also exploring metro related property development opportunities.

We are also in active discussions with local governments and other bodies in Guangdong-Hong Kong-Macau Bay Area to explore rail and property development opportunities around stations and depots that would leverage our experience and track record in Shenzhen and Hong Kong.

In Macau, we were awarded a service contract to provide project management and technical assistance to the 11-station 9.3-km Macau Light Rapid Transit Taipa Line for Gabinete para as Infra-estruturas de Transportes of the Government of the Macao Special Administrative Region in 2016.

International

In the UK, we submitted our bid for the Wales and Borders rail franchise in December 2017 and the decision is expected in the second quarter of 2018. In partnership with Guangshen Railway Company Limited, an associated company of China Railway Corporation, we have been shortlisted to bid for the West Coast Partnership franchise in the UK. The franchisee will operate railway services on the West Coast Main Line from April 2019, and will act as the "shadow operator" to advise High Speed Two ("HS2") Limited and DfT on the preparation and operation of the initial HS2 services between London and Birmingham, scheduled to commence in 2026. The tender is expected to be released in the first quarter of 2018. In addition, we are exploring property development opportunities over and around rail stations in the UK.

In the Nordic region, a number of Norwegian rail services will be privatised and we submitted our first tender in March 2018 for the Traffic Package South (Trafikkpakke Sør) Operating Concession in southern Norway. We are also examining property development opportunities over and around rail stations in Stockholm.

In Australia, we are pursuing the Sydney Metro City and Southwest ("SMCSW") project, a 30-km extension of SMNW. Early works by Transport for New South Wales ("TfNSW") have commenced and the line is targeted to open in 2024. The SMCSW Consortium, formed by MTR and certain other participants in SMNW, submitted a non-binding initial proposal to TfNSW in March 2017 to participate in the SMCSW project. Subsequently, a commitment deed was entered into with TfNSW in December 2017 which will allow the SMCSW Consortium to submit an updated proposal in late 2018 to deliver and integrate trains and systems, as well as to operate the SMCSW line.

As a potential step into North America, we were pre-qualified as operator for the Toronto Regional Express Rail project in Canada in December 2017. The project will transform the existing GO Transit diesel-rail commuter system into an electrified railway network in the Greater Toronto and Hamilton area. The bid process for the project (including the operator) is expected to commence later in 2018.

FINANCIAL REVIEW

Profit and Loss

In 2017, the Group recorded a substantial 22.7% increase in revenue to HK$55,440 million, reflecting mainly the contributions from Tiara, the full 12-month operation of the Stockholms pendeltåg service by MTR Pendeltågen AB since the franchise commencement in December 2016 and the increase in design and construction activities of the SMNW PPP project.

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 4.3% to HK$17,677 million. The increase was mainly due to higher EBITDAs of the Hong Kong station commercial and property rental businesses resulting from the rental income growth of our Duty Free Shops, station shops and shopping malls, as well as higher EBITDA of the Mainland of China and international businesses resulting from the recognition of operating profit from the design and construction activities of the SMNW PPP project. The increase was partly offset by a decrease in EBITDA of Hong Kong Transport Operations mainly due to higher staff costs whilst fare adjustment in 2017/2018 was rolled over to 2018/2019 according to the FAM, as well as lower EBITDA from Ngong Ping 360 due to the service suspension of the Ngong Ping Cable Car from 9 January 2017 to 4 June 2017 to carry out rope replacement. Operating margin from recurrent businesses decreased by 2.2 percentage points to 36.5%, mainly due to higher contributions from our Mainland of China and international businesses where operations and maintenance (O&M) operations carry lower operating margin, and higher staff costs in Hong Kong Transport Operations combined with the roll over of fare adjustments. Excluding the Company's Mainland of China and international subsidiaries, operating margin from recurrent businesses decreased by 0.6 percentage point to 53.3%.

Hong Kong property development profit was HK$1,097 million, derived from the agency fee income from the West Rail property developments (mainly including Cullinan West and Cullinan West II, Ocean Pride, Ocean Supreme, THE PAVILIA BAY, PARC City and The Spectra), sales of inventory units and car parking spaces, and further surplus proceeds arising from the finalisation of development costs for completed property development projects.

Operating profit from our Mainland of China property development, after profit sharing with the Shenzhen Municipal Government for the Tiara development, was HK$2,314 million. It was derived predominantly from profit recognition of the high-rise units handed over at Tiara which comprised the vast majority of the development.

Depreciation and amortisation charges increased by 17.6% to HK$4,855 million, mainly due to the opening of the Kwun Tong Line extension and the South Island Line in the last quarter of 2016. Variable annual payment to KCRC increased by 8.2% to HK$1,933 million with incremental revenue 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 increased by 22.1% to HK$14,300 million.

Interest and finance charges were HK$905 million, representing an increase of 47.9% over 2016 due to interest costs relating to the Kwun Tong Line extension and the South Island Line which, when the lines opened at the end of 2016, are no longer capitalised. Investment property revaluation gain amounted to HK$6,314 million reflecting mainly yield compression particularly in offices. Our share of profit from Octopus Holdings Limited decreased by 30.5% to HK$173 million. Our share of profit from other associates and joint venture was HK$321 million, an increase of 12.2% as compared with 2016. The increase was primarily due to higher share of profits from BJMTR resulting from revenue improvement, partly offset by lower contributions from LOROL as the concession ended in November 2016.

Net profit attributable to shareholders, after deducting income tax of HK$3,318 million and profits shared by non-controlling interests of HK$56 million, increased by 64.1% to HK$16,829 million in 2017. Earnings per share therefore increased 62.6% from HK$1.74 to HK$2.83. Excluding investment property revaluation which is a non-cash accounting adjustment, the underlying profit attributable to shareholders increased by 11.3% to HK$10,515 million, with underlying earnings per share of HK$1.77. Within this total, our recurrent profit decreased by 3.8% to HK$8,580 million, while post-tax property development profit increased from HK$530 million to HK$1,935 million. Return on average equity attributable to shareholders arising from underlying businesses was 6.7% in 2017, compared to 5.9% in 2016.

Statement of Financial Position

Our financial position remained strong. The Group's net assets increased by HK$16,870 million from HK$149,556 million as at 31 December 2016 to HK$166,426 million as at 31 December 2017.

Total assets increased by HK$6,428 million to HK$263,768 million, mainly due to the increase in fixed assets arising from revaluation gain on investment properties, renewal and upgrade works for our existing Hong Kong railway network, as well as the increase in debtors and other receivables mainly resulting from the purchase of tax reserve certificates. The increase in total assets was partly offset by the decrease in property development in progress upon profit recognition of Tiara, as well as the decrease in cash balances after dividend payments. Total liabilities decreased by HK$10,442 million to HK$97,342 million. This was mainly due to the payment of the second tranche of special dividend previously accrued, partly offset by the increase in total borrowings. The Group's net debt-to-equity ratio increased from 20.2% at 31 December 2016 to 20.6% at 31 December 2017. If the land premium in respect of Wong Chuk Hang Station Package 2 (which was paid in January 2018) was excluded from the cash balance, the Group's net debt-to-equity ratio at 31 December 2017 would have been 23.7%.

Cash Flow

Net cash generated from operating activities increased by HK$2,468 million to HK$19,603 million in 2017, mainly reflecting higher operating EBITDA and a decrease in tax payments. Receipts from property developments were HK$3,344 million, a decrease of HK$2,059 million compared to 2016, mainly due to substantial cash receipts in 2016 from the Tiara development, partly offset by higher cash receipts from Hong Kong property developments in 2017. Including other cash receipts of HK$517 million primarily from the proceeds of share issuance under our share option scheme and dividend received from Octopus Holdings Limited, net cash receipts amounted to HK$23,464 million in 2017.

Total capital expenditure was HK$8,523 million. This comprised HK$5,226 million for the purchase of assets for our Hong Kong existing railways and related operations, HK$1,342 million for the settlement of payables relating to the Hong Kong railway extension projects, HK$1,127 million for investment in Hong Kong property related businesses and HK$828 million for investment in Mainland of China and overseas subsidiaries. Total capital expenditure was lower than 2016 by HK$3,416 million due to higher capital expenditure in 2016 for our Hong Kong railway extension projects.

The Group also paid HK$2,537 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 second tranche of special dividend under the XRL Agreement to our shareholders totalling HK$15,358 million. Taking into account the cash investment into the HZL5 joint venture of HK$310 million and other payments, total cash outflow amounted to HK$27,500 million in 2017.

Therefore, net cash outflow before financing amounted to HK$4,036 million. Including the cash inflow from net borrowings of HK$1,494 million and the effect of exchange rate changes on cash position in foreign currencies, the Group's cash balance decreased by HK$1,936 million to HK$18,354 million at 31 December 2017.

HUMAN RESOURCES

The Company, together with our subsidiaries, employed 17,524 people in Hong Kong and 10,781 people outside of Hong Kong as at 31 December 2017. Our associates employed an additional 15,317 people in and outside of Hong Kong. We have a stable workforce, with a low staff turnover rate in Hong Kong at 4.5% in 2017.

We firmly believe that people are MTR's most valuable asset and we make great efforts to support the personal growth and career development of our employees, so as to meet the changing manpower needs of our business. Robust human resources strategies are in place in Hong Kong, and in our Mainland of China and international business hubs to support our current operational needs and future business growth. We nurture our talents by assessing their potential and meeting their specific development needs through various means including coaching, job rotation and overseas assignments. We also provide comprehensive training and development programmes to our colleagues. During 2017, our colleagues in Hong Kong attended an average of 7.1 training days. To engage our people as well as to listen to their views, more than 7,800 two-way staff communication sessions were held in 2017 to collect opinions and suggestions.

Our commitment to inspiring, engaging and developing our people was recognised by several awards during the year. MTR was named as the most attractive employer in Hong Kong at the "Randstad Employer Brand Awards 2017", marking the fifth year in a row we have been included among the top five and the second time we have achieved first place. The Company was also honoured with five awards in "Human Resources Asia Recruitment Awards 2017" organised by Human Resources Magazine for our achievements in talent acquisition and management. In recognition of our efforts in talent development, the Company received two honours in "Award for Excellence in Training and Development 2017" organised by the Hong Kong Management Association.

MTR ACADEMY

The MTR Academy ("MTRA") has continued to develop as a railway management and engineering centre that offers high quality programmes which extend the Company's rail expertise from Hong Kong to the Mainland of China and "Belt and Road" countries. MTRA also offers accredited programmes and short courses to nurture the next generation of railway professionals for the community. In 2017, over 1,000 participants from Hong Kong and overseas attended MTRA programmes.

MTRA is gaining increasing recognition globally and provides professional support for organisations in various countries, such as PT MRT Jakarta, which is seeking support for its development of Indonesia's first mass transit system. In October 2017, MTR signed a Memorandum of Understanding with Hangzhou Metro Group to set up a branch campus of MTRA in Hangzhou. The campus will deliver a high quality training curriculum for railway executives and professionals and conduct research in the rail transport field. Discussions are underway regarding the planning and detailed collaboration arrangements.

OUTLOOK

Global economic growth picked up in 2017, with the trend expected to continue in 2018. Hong Kong's economy has also improved, with recovery in tourist arrivals, retail sales and exports, trends which may continue into 2018. Nonetheless, areas of concern remain, including rising US interest rates and geopolitical uncertainties.

Economic growth and the rebound in tourist arrivals will benefit our Hong Kong transport business with continuous growth in passenger volume. With the roll-over of the FAM adjustment rate for 2017/2018 into 2018/2019, the adjustment in mid-2018 will include the 1.49% carried over from 2017. Furthermore, subject to finalisation of the operating agreement with Government, we look forward to the opening of the Express Rail Link in the third quarter of 2018. Rental reversions in our station commercial and property rental businesses will be subject to market conditions although given the normal three-year tenancy cycle, maintaining the peak rents achieved in 2015 may be a challenge. Our advertising business will be dependent on economic conditions in Hong Kong. Following the opening of Maritime Square 2, we are progressing with the LOHAS Park and Tai Wai shopping centre projects.

Profit from Hong Kong property development in 2018 will be dependent on the issuance of Occupation Permit for Wings at Sea and Wings at Sea II of LOHAS Park Package 4, which we currently expect to receive towards the end of 2018. Subject to market conditions, we aim to tender out four property development packages over the next 12 months or so. These packages are likely to be our second package at Ho Man Tin Station, our eleventh package at LOHAS Park, our third package at Wong Chuk Hang Station and the Yau Tong Ventilation Building site. These packages are expected to provide about 4,200 residential units in total.

The financial performance of our businesses outside Hong Kong in 2018 will be supported by a full year contribution from the South Western Railway franchise in the UK and the renewed concession for Melbourne's Metropolitan Rail Service in Australia. To accelerate our expansion in the Mainland of China and internationally, we are pursuing a number of rail franchise opportunities and are also reviewing potential rail related property developments.

Finally, I wish to thank all my colleagues at MTR for their contributions during the year. It is their hard work and commitment to excellence that underpin our consistently high levels of performance.

Lincoln Leong Kwok-kuen
Chief Executive Officer
Hong Kong, 8 March 2018