Stock code: 66

KEEP MOVING

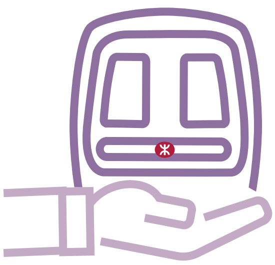
Annual Report 2019

VISION

We aim to be a leading multinational company that connects and grows communities with caring service.

MISSION

- We will strengthen our Hong Kong corporate citizen reputation
- We will grow and enhance our Hong Kong core business
- We will accelerate our success in the Mainland and internationally
- We will inspire, engage and develop our staff



VALUES

- Excellent Service
- Value Creation
- Mutual Respect
- Enterprising Spirit

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Overview

Business Review and Analysis

Corporate Governance

Financials and Other Information

HIGHLIGHTS

In the 40 years since our service operations started, MTR has grown with the people of Hong Kong to become a critical component of the transport infrastructure, as well as the creator of new integrated communities above and near stations. From a single line that opened in 1979, we now operate a 262.6-km railway network in Hong Kong that in 2019 carried over 1.9 billion passengers, together with a wide range of businesses including the development of residential and commercial properties, property leasing and management, advertising, telecommunication services and railway consultancy services. Since 2007, we have been building a portfolio of railway operations in the Mainland of China, Europe and Australia.

40 Connecting Together

1.9+ billion
Patronage in Hong Kong

99.9%
Passenger Journeys On-time

Tuen Ma Line Phase 1
Commenced Service

Sydney Metro North West Line, Hangzhou Metro Line 5 Initial Section, Macao Light Rapid Transit Taipa Line
Commenced Service

Awarded 3
Property Development Packages

BUSINESS PERFORMANCE

Sydney Metro City and Southwest Line
contract concluded and
Beijing Metro Line 17 awarded

GROWTH AND OUTLOOK

COVID-19 Challenges

No Actual Adjustment to MTR Fares
for the remainder of 2020

Realising Future Mobility Vision Through
Digital Transformation

Worked with Government on detailed planning and design of
3 New Lines

About **22,000 residential units**
and **3 Shopping Malls**
under development

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

-21% Heavy Rail Electricity Consumption
per passenger-km compared with 2008

-2% Reportable Events
in our heavy rail and light rail network, excluding impact of public order events

About **83,000 Participants**
in Our Youth and Children's Programmes

Adopted **Corporate Governance Best Practices**

KEY FIGURES

	2019 HK$ million	2019 %	2018 HK$ million	2018 %	Inc./(Dec.) %
Total revenue					
Recurrent businesses					
– Hong Kong transport operations	**19,938**	**36.6**	19,490	36.1	2.3
– Hong Kong station commercial businesses	**6,799**	**12.5**	6,458	12.0	5.3
– Hong Kong property rental and management businesses	**5,137**	**9.4**	5,055	9.4	1.6
– Mainland of China and international railway, property rental and management subsidiaries	**21,085**	**38.7**	20,877	38.7	1.0
– Other businesses	**1,545**	**2.8**	1,990	3.7	(22.4)
	54,504	**100.0**	53,870	99.9	1.2
Non-recurrent businesses					
– Mainland of China property development	**–**	**–**	60	0.1	(100.0)
Total revenue	**54,504**	**100.0**	53,930	100.0	1.1
Total EBITDA[1]					
Recurrent business EBITDA					
– Hong Kong transport operations	**5,909**	**28.1**	8,171	38.1	(27.7)
– Hong Kong station commercial businesses	**6,119**	**29.1**	5,891	27.5	3.9
– Hong Kong property rental and management businesses	**4,286**	**20.4**	4,242	19.8	1.0
– Mainland of China and international railway, property rental and management subsidiaries	**1,325**	**6.3**	876	4.1	51.3
– Other businesses and project studies and business development expenses	**(2,288)**	**(10.9)**	(337)	(1.6)	(578.9)
	15,351	**73.0**	18,843	87.9	(18.5)
Non-recurrent business EBITDA					
– Hong Kong property development	**5,707**	**27.1**	2,574	12.0	121.7
– Mainland of China property development	**(25)**	**(0.1)**	25	0.1	n/m
	5,682	**27.0**	2,599	12.1	118.6
Total EBITDA	**21,033**	**100.0**	21,442	100.0	(1.9)
Total EBIT[2]					
Recurrent business EBIT					
EBIT					
– Hong Kong transport operations	**(591)**	**(4.4)**	1,985	13.4	n/m
– Hong Kong station commercial businesses	**5,122**	**37.9**	5,025	33.9	1.9
– Hong Kong property rental and management businesses	**4,264**	**31.6**	4,225	28.5	0.9
– Mainland of China and international railway, property rental and management subsidiaries	**1,089**	**8.1**	722	4.9	50.8
– Other businesses and project studies and business development expenses	**(2,353)**	**(17.4)**	(404)	(2.7)	(482.4)
Share of profit or loss of associates and joint venture	**288**	**2.1**	658	4.4	(56.2)
	7,819	**57.9**	12,211	82.4	(36.0)
Non-recurrent business EBIT					
– Hong Kong property development	**5,707**	**42.3**	2,574	17.4	121.7
– Mainland of China property development	**(25)**	**(0.2)**	25	0.2	n/m
	5,682	**42.1**	2,599	17.6	118.6
Total EBIT	**13,501**	**100.0**	14,810	100.0	(8.8)
Interest and finance charges	**(859)**		(1,074)		(20.0)
Investment property revaluation	**1,372**		4,745		(71.1)
Profit before taxation	**14,014**		18,481		(24.2)
Income tax	**(1,922)**		(2,325)		(17.3)
Profit for the year	**12,092**		16,156		(25.2)
Non-controlling interests	**(160)**		(148)		8.1
Profit for the year attributable to shareholders of the Company	**11,932**		16,008		(25.5)
Profit for the year attributable to shareholders of the Company arising from:					
Recurrent businesses[3]	**4,980**		9,020		(44.8)
Non-recurrent businesses	**5,580**		2,243		148.8
Underlying businesses[3]	**10,560**		11,263		(6.2)
Investment property revaluation	**1,372**		4,745		(71.1)
Total profit for the year attributable to shareholders of the Company[3]	**11,932**		16,008		(25.5)

Note 1 EBITDA represents operating profit before depreciation, amortisation, variable annual payment and share of profit or loss of associates and joint venture.

Note 2 EBIT represents profits before interest, finance charges and taxation and after variable annual payment.

Note 3 On a normalised basis, recurrent business profit, underlying business profit and total profit for the year attributable to shareholders of the Company would have increased by 7.7%, 35.8% and 4.1% respectively. Results on normalised basis are estimates based on certain assumptions to represent financial information if the adverse impact of the public order events in Hong Kong on the Group's Hong Kong businesses (HK$2.3 billion), and the provisions for the Hung Hom incidents of the SCL project in Hong Kong (HK$2 billion) and the South Western Railway franchise agreement in The United Kingdom (HK$0.4 billion) had been excluded.

n/m: not meaningful

	2019	2018	Inc./(Dec.) %
Financial ratios			
EBITDA margin[(4)] *(in %)*	**28.1**	35.0	(6.9)% pts.
EBITDA margin[(4)] (excluding Mainland of China and international subsidiaries) *(in %)*	**42.0**	54.5	(12.5)% pts.
EBIT margin[(5)] *(in %)*	**13.8**	21.5	(7.7)% pts.
EBIT margin[(5)] (excluding Mainland of China and international subsidiaries) *(in %)*	**19.3**	32.8	(13.5)% pts.
Net debt-to-equity ratio[(6)] *(in %)*	**15.4**	18.1	(2.7)% pts.
Return on average equity attributable to shareholders of the Company arising from underlying businesses *(in %)*	**5.8**	6.5	(0.7)% pt.
Interest cover[(7)] *(times)*	**15.3**	13.6	1.7 times
Share information			
Basic earnings per share *(in HK$)*	**1.94**	2.64	(26.5)
Basic earnings per share arising from underlying businesses *(in HK$)*	**1.72**	1.86	(7.5)
Ordinary dividend per share *(in HK$)*	**1.23**	1.20	2.5
Share price at 31 December *(in HK$)*	**46.05**	41.20	11.8
Market capitalisation at 31 December *(HK$ million)*	**283,574**	252,947	12.1
Operations highlights			
Total passenger boardings for Hong Kong *(million)*			
Domestic Service	**1,568.2**	1,670.0	(6.1)
Cross-boundary Service	**104.2**	117.4	(11.3)
High Speed Rail	**16.9**	5.3[@]	219.2
Airport Express	**15.8**	17.7	(11.0)
Light Rail and Bus	**207.3**	230.4	(10.0)
Average number of passengers *(thousand)*			
Domestic Service *(weekday)*	**4,658**	4,862	(4.2)
Cross-boundary Service *(daily)*	**285.4**	321.8	(11.3)
High Speed Rail *(daily)*	**46.4**	53.0[^]	(12.6)
Airport Express *(daily)*	**43.2**	48.5	(11.0)
Light Rail and Bus *(weekday)*	**598.6**	652.9	(8.3)
Average fare *(in HK$)*			
Domestic Service	**8.11**	7.92	2.3
Cross-boundary Service	**29.08**	29.56	(1.7)
High Speed Rail	**88.73**	89.44	(0.8)
Airport Express	**64.16**	65.25	(1.7)
Light Rail and Bus	**3.27**	3.14	4.1
Proportion of franchised public transport boardings *(in %)*	**47.4**	49.0[#]	(1.6)% pts

Note 4 EBITDA margin represents total EBITDA (excluding profit on Hong Kong property development) as a percentage of total revenue.

Note 5 EBIT margin represents total EBIT (excluding profit on Hong Kong property development and share of profit or loss of associates and joint venture) as a percentage of total revenue.

Note 6 Net debt-to-equity ratio represents loans and other obligations, bank overdrafts, short-term loans, obligations under service concession and loans from holders of non-controlling interests net of cash, bank balances and deposits in the consolidated statement of financial position as a percentage of total equity.

Note 7 Interest cover represents operating profit before depreciation, amortisation, variable annual payment and share of profit or loss of associates and joint venture divided by gross interest and finance charges before capitalisation, utilisation of government subsidy for Shenzhen Metro Longhua Line operation.

@ *High Speed Rail service commenced on 23 September 2018.*

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

Market share for 2018 was rebased to reflect the impact on the opening of Hong Kong – Zhuhai – Macao Bridge.

HONG KONG OPERATING NETWORK WITH FUTURE EXTENSIONS

LEGEND

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

EXISTING NETWORK

- Airport Express
- Disneyland Resort Line
- East Rail Line
- High Speed Rail
- Island Line
- Kwun Tong Line
- Light Rail
- Tuen Ma Line Phase 1
- South Island Line
- Tseung Kwan O Line
- Tsuen Wan Line
- Tung Chung Line
- West Rail Line

PROJECTS IN PROGRESS

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

POTENTIAL FUTURE EXTENSIONS UNDER RAILWAY DEVELOPMENT STRATEGY 2014

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

PROPERTIES OWNED / DEVELOPED / MANAGED BY THE CORPORATION

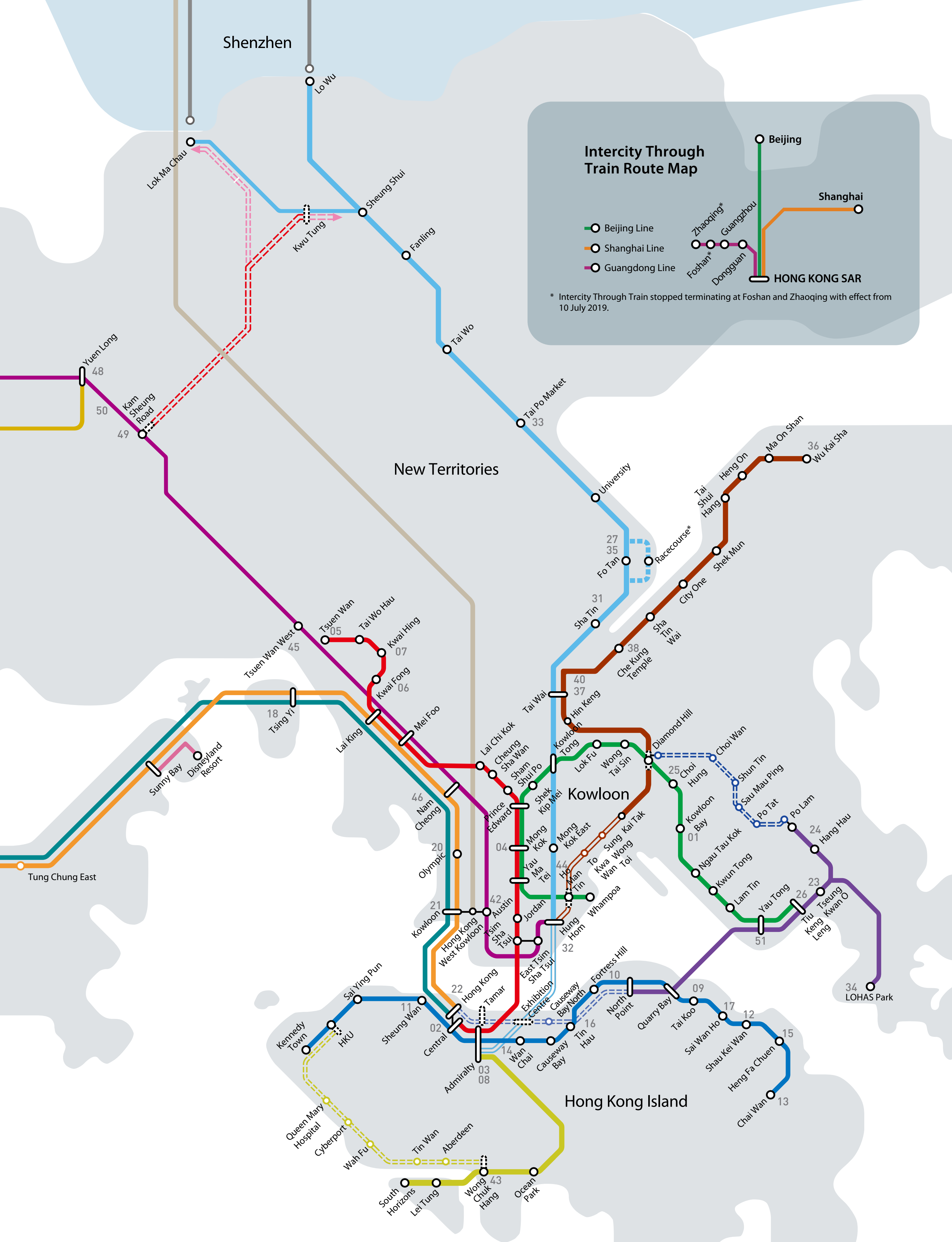
01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Tower
11 Hongway Garden / Infinitus Plaza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

PROPERTY DEVELOPMENTS UNDER CONSTRUCTION / PLANNING

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

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

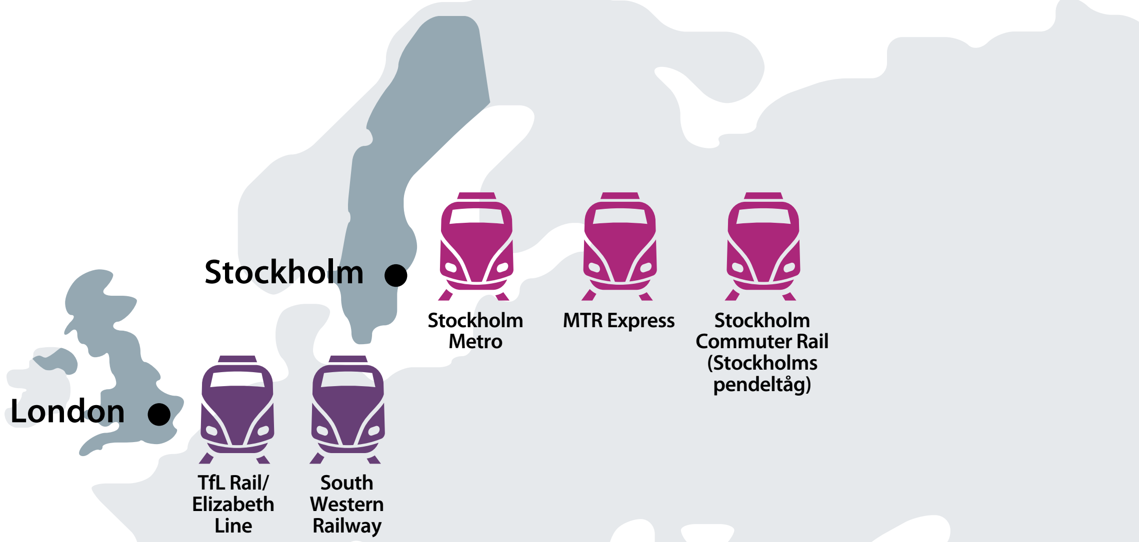
39 Century Gateway
45 Ocean Pride / Ocean Supreme / PARC CITY / THE PAVILIA BAY / City Point
46 Cullinan West
47 The Spectra / Sol City
48 Yuen Long Station
49 Kam Sheung Road Station Packages
50 Pat Heung Maintenance Centre



96 Stations

262.6 km Route Length

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES AT A GLANCE



MAINLAND OF CHINA

Beijing

Metro Line 4
24 Stations 28.2 km

Metro Line 4 – Daxing Line
11 Stations 21.8 km

Metro Line 14*
37 Stations 47.3 km

Metro Line 16*
29 Stations 49.8 km

Metro Line 17
(under construction)
21 Stations 49.7 km

Ginza Mall

Tianjin

Shopping Mall
(under construction)

Hangzhou

Metro Line 1
31 Stations 48 km

Metro Line 1 Extension
3 Stations 5.6 km

Metro Line 5*
38 Stations 51.5 km

Shenzhen

Metro Line 4
15 Stations 20.5 km

Tiara

TIA Mall

Macao

Light Rapid Transit Taipa Line
11 Stations 9.3 km

EUROPE

United Kingdom

TfL Rail/Elizabeth Line*^
41 Stations 118 km

South Western Railway^
203 Stations 998 km

Sweden

Stockholm Metro
100 Stations 108 km

MTR Express^
6 Stations 457 km

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

AUSTRALIA

Melbourne

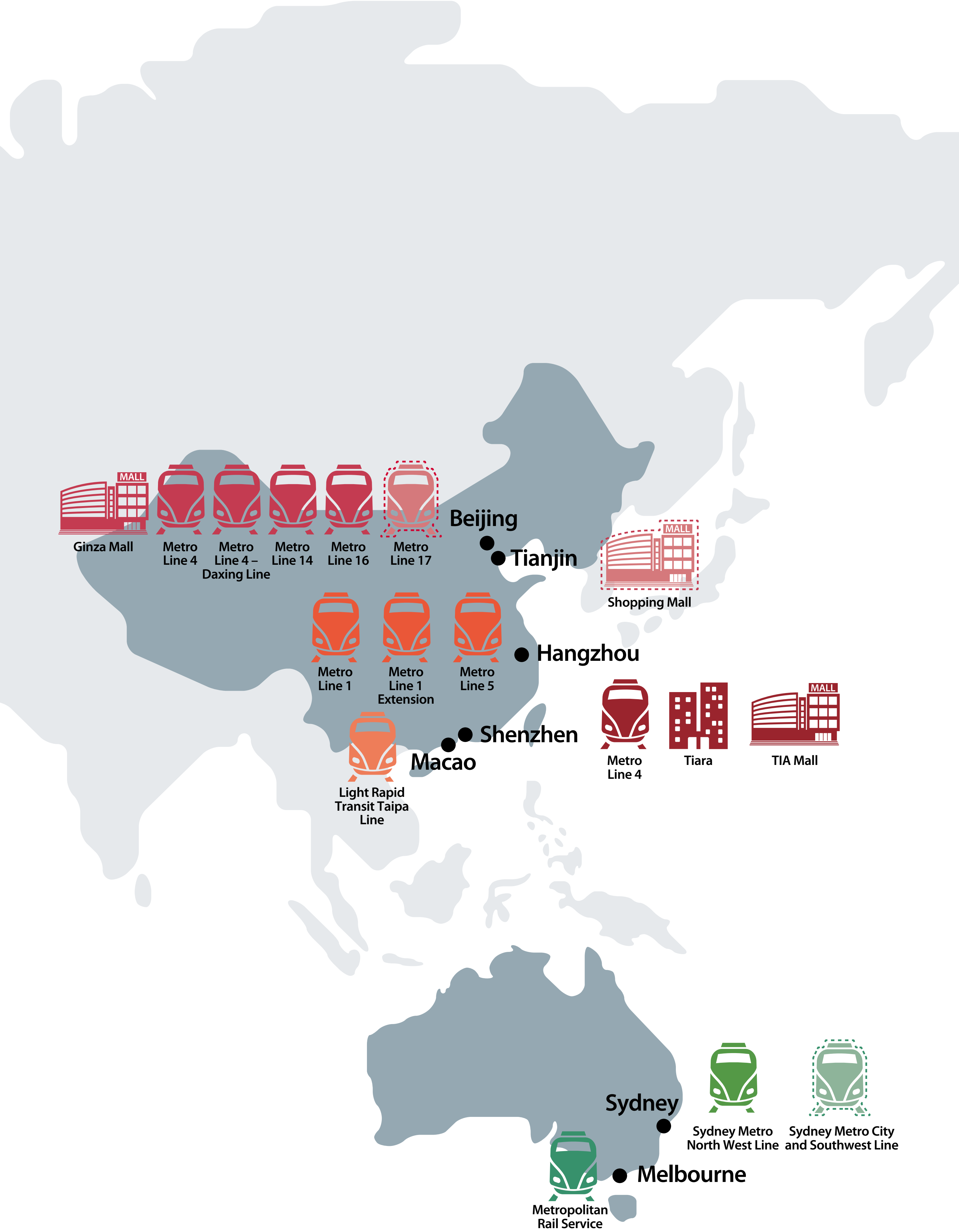
Metropolitan Rail Service
222 Stations 409 km

Sydney

Sydney Metro North West Line
13 Stations 36 km

Sydney Metro City and Southwest Line
(under construction)
18 Stations 30 km

** Currently under partial operation*
^ Some stations are not managed by MTR's subsidiaries / associates / joint venture, please refer to page 69 for details


Ginza Mall
Metro Line 4
Metro Line 4 – Daxing Line
Metro Line 14
Metro Line 16
Metro Line 17
Beijing
Tianjin
Shopping Mall
Metro Line 1
Metro Line 1 Extension
Metro Line 5
Hangzhou
Shenzhen
Macao
Light Rapid Transit Taipa Line
Metro Line 4
Tiara
TIA Mall
Sydney
Sydney Metro North West Line
Sydney Metro City and Southwest Line
Melbourne
Metropolitan Rail Service

CHAIRMAN'S LETTER

Dear Shareholders and other Stakeholders,

By any measure, 2019 could be rated as the most difficult year in our 40 years of service, with a significant part due to the public order events that affected our Company and Hong Kong as a whole. Since taking up the Chairmanship of MTR in July 2019, I have been working closely with members of the Board and senior management to set the strategic direction for the Company. Together, we are making every effort to win back the confidence of the people of Hong Kong and maintain our leading position in the international railway community in order to sustain our continuous growth and success.

We were deeply distressed by the public order events that caused such heavy damage to our trains and stations and disrupted our services during the latter half of the year. The safety of our customers, staff and our infrastructure is especially concerning for us as this has always been our top priority. Thanks to the commitment and professionalism of our dedicated staff, many of whom often worked through the night to reinstate service the next morning, we were able to keep Hong Kong moving during most of this difficult period.

We also had to contend with the recent outbreak of COVID-19. Extensive measures have been implemented to deal with this serious health threat in order to protect the health and safety of our customers and staff. I would like to thank our staff for the professionalism they have exhibited during this difficult period.

Equally concerning for us and the public were the incidents involving the derailment of a train in service near Hung Hom Station and the collision between two trains while testing a new signalling system, albeit during non-traffic hours, as well as the ongoing controversy over the construction works of Hung Hom Station extension.

Reflecting on what has taken place over the past year, we have learned valuable lessons and we are taking actions to prevent the occurrence of those of a similar nature. We are also looking at new initiatives to further strengthen our corporate governance and corporate culture.

BUSINESS PERFORMANCE AND GROWTH

Despite the tremendous challenges of the year, we continued to work hard on expanding our world-leading network in Hong Kong, the Mainland of China and overseas.

In Hong Kong, we made steady progress on the Shatin to Central Link project. The Tuen Ma Line Phase 1 opened successfully on 14 February 2020, with the launch of two new stations at Hin Keng and Kai Tak, and an expanded Diamond Hill Station. Now that the Tuen Ma Line Phase 1 has gone into service, passengers travelling to and from the New Territories, East Kowloon and Hong Kong Island East can enjoy improved convenience and shorter journey times ahead of the full completion of the Shatin to Central Link in 2022.

On 26 March 2019, the Government published the redacted Interim Report of the Commission of Inquiry ("COI") on the quality of work for the Hung Hom Station extension of the Shatin to Central Link. While recognising it to be an Interim Report, the COI found that although the Hung Hom Station extension diaphragm wall and platform slab construction works are safe, they were not executed in accordance with the relevant contract in material respects. The COI also made a number of comments regarding the Company's performance and systems as well as a number of recommendations for the future. The Final Report of the COI is expected to be submitted to Government by 31 March 2020.

The Company carried out a further review and revalidation of the Shatin to Central Link Cost to Complete which was submitted to Government for review in February 2020. The Company's submission included an additional amount of project management cost for the Company which Government has objected such inclusion. The Company is currently addressing these matters with Government.

We were pleased to hear in the Chief Executive's 2019 Policy Address about the Government's intention to commence detailed planning and design for three new railway projects under the Railway Development Strategy 2014, namely the Tung Chung Line Extension, Tuen Mun South Extension and Northern Link (and Kwu Tung Station). We look forward to working with the Government on progressing these projects, which are important to the Hong Kong public.

During the year, we continued our efforts to enhance the customer experience on our existing lines by upgrading station facilities, services and the train environment. These upgrades included the addition of new ventilation units, babycare rooms, public toilets, water dispensers, more wide gates and seats, mobile charging spots, and accessibility features for customers in need. In addition, we have continued with our digitalisation efforts through adopting new digital technology and smart mobility initiatives, such as enhancing our MTR Mobile app with more personalised services, to help customers better plan their trips.

We also made good progress outside Hong Kong, with the commencement of passenger service on the Sydney Metro North West Line, the initial section of Hangzhou Metro Line 5 and Macao Light Rapid Transit Taipa Line. In Beijing, our associate was awarded the Beijing Metro Line 17 Operations and Maintenance concession, while in Australia the Northwest Rapid Transit Consortium, of which we are a leading member, concluded the Public Private Partnership contract with Sydney Metro covering the project works and railway operations of the City and Southwest Line.

FINANCIAL PERFORMANCE

Apart from the provisions made in the first half of the year related to the Shatin to Central Link project and the South Western Railway franchise in the UK, our profitability was also affected by the public order events in the second half of the year, which reduced ridership and impacted our earnings in our station commercial and property rental businesses.

Profit attributable to equity shareholders from recurrent businesses declined by 44.8% to HK$4,980 million. Together with profit for the year from property development businesses, which increased by 148.8% to HK$5,580 million, profit attributable to shareholders from underlying businesses was 6.2% lower at HK$10,560 million. Including the gain arising from investment property revaluation, which was lower than that in 2018, net profit attributable to shareholders of the Company fell by 25.5% to HK$11,932 million. Earnings per share after revaluation was HK$1.94. Your Board has proposed a final ordinary dividend of HK$0.98 per share, which together with the interim dividend of HK$0.25 per share, would bring the full year dividend to HK$1.23 per share, an increase of 2.5% over last year.

FUTURE DIRECTIONS FOR MTR

MTR has been growing with Hong Kong in the past 40 years and will continue to do so in the years to come. Over the years, MTR has become an integral part of the Hong Kong fabric, carrying over 5.5 million passengers per weekday and providing almost 50% of franchised public transport services in Hong Kong. MTR has played a critical role in the success of our city and is a major reason why Hong Kong is such a vibrant place to live and work.

Outside Hong Kong, MTR has become one of the leaders among the world's major metro operators, and we are recognised for our reliability, service quality, well-maintained metro systems and sustainability performance. MTR is truly an international brand that we, the people of Hong Kong, can take great pride in. While Hong Kong will always be our core market, we must also look at opportunities outside Hong Kong, as both the Mainland of China and international markets are becoming increasingly important for driving the growth of MTR. One example is the Mainland of China's Belt and Road initiative and the support we can offer through the MTR Academy, which was established to share our railway expertise across the region.

Our Environmental, Social and Governance ("ESG") performance is certainly an important element of our strategy, not only in Hong Kong but also worldwide. As one of the major corporations in Hong Kong, we can play a leading role in ESG by operating our business with environmental protection as a top priority. As more and more of us recognise the threat posed by climate change, we must step up our efforts to protect the environment and our natural resources, while further reducing our electricity consumption and carbon emissions through the use of new technology.

At the same time, we will continue to support our staff in preparing for the future through continuous training and development initiatives including corporate programmes, workshops, seminars and benchmarking visits. Externally, we will maintain our commitment to connect communities by offering more community engagement initiatives, such as our STEM Challenge and 'Train' for Life's Journeys programmes that benefit our young people, as well as our More Time Reaching Community volunteering scheme and donations to charity organisations.

Just as important is the need to ensure and maintain high standards of corporate governance. The Board firmly believe that good corporate governance forms the cornerstone for ensuring the best interests of our stakeholders and is conscious about the need for continuous improvement in corporate governance through applying best practices in response to the growing expectations of our stakeholders and identified opportunities.

OUTLOOK

In the year ahead, I and the Board, along with the senior management of MTR, will work together to strengthen our corporate reputation and make progress on our growth journey, despite the prevailing social, political, economic and health challenges in Hong Kong, the Mainland of China and overseas. In particular, the recent outbreak of COVID-19 has been impacting many aspects of our operations, and we have implemented a number of cost control measures to mitigate its negative financial impact. Considering the tremendous challenges faced by various sectors amidst the COVID-19 epidemic, the Company is launching special relief measures to ride out the tough times together with the public. These measures include no actual adjustment to MTR fares for the remainder of 2020 and half of the rent for February and March 2020 waived for small to medium sized tenants at all MTR stations and 13 shopping malls.

At the same time, I have great confidence that the people of MTR will continue to maintain their professionalism and MTR's success as a world-class railway company. Their contributions have made the Company what it is today, and I am extremely proud of the way they handled themselves throughout this challenging period. I would like to extend my sincere thanks to all of them for their dedicated service to MTR and the people of Hong Kong and the world-wide communities that we serve.

In closing, we have a very efficient Board and I would like to take this opportunity to thank Professor Frederick Ma for his many contributions to the Board during his tenure as a member and Chairman, and also thank Mr Vincent Cheng Hoi-chuen, Mr Lau Ping-cheung, Kaizer and Mr Abraham Shek Lai-him, who retired from the Board on 22 May 2019 for their invaluable service to the Company during their tenure with us. Additionally, I would like to welcome Mr Walter Chan Kar-lok, Mr Cheng Yan-kee and Mr Jimmy Ng Wing-ka, who have been appointed as Independent Non-executive Directors of the Board effective from 22 May 2019. I would also like to welcome Dr Jacob Kam, who was appointed as the Company's CEO on 1 April 2019, and thank Mr Lincoln Leong, who retired from the Company after 31 March 2019, for his contributions during his time at MTR.

I look forward to working with the Board and everyone at MTR to set us on a new path towards an even brighter future.

Rex Auyeung

Rex Auyeung Pak-kuen
Chairman
Hong Kong, 5 March 2020

CEO'S REVIEW OF OPERATIONS AND OUTLOOK

Dear Shareholders and other Stakeholders,

The year 2019 was a special one for the Company, as it marked the 40^{th} year of MTR service to the people of Hong Kong. However, it was also the most challenging year in our history, particularly for our Hong Kong railway operations and projects. Despite the unprecedented social challenges and difficult macro-economic environment, we maintained our commitment to excellence and continued to keep Hong Kong moving.

When I began my duties as CEO, I set three main priorities: to restore public confidence in MTR, to maintain a safe, reliable and value-for-money service for our customers, and to continue ensuring our complex businesses are managed efficiently and effectively.

To maintain our core as well as to embrace the future challenges ahead, we are undergoing a corporate strategy review on different strategic areas to get ourselves better prepared for the future challenges and opportunities. We will sharpen certain areas of strategic focus while continuously enhancing our MTR's core businesses in Hong Kong – our bedrock of long-term success. With our good track record on railway operations performance, we will continue to expand our Mainland of China and international businesses and explore new business engines by leveraging on innovation and technological levers which will add fuel to our growth, and all the while paying attention to sustainability, Environmental, Social and Governance ("ESG") as well as inclusion and diversity to strengthen our commitment and enhance the values we bring to the communities that we serve.

During the latter half of 2019, our businesses were adversely affected by the public order events that erupted across Hong Kong. Nevertheless, we at MTR persevered during this period and provided passenger services whenever possible, despite the damages and disruption inflicted on our network. I am deeply moved by the efforts and professionalism of our colleagues, who worked tirelessly to keep Hong Kong moving, often in perilous circumstances.

The recent outbreak of COVID-19 has been impacting Hong Kong and many aspects of our operations. To ensure the health and safety of our customers and staff, extensive measures have been implemented including the intensified cleaning of our stations, trains, managed properties and shopping malls, provision of protective equipment to our frontline staff and special work arrangements for office staff. Additionally, all our cross-boundary services, including the Cross-boundary Service to Lo Wu and Lok Ma Chau, High Speed Rail ("HSR") and Intercity service, were suspended temporarily as requested by Government.

Although this health crisis was still ongoing as we are writing this, all of the senior management of MTR would like to extend their heartfelt appreciation to our staff, whose professionalism and dedication during this difficult time are greatly appreciated.

Other issues of great concern to us during the year were the train derailment near Hung Hom Station in September and the collision of two non-passenger trains near Central Station during a non-service hours test of a new signalling system in March. Investigation panels comprising experts from Hong Kong and overseas were set up to determine the causes of these incidents. We consider these incidents to be extremely serious and have taken actions to prevent the occurrence of those of a similar nature.

In our property development business, we awarded two new projects during the year, namely LOHAS Park Package 11 and Wong Chuk Hang Station Package 4. In February 2020, LOHAS Park Package 12 was also awarded.

With regard to our new railway projects, we continued to make good progress on the Shatin to Central Link. In this connection, the Tuen Ma Line Phase 1 opened successfully on 14 February 2020.

We also welcomed the intention of the Government, as announced in the Chief Executive's 2019 Policy Address, to commence detailed planning and design for three new lines: the Tung Chung Line Extension, Tuen Mun South Extension and Northern Link (and Kwu Tung Station). We look forward to working together with Government on bringing all three of these new railway projects to fruition.

Highlights of our Mainland of China and International Businesses during the year included the commencement of service on the Sydney Metro North West Line, the initial section of Hangzhou Metro Line 5, as well as the Macao Light Rapid Transit ("LRT") Taipa Line. TfL Rail in London, the future Elizabeth line, also commenced service between Paddington and Reading.

In the Mainland of China, our associate was awarded the Beijing Metro Line 17 ("BJL17") Operations and Maintenance ("O&M") concession. In Australia, the existing Northwest Rapid Transit ("NRT") consortium, of which we are a member, concluded the Public Private Partnership ("PPP") contract with Sydney Metro, covering the project works and railway operations of the City and Southwest Line. The future City and Southwest Line will operate as a single line with the current North West Line upon its target opening in 2024.

Looking at the numbers, profit attributable to equity shareholders from recurrent businesses decreased by 44.8% to HK$4,980 million. Property development profit for the year increased by 148.8% to HK$5,580 million. As a result, profit attributable to shareholders from underlying businesses was 6.2% lower at HK$10,560 million. Return on average equity attributable to shareholders arising from underlying businesses was 5.8% in 2019, compared with 6.5% in 2018. Including the gain arising from investment property revaluation, net profit attributable to shareholders of the Company decreased by 25.5% to HK$11,932 million, representing earnings per share after revaluation of HK$1.94.

Excluding the HK$2 billion provision relating to the Shatin to Central Link project, a HK$436 million provision relating to the South Western Railway franchise and the adverse impact of HK$2.3 billion brought about by the public order events in Hong Kong, recurrent business profit, underlying business profit and net profit attributable to shareholders of the Company would have increased by 7.7% to HK$9,712 million, 35.8% to HK$15,292 million and 4.1% to HK$16,664 million respectively in 2019. Return on average equity attributable to shareholders arising from underlying businesses would have been 8.2% in 2019.

Your Board has proposed a final ordinary dividend of HK$0.98 per share, which together with the interim dividend of HK$0.25 per share, brings the full year dividend to HK$1.23 per share, representing an increase of 2.5% over last year.

HONG KONG BUSINESSES

MTR's businesses in Hong Kong are based on our proven "Rail plus Property" business model, under which we are engaged in the provision of services on our rail network as well as station commercial activities, property rental and property developments over and adjacent to stations and depots. The "Rail plus Property" business model not only bridges the funding gap when building new rail lines but also promotes transport-oriented city development and integrated communities along the railway lines.

Effect of the Public Order Events on our Hong Kong Businesses

As mentioned previously, our businesses in Hong Kong, including our transport operations, station commercial and property rental businesses, were adversely affected by the public order events in Hong Kong. For Hong Kong transport operations, our weekday patronage fell to 5.61 million, a drop of 4.5% from 2018. Total patronage recorded 2.5% growth in the first half of 2019, but a 14.8% decrease in the second half. Expenditures for hiring additional staff during this period and carrying out extensive repairs and replacements also had an adverse effect on our financial and operational results. Similarly, the performance of our station commercial and property rental businesses was affected as a result of early closures during the public order events and the concessions granted to some tenants in our stations and shopping malls.

As a result of the vandalism, many of our railway stations, Light Rail stops and other railway facilities were damaged, and many of our stations were closed early or had their service hours curtailed. Indeed, on 5 October we were forced to take the unprecedented move of shutting down the services of the entire network for the first time in our 40 years of service. The primary reason for these station closures was for the safety of our passengers and staff.

In the process of rebuilding MTR, we are reviewing our approach to station design to include from a security perspective, such as replacing broken glass panels with metal ones as an interim solution, and exploring enhancement measures in our future railway station design.

Transport Operations

HK$ million	Year ended 31 December 2019	2018	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**19,938**	19,490	2.3
EBITDA	**5,909**	8,171	(27.7)
EBIT	**(591)**	1,985	n/m
EBITDA Margin (in %)	**29.6%**	41.9%	(12.3)% pts.
EBIT Margin (in %)	**(3.0)%**	10.2%	(13.2)% pts.

The revenue of our Hong Kong transport operations increased by 2.3% to HK$19,938 million in 2019, mainly due to the full year impact of the opening of HSR in September 2018, which more than offset the adverse impact brought about by the public order events. Loss before interest, finance charges and taxation and after the variable annual payment was HK$591 million, mainly due to a reduction in total patronage and additional operating, repair and maintenance costs incurred as a result of the impact of the public order events in Hong Kong.

Patronage and Revenue

	Patronage in million		Revenue HK$ million	
	2019	Inc./(Dec.) %	**2019**	Inc./(Dec.) %
Hong Kong Transport Operations				
Domestic Service	**1,568.2**	(6.1)	**12,714**	(3.9)
Cross-boundary Service	**104.2**	(11.3)	**3,164**	(8.9)
HSR	**16.9**	219.2	**2,098**	249.7
Airport Express	**15.8**	(11.0)	**1,011**	(12.5)
Light Rail and Bus	**207.3**	(10.0)	**677**	(6.4)
Intercity	**1.9**	(48.2)	**175**	(18.2)
	1,914.3	(6.4)	**19,839**	2.3
Others			**99**	6.5
Total			**19,938**	2.3

The public order events in Hong Kong during the latter half of 2019, together with a weakening economy and a decrease in tourism arrivals, resulted in a 6.1% decline in total patronage of our Domestic Service to 1,568.2 million from 1,670.0 million the year before. On our Cross-boundary Service to Lo Wu and Lok Ma Chau, patronage fell by 11.3% to 104.2 million mainly owing to the substantial decrease in Mainland visitors. Similarly, patronage of the Airport Express recorded a 11.0% drop in customers, due to the decline in tourist arrivals during the year.

Accordingly, total patronage of all our rail and bus passenger services in 2019 declined by 6.4% from that in 2018 to 1,914.3 million, while average weekday patronage dropped by 4.5% to 5.61 million from 5.88 million the year before.

Market Share

The Company's overall market share of the franchised public transport market in Hong Kong in 2019 was 47.4%, compared with 49.0% in 2018. This decline was mainly due to the decrease in patronage for all rail services as a result of the public order events. Of this, the share of cross-harbour traffic was 67.5%, compared with 69.1% in 2018. Our share of the cross-boundary business for 2019, including HSR and Cross-boundary Service, fell from 52.1% to 51.3%. Our market share to and from the airport went down from 22.0% to 20.5%.

Fare Adjustment, Promotions and Concessions

The overall adjustment rate of MTR fares for 2019/2020, in accordance with the Fare Adjustment Mechanism ("FAM"), was +3.3%. To commemorate our 40th anniversary of service, we offered a 3.3% rebate for every Octopus trip effective from 30 June 2019 until 4 April 2020, and we extended the offer until the end of June 2020 in view of the recent outbreak of COVID-19. Under the scheme, all Octopus users can enjoy a 3.3% fare discount on every paid journey they take on the MTR, Light Rail and MTR Bus, which translates into no actual MTR fare increase for every passenger travelling with Octopus. The existing prices of the MTR City Saver, Monthly Pass Extras and Tuen Mun – Nam Cheong Day Pass will remain unchanged till end of June 2020 as applicable to benefit frequent users of our services.

The overall fare savings to customers under the new promotion package will be over HK$900 million in 2019/2020 as compared with over HK$500 million in the previous period. Together with over HK$2.6 billion in on-going fare concessions and interchange discounts, the Company will be providing customers with over HK$3.5 billion in fare concessions in 2019/2020.

In view of the outbreak of COVID-19, the Company has also decided to ensure, through fare rebates or other arrangements, that there will be no actual adjustment to MTR fares for the remainder of 2020 despite the fare adjustment rate for 2020/2021 under the FAM that will only be derived after the Census and Statistics Department announces the year-on-year percentage change in the Nominal Wage Index (Transportation Section) for December 2019 and other relevant figures later in the first quarter of 2020. Detailed arrangements will be announced by the end of March 2020 when the statistics are published. After this plan is implemented, Octopus fares would have stayed the same from January 2019 to the end of 2020.

Service Performance

Train service delivery and passenger journeys on-time in our heavy rail network remained at 99.9%, excluding the effects of the public and external events. This exceeded both the targets in our Operating Agreement and our own more demanding Customer Service Pledges. Train service delivery is a measure of the actual train trips run against the train trips scheduled to be run by the Company, and passenger journeys on-time is a measure of all passenger journeys that are completed within five minutes of their scheduled journey times.

In 2019, more than 2.07 million train trips were made on our heavy rail network and more than 0.96 million trips on our light rail network. There were 10 delays on the heavy rail network and no delays on the light rail network lasting 31 minutes or more caused by factors within our control, a decrease of 16.7% from the year before.

One of the incidents impacting our service performance was the train derailment that occurred on East Rail Line near Hung Hom Station on 17 September. Immediately after the incident, we suspended train service on the East Rail Line between Hung Hom and Mong Kok East stations and worked through the night to restore service the next day. We set up an investigation panel comprising MTR personnel as well as experts from Hong Kong and overseas, and the results of its investigation were made public on 3 March 2020. It was concluded that the incident was caused by dynamic track gauge widening at a turnout near Hung Hom Station. The Company has accepted the recommendations made by the panel and is taking actions to prevent the occurrence of those of a similar nature.

Prior to this incident, two non-passenger trains collided on the Tsuen Wan Line in March near Central Station during a test of a new signalling system after service hours. An investigation panel comprising senior MTR personnel as well as local and overseas experts from outside the Company was subsequently set up, and its findings were made public in July 2019. The detailed investigation concluded that the incident was caused by software implementation errors made by the contractor of the new signalling system, and a number of improvement measures have been recommended for the contractor. We have been overseeing the contractor in implementing the improvement measures and will exercise extra vigilance and strengthen monitoring of the contractor's deliveries.

Enhancing the Customer Experience

More Frequent Services

To help make our customers' journeys more convenient, we implemented new rounds of MTR train service enhancements in April and July 2019. These included an extra 101 train trips per week on the Island Line, Tsuen Wan Line, Kwun Tong Line and East Rail Line.

In order to increase the frequency of our services to deal with peak hour demand, we are in the process of upgrading our signalling system. The replacement of the signalling systems for the Tsuen Wan, Island, Kwun Tong, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express, were all underway during the year. After the train collision incident during a non-service hours test for the new signalling system in March 2019, all train tests relating to the new signalling systems were immediately suspended. As safety is always our top priority, we will only resume train testing after obtaining the consent of Government.

MTR will continue to address the challenge of peak hour demand, although this is a situation that will only be partly alleviated on the existing cross-harbour section of Tsuen Wan Line after the completion of the new cross-harbour rail line of the Shatin to Central Link.

Greater Comfort for Passengers

To provide a more comfortable travel experience for our passengers, we have ordered new trains and light rail vehicles. Seven of the 93 new trains and two of 40 new light rail vehicles acquired were received in Hong Kong and under testing and commissioning during the year. Our target is to start deploying the new light rail vehicles for passenger service from 2020 onwards.

To provide a more comfortable station environment for passengers, we have been replacing about half of the air conditioning systems in our network. Two out of five chiller replacement phases were completed up to 2019, with 61 chillers replaced. Target completion for all other phases will be in 2022.

Enhancing Station Facilities

We have also been upgrading our station facilities as part of our effort to enhance the customer experience. These include the addition of babycare rooms, public toilets, water dispensers, more wide gates, seats and mobile charging spots.

To meet the special needs of an aging population, we embarked on new initiatives at designated stations, focusing on accessibility and mobility, as well as the provision of toilets and information. Enhancements include the addition of middle handrails and additional seats in longer adits, large signage, magnifiers and alphabet cards at Customer Service Centres to help customers in need to identify their exits.

Enhancing Passenger Journeys through Technology

We have been making progress adopting new digital technology to enhance the customer experience on board our trains and in our stations. This is part of our ongoing effort to improve safety, connectivity and convenience for passengers, which is in line with our "smart city, smart mobility" vision for MTR.

Across our various mobile applications, we have been making use of Artificial Intelligence (AI) and Internet of Things (IoT) technologies to offer a wide range of personalised services, such as a new Alighting Reminder, Estimated Waiting Time Indicator at Admiralty Station and MTR Bus Real-Time Schedules. We have also upgraded our Trip Planner to provide point-to-point transport advice, such as connecting public transport information, and revamped the user interface of the Airport Express function on the MTR Mobile app. The MTR Mobile app had about 1.4 million active users per month in 2019.

Internally, we have been applying technology to improve internal processes and maintenance. These include chatbots and Robotic Process Automation (RPA) tools that help to reduce repetitive office tasks. Additionally, we have been using big data and AI to optimise planning and engineering works scheduling, as well as video and image analytics to monitor the health of our railway assets. We have also introduced Augmented Reality and Virtual Reality in our training curriculum to simulate actual working conditions with a totally immersive 3D environment.

Another example of how we are exploring digital technology to enhance the customer experience is Mobility-as-a-Service ("MaaS"). Now being developed or in use in Europe, this platform helps users to plan multiple trips on a variety of transport modes with just one payment. We will continue to explore opportunities with other mobility operators with the aim of developing a MaaS solution for our customers.

Station Commercial Businesses

HK$ million	Year ended 31 December 2019	2018	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station retail rental revenue	**4,800**	4,424	8.5
Advertising revenue	**1,130**	1,212	(6.8)
Telecommunication income	**743**	696	6.8
Other station commercial income	**126**	126	–
Total Revenue	**6,799**	6,458	5.3
EBITDA	**6,119**	5,891	3.9
EBIT	**5,122**	5,025	1.9
EBITDA Margin (in %)	**90.0%**	91.2%	(1.2)% pts.
EBIT Margin (in %)	**75.3%**	77.8%	(2.5)% pts.

Total revenue from our Hong Kong station commercial businesses in 2019 increased 5.3% to HK$6,799 million as compared with HK$6,458 million the year before, mainly attributable to the incremental contribution from HSR in station retail rental revenue.

Station retail rental revenue rose by 8.5% to HK$4,800 million, mainly due to the full-year effect of new Duty Free Shops at Hong Kong West Kowloon Station, the rate increases derived from refinements to the trade mix and renewals by tenants (the majority of which were concluded before mid-2019). During the year, we continued with our station renovation projects and re-layout of shops to create additional retail space in our stations. We also launched a new retail business model of unmanned shop incorporating innovative use of technology. Rental reversion and the average occupancy rate in 2019 in our station kiosks were 3.7% and over 99% respectively.

Advertising revenue decreased by 6.8% to HK$1,130 million in 2019 as both the tourism and retail markets contracted in the second half of the year. To offset the slump in advertising sales, we launched a series of aggressive and flexible sales packages as well as sales incentive programmes.

Revenue from telecommunications in 2019 rose by 6.8% to HK$743 million as a result of the incremental revenue from new service contracts and capacity enhancement projects. During the year, we worked with telecom operators to explore the provision of advanced 5G wireless technology in our stations that will enhance mobile communications on our railway network.

Property Businesses

Property Rental and Management

	Year ended 31 December		
HK$ million	**2019**	2018	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**4,833**	4,748	1.8
Revenue from Property Management	**304**	307	(1.0)
Total Revenue	**5,137**	5,055	1.6
EBITDA	**4,286**	4,242	1.0
EBIT	**4,264**	4,225	0.9
EBITDA Margin (in %)	**83.4%**	83.9%	(0.5)% pt.
EBIT Margin (in %)	**83.0%**	83.6%	(0.6)% pt.

Property rental revenue increased by 1.8% to HK$4,833 million in 2019, mainly due to rental growth in our shopping malls, partly offset by the rent concession granted to some tenants whose businesses had been adversely affected by the public order events. Rental reversion in 2019 in our shopping mall portfolio in Hong Kong recorded a 3.1% growth (or 7% including a special rental case). As at 31 December 2019, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre were close to 100% let.

In the latter half of 2019, we closely monitored the public order events and implemented a number of security measures in our malls. In recognition of the long-term relationships we have developed with our tenants, and to offer them support during difficult times, we granted rental concessions on a case-by-case basis, with priority given to small to medium sized tenants. In the year ahead, we will continue to build on our marketing and promotional efforts to maintain the competitiveness of our shopping malls.

Our property management revenue in Hong Kong decreased slightly by 1.0% to HK$304 million in 2019. As at 31 December 2019, MTR managed more than 104,000 residential units and more than 772,000 square metres of office and commercial space in Hong Kong.

Property Development

Hong Kong property development profit in 2019 was HK$5,531 million, which was mainly derived from the share of surplus proceeds from MALIBU and sharing in kind from The LOHAS, as well as sales of inventory units.

In 2019, we made good progress in our pre-sales activities for the property development projects we had launched in the market, particularly in the first half of the year. MONTARA and GRAND MONTARA (LOHAS Park Package 7) were fully sold, while pre-sales of the remaining units in Wings at Sea and Wings at Sea II (LOHAS Park Package 4), MALIBU (LOHAS Park Package 5) and LP6 (LOHAS Park Package 6) continued, with about 97% of the units sold. Pre-sales of MARINI and GRAND MARINI (LOHAS Park Package 9) were launched in the third quarter of 2019, with about 83% and about 49% of the units sold respectively.

For the West Rail property development projects where we act as agent for the relevant subsidiaries of Kowloon-Canton Railway Corporation ("KCRC"), pre-sales of Cullinan West III (Nam Cheong Station) were launched in September 2019, and pre-sales continued for Sol City (Long Ping Station (South)).

In our property tendering activities, LOHAS Park Package 11 was awarded to the consortium formed by Sino Land Company Limited, K. Wah International Holdings Limited and China Merchants Land Limited in April 2019. Wong Chuk Hang Station Package 4 was awarded to the consortium formed by Kerry Properties Limited, Swire Properties Limited and Sino Land Company Limited in October 2019. LOHAS Park Package 12 was awarded to a subsidiary of Wheelock and Company Limited in February 2020.

GROWING OUR HONG KONG BUSINESSES

Shatin to Central Link

By the end of 2019, we had completed 99.8% of the Tai Wai to Hung Hom Section and 82.3% of the Hung Hom to Admiralty Section of the Shatin to Central Link project. When the entire 17-km Shatin to Central Link is completed, connectivity will be greatly improved and travel time to and from the New Territories, Kowloon and Hong Kong Island notably reduced.

On 11 February 2020, the Company entered into relevant agreements with Government and KCRC to supplement the current agreements to enable the Company to operate the Tuen Ma Line Phase 1 in substantially the same manner as the existing railway network for a period of two years from 14 February 2020. The first phase, which opened on 14 February 2020, enables passengers on the Ma On Shan Line to travel directly to Kai Tak Station in East Kowloon via Hin Keng and Diamond Hill stations. Meanwhile, the expanded Diamond Hill Station has become a new interchange between the Tuen Ma Line and Kwun Tong Line, allowing passengers from the New Territories North and East districts to travel onward to East Kowloon and Hong Kong Island East more conveniently. The full line opening of the Tuen Ma Line is anticipated to be in 2021. As for the Hung Hom to Admiralty Section (East Rail Line extending to Admiralty Station), the targeted completion in the first quarter of 2022 is still facing challenges and there are continuing efforts being made with the aim of meeting the programme.

As the existing East Rail Line will connect with the future Hung Hom to Admiralty section, its signalling system must be upgraded for compatibility with the Shatin to Central Link project. Damage to facilities on the East Rail Line as a result of the recent public order events has caused delays to the originally scheduled testing of the new signalling system during non-service hours.

With regard to the project quality issues at the Hung Hom Station extension, the Government published a redacted Interim Report of the Commission of Inquiry ("COI") on 26 March 2019. The Final Report of the COI is expected to be submitted to Government by 31 March 2020.

In July 2019, the Company submitted to Government two separate final reports in respect of construction incidents relating to the Hung Hom Station extension, the Hung Hom North Approach Tunnel and South Approach Tunnel and the Hung Hom Stabling Sidings.

The Company carried out a further review and revalidation of the Shatin to Central Link Cost to Complete which was submitted to Government for review on 11 February 2020. The Company's submission included an additional amount of project management cost for the Company. Government responded with requests for further information and clarification and has objected to the inclusion of any additional amount of project management cost. As stated in the Company's announcement on 28 February 2020, the Company notes that Government has issued its paper for the first stage of the Legislative Council process for the approval of additional funding for the Shatin to Central Link project and that Government's paper does not include any provision by Government for any additional amount of project management cost for the Company. The Company is currently addressing these matters with Government. Once these issues are resolved the Company will issue an announcement regarding this matter. The Company continues to exercise rigorous cost control with the objective of ensuring that construction costs are contained as far as possible.

Other New Railway Projects

In addition to the three new projects noted in the Chief Executive's 2019 Policy Address, we continued to work closely with Government on a number of other new projects. These included the East Kowloon Line and North Island Line, for which we provided the technical and financial information as requested.

For the remaining two projects to be implemented under the Railway Development Strategy 2014 ("RDS 2014"), namely Hung Shui Kiu Station and South Island Line (West), we were invited in 2019 to submit project proposals and are currently undertaking technical studies in preparation for submission of the proposals in 2020.

We also look forward to participating in other strategic studies on railways in 2020.

Expanding the Property Portfolio

Investment Properties

During the year, we geared up for the opening of our new mall at LOHAS Park in the second half of 2020, which has been officially named The LOHAS, with pre-leasing activities currently underway.

We also made good progress on two other shopping malls during the year, with the completion of foundation works for the shopping mall at Tai Wai Station and the commencement of foundation works for the shopping mall at Wong Chuk Hang Station. Both projects are on course for their target completion dates in 2023.

When all three of these new malls open for business, they will add around 49% to the total attributable GFA in our existing retail portfolio as of 31 December 2019.

The Company announced on 26 February 2020 that the Company had signed agreements with New World Development Company Limited and Chow Tai Fook Enterprises Limited to acquire their interests in Telford Plaza II shopping centre in Kowloon Bay and PopCorn 2 shopping centre in Tseung Kwan O for a total consideration of HK$3 billion. Upon completion of the transactions on or before 31 March 2020, the Company will hold the entire economic interest of these two shopping centres, which will help to provide a sustainable funding solution to the Company's railway business.

Residential Property Development

Over the next six years or so, we will deliver about 22,000 residential units from 16 property projects to the market in Hong Kong. These include the recently awarded LOHAS Park Package 11, Package 12 and Wong Chuk Hang Station Package 4, offering around 4,650 residential units and around 237,448 square metres GFA in total.

The successful tendering of LOHAS Park Package 11 and 12 means that the vast majority of the packages at LOHAS Park have now been awarded and are in various stages of development.

For the Siu Ho Wan Depot site, which will be developed into a community comprising both public and private housing totalling around 14,000 units, community facilities and a 30,000 square metre shopping mall, we are currently in negotiation with Government and are exploring how we can best advance this project. There is still no assurance at this early stage whether or not it will be commercially viable.

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

	Mainland of China and International Businesses								
	Mainland of China and Macao Railway, Property Rental and Property Management Businesses			International Railway Businesses			Total		
Year ended 31 December HK$ million	**2019**	2018	Inc./(Dec.) %	**2019**	2018	Inc./(Dec.) %	**2019**	2018	Inc./(Dec.) %
Recurrent Businesses									
Subsidiaries									
Revenue	**1,881**	1,458	29.0	**19,204**	19,419	(1.1)	**21,085**	20,877	1.0
EBITDA	**529**	388	36.3	**796**	488	63.1	**1,325**	876	51.3
EBIT	**517**	376	37.5	**572**	346	65.3	**1,089**	722	50.8
EBIT (Net of Non-controlling Interests)	**517**	376	37.5	**412**	198	108.1	**929**	574	61.8
EBITDA Margin (in %)	**28.1%**	26.6%	1.5% pts	**4.1%**	2.5%	1.6% pts	**6.3%**	4.2%	2.1% pts
EBIT Margin (in %)	**27.5%**	25.8%	1.7% pts	**3.0%**	1.8%	1.2% pts	**5.2%**	3.5%	1.7% pts
Recurrent Business Profit	**472**	**338**	**39.6**	**200**	**48**	**316.7**	**672**	**386**	**74.1**
Associates and Joint Venture									
Share of EBIT	**1,005**	989	1.6	**(403)**	(26)	(1,450.0)	**602**	963	(37.5)
Share of Profit/(Loss)	**457**	**470**	**(2.8)**	**(403)**	**(33)**	**(1,121.2)**	**54**	**437**	**(87.6)**
EBIT of Subsidiaries (Net of Non-controlling Interests) and Share of EBIT of Associates and Joint Venture	**1,522**	1,365	11.5	**9**	172	(94.8)	**1,531**	1,537	(0.4)
Profit attributable to Shareholders of the Company									
– Arising from Recurrent Businesses (before Business Development Expenses)							**726**	**823**	**(11.8)**
– Business Development Expenses							**(201)**	(263)	(23.6)
– Arising from Recurrent Businesses (after Business Development Expenses)							**525**	**560**	**(6.3)**
– Arising from Mainland of China Property Development							**49**	90	(45.6)
– Total							**574**	**650**	**(11.7)**
Number of passengers carried by our railway subsidiaries, associates and joint venture outside of Hong Kong (in millions)							**2,276**	2,186	4.1

Outside Hong Kong, we have used our expertise and experience to build a growing portfolio of railway-related businesses in the Mainland of China, Macao, Europe and Australia. Our railway businesses outside Hong Kong carried an average of about 7.2 million passengers per weekday in 2019.

In the Mainland of China and Macao, recurrent business profit from our railway, property rental and property management subsidiaries increased by 39.6% to HK$472 million, mainly due to incremental contributions from Macao LRT Taipa Line O&M and project management services.

In our International businesses, recurrent business profit from our railway subsidiaries increased by 316.7% to HK$200 million, mainly due to the recognition of profit from Sydney Metro City & Southwest's Early Works Deed and the reduced loss of MTR Pendeltågen AB.

Our share of profit from our associates and joint venture decreased by 87.6% to HK$54 million, mainly due to the onerous contract provision made for First MTR South Western Trains Limited.

Excluding Mainland of China property development, our railway, property rental and management subsidiaries (after business development expenses), together with our associates and joint venture outside of Hong Kong, contributed net after-tax profits of HK$525 million in 2019 on an attributable basis, a decrease of 6.3% compared with 2018, and represented 10.5% of total 2019 recurrent profits.

Railway Businesses in the Mainland of China

Beijing

In Beijing, our associate operates Beijing Metro Line 4 ("BJL4"), Daxing Line, the first three phases of Beijing Metro Line 14 ("BJL14") and the Northern Section of Beijing Metro Line 16 ("BJL16"). Average on-time performance of these four lines in 2019 was 99.9%.

The combined ridership of BJL4 and the Daxing Line was about 455 million passenger trips in 2019, while average weekday patronage was more than 1.35 million, similar to 2018.

The first three phases of BJL14 recorded a combined passenger trips of about 251 million and average weekday patronage of over 788,000 in 2019, an increase of 6% over 2018.

Construction works for the remaining sections of BJL16 and BJL14 continued to make progress during the year. Both lines are targeted for full line operation after 2021.

Shenzhen

Shenzhen Metro Line 4 ("SZL4") recorded 3% patronage growth to 239 million, with average weekday patronage of 666,000 and on-time performance of 99.9%.

Although patronage on SZL4 continued to grow during the year, there has been no increase in fares since we began operating the line in 2010. Currently, the Shenzhen Municipal Government is in the planning process to implement a fare adjustment mechanism. If a suitable fare adjustment mechanism is not put in place in the near future, the long-term financial viability of this line will be impacted.

For SZL4 North Extension, discussions with the Shenzhen Municipal Government continued with regard to the operational and maintenance arrangements in preparation for its opening at the end of 2020.

Hangzhou

Patronage of Hangzhou Metro Line 1 ("HZL1") recorded a 9.6% growth in patronage to 296 million, with average weekday patronage of 822,000, and on-time train performance remaining at 99.9%.

The initial section of Hangzhou Metro Line 5 ("HZL5") commenced service in June 2019, with positive response received from our passengers. Total patronage since its opening was 16 million, with an average weekday patronage of 92,000. The latter section is targeted to start service in the first half of 2020.

Property Business in the Mainland of China

The Tiara residential development at Shenzhen Metro Longhua Line Depot Site Lot 1 has a total developable GFA of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA). More than 98% of the residential units have been sold and handed over to buyers. TIA Mall held its official opening in August 2019, and the average occupancy rate was 74% during the period.

In Tianjin, a Sale and Purchase Agreement was signed in 2018 for the acquisition of a shopping centre to be developed on the Beiyunhe Station site. Based on the construction progress, project completion is expected to be delayed from 2022 to 2024 due to the additional works required for railway safety assurance during basement construction.

In the Guangdong-Hong Kong-Macao Greater Bay Area, we are providing Transit Oriented Development technical assistance relating to a mixed-use property development adjacent to Chencun Station in the Shunde district of Foshan, Guangdong province.

The Company also manages self-developed and other third-party properties in the Mainland of China, with a total managed area of 390,000 square metres as at 31 December 2019. The average occupancy rate of our shopping mall in Beijing, Ginza Mall, was 98% in 2019.

Macao Railway Businesses

In Macao, we are responsible for the operation and maintenance of the Macao LRT Taipa Line, the first rapid transit system in the city. Since commencing operation on 10 December, it has received a favourable response from the public and passengers. Service on the 9.3-km, 11-station LRT Taipa Line connects the Taipa Ferry Terminal to Ocean Station.

European Railway Businesses

United Kingdom

In London, our subsidiary operates the Crossrail operating concession under the TfL Rail brand. In 2019, the overall performance of TfL Rail was satisfactory and remained one of the most reliable rail services in the UK. In addition to the existing TfL Rail service between Liverpool Street and Shenfield in the east of London, and between Paddington and Heathrow Airport in the west, TfL Rail commenced service in December 2019 on the 57-km route running between Paddington and Reading. As the operator of the line, to be renamed the Elizabeth Line upon full line opening, we continue to support Transport for London on its phased opening.

Through our associate First MTR South Western Trains Ltd, we also operate the South Western Railway franchise, one of the UK's largest rail networks. In 2019, the financial performance of this franchise continued to suffer owing to a number of reasons, and we have made an announcement on the provision of GBP43 million representing our share of the maximum potential loss under the Franchise Agreement.

First MTR South Western Trains Ltd is in discussions with the Department for Transport regarding potential commercial and contractual remedies in respect of the uncertainties affecting the performance of the franchise, including infrastructure reliability, timetabling delays and industrial action. Although these discussions are constructive, they remain ongoing. The outcome, and therefore the impact on the associate's ability to continue operating the franchise, is uncertain at this stage.

Sweden

In Sweden, MTR is the largest rail operator by passenger volume with three key rail businesses: Stockholm Metro, MTR Express and the Stockholm commuter rail service ("Stockholms pendeltåg").

During the year, Stockholm Metro continued to register stable operation and satisfactory performance.

MTR Express, which was ranked the second most innovative company in Sweden on the Swedish Innovation Index, continued to increase patronage in 2019 with narrowed losses. New marketing initiatives have been implemented to stimulate ridership.

The operational and financial performance of Stockholms pendeltåg significantly improved in 2019 following the difficulties in 2018. However, MTR Pendeltågen AB, our wholly owned subsidiary operating Stockholms pendeltåg, will likely remain in a loss-making position for a year or so despite narrowed losses in 2019. During the year, MTR Tech AB bought out the other 50% shareholding in Emtrain AB, which maintains the rolling stock of Stockholms pendeltåg, bringing rolling stock maintenance for the Stockholms pendeltåg fully under our management.

Australia Railway Businesses

In Melbourne, the operational performance of the Melbourne metropolitan rail network was affected due to a variety of reasons, including network improvement works initiated by the city government. We have since made rectification plans and put in place the resources needed to bring service back to previous performance levels. Indeed, our good record of performance over the term of the previous franchise was one of the reasons for the renewal of our concession to November 2024, with an option to further extend for a maximum of three years.

Sydney Metro North West Line, Australia's first driverless railway, commenced service in May 2019 and achieved a high customer satisfaction score in its initial period of operation. Equipped with state-of-the-art rail service features such as fully automated (driverless) trains and platform screen doors, it has been commended by the Premier of the New South Wales State Government and well received by the public.

Growth Beyond Hong Kong

Outside Hong Kong, we are committed to pursuing rail franchise and rail-related property development opportunities.

In the Mainland of China, we were awarded the 49.7-km BJL17 O&M concession in December 2019. This is a 20-year concession (no later than 31 December 2045) commencing from the first phase opening of the line, which is targeted for the end of 2021. We will lease the rolling stock over the 20-year period, with lease payments to be paid in two instalments after the opening of each phase. During the year, we continued our efforts to identify development opportunities in Beijing, Hangzhou and, in particular, the Guangdong-Hong Kong-Macao Greater Bay Area.

A Letter of Intent (LoI) was signed on 14 January 2020 in which the Company was invited by Chengdu Rail Transit Group to joint-venture with them on station retail businesses. Both parties are looking forward to concluding the deal in joint-venture agreement(s) subject to a business case assessment that justifies our participation in this new line of business in the Mainland of China.

In the UK, we submitted a bid for the West Coast Partnership franchise but were unsuccessful.

In Stockholm, we submitted a bid for the O&M of Roslagsbanan, the commuter network connecting Stockholm and the municipalities north of the city. The result of the bid is expected in the second quarter of 2020.

In Australia, the NRT consortium, of which we are a member, reached an agreement with the New South Wales Government in November 2019 to conclude the contract for the extension to the existing NRT PPP with Sydney Metro. The NRT PPP contract package includes new metro trains and core rail systems as well as the operations and maintenance component for NRT to operate the combined Metro North West and City and Southwest lines until 2034. MTR will invest in the project and take the lead in the NRT PPP project works and railway operations and maintenance of both the City and Southwest Line and the Metro North West Line as a combined single line from 2024.

FINANCIAL REVIEW

A review of the Group's result and operations is featured in the preceding sections. This section discusses and analyses such results in greater level of details.

Profit and Loss

	Year ended 31 December		Inc./(Dec.)	
HK$ million	**2019**	2018	HK$ million	%
Total Revenue	**54,504**	**53,930**	574	1.1
Recurrent Business Profit				
EBIT				
Hong Kong Transport Operations	**(591)**	1,985	(2,576)	n/m
Hong Kong Station Commercial Businesses	**5,122**	5,025	97	1.9
Hong Kong Property Rental and Management Businesses	**4,264**	4,225	39	0.9
Mainland of China and International Railway, Property Rental and Management Subsidiaries	**1,089**	722	367	50.8
Others#	**(2,353)**	(404)	(1,949)	(482.4)
Share of Profit or Loss of Associates and Joint Venture	**288**	658	(370)	(56.2)
Profit before Interest, Finance Charges and Taxation	**7,819**	12,211	(4,392)	(36.0)
Interest and Finance Charges	**(939)**	(1,208)	(269)	(22.3)
Income Tax	**(1,740)**	(1,835)	(95)	(5.2)
Non-controlling Interests	**(160)**	(148)	12	8.1
Recurrent Business Profit	**4,980**	**9,020**	**(4,040)**	**(44.8)**
Non-recurrent Business Profit				
Property Development Profit (Post-tax)				
Hong Kong	**5,531**	2,153	3,378	156.9
Mainland of China	**49**	90	(41)	(45.6)
Non-recurrent Business Profit	**5,580**	**2,243**	**3,337**	**148.8**
Underlying Business Profit	**10,560**	**11,263**	**(703)**	**(6.2)**
Investment Property Revaluation	**1,372**	4,745	(3,373)	(71.1)
Net Profit Attributable to Shareholders of the Company	**11,932**	**16,008**	**(4,076)**	**(25.5)**
Results on Normalised Basis^				
Recurrent Business Profit	**9,712**	**9,020**	**692**	**7.7**
Property Development Profit	**5,580**	**2,243**	**3,337**	**148.8**
Underlying Business Profit	**15,292**	**11,263**	**4,029**	**35.8**
Investment Property Revaluation	**1,372**	4,745	(3,373)	(71.1)
Net Profit Attributable to Shareholders of the Company	**16,664**	**16,008**	**656**	**4.1**

n/m: not meaningful

\# *Others represents "Other Businesses, and Project Study and Business Development Expenses".*

^ *Results on normalised basis are estimates based on certain assumptions to represent financial performance if the adverse impact of the public order events in Hong Kong on the Group's Hong Kong businesses (HK$2.3 billion), and the provisions for the Hung Hom incidents of the SCL project in Hong Kong (HK$2 billion) and the South Western Railway franchise agreement in the United Kingdom (HK$0.4 billion) had been excluded.*

Total Revenue

Total revenue of the Group in 2019 was HK$54,504 million up slightly by 1.1% when compared with 2018, mainly due to the full year contribution from HSR and higher revenue contributions from our Mainland of China and international subsidiaries, but offset mostly by the reduction in fare revenue in our Hong Kong transport operations ("HKTO"), as well as the rental concessions granted to some tenants in our station kiosks and shopping malls because of the public order events in Hong Kong since June 2019.

Recurrent Business Profit

Recurrent business profit decreased by 44.8% to HK$4,980 million. If the adverse impact from the public order events in Hong Kong and the provisions made had been excluded, recurrent business profit would have increased by 7.7% to HK$9,712 million.

EBIT

HKTO recorded an EBIT loss of HK$591 million in 2019, compared with a profit of HK$1,985 million in 2018, mainly due to a reduction of 6.4% in total patronage and additional operating, repair and maintenance costs incurred as a result of the impact of the public order events in Hong Kong.

EBIT of the Hong Kong station commercial businesses increased by 1.9% to HK$5,122 million, mainly due to the full year rental income from the new Duty Free Shops at Hong Kong West Kowloon Station and rental income growth of station kiosks, partly offset by the drop in advertising revenue and the rental concessions granted to some station kiosk tenants who had been adversely affected by the public order events in Hong Kong.

EBIT of the Hong Kong property rental and management businesses increased marginally by 0.9% to HK$4,264 million, mainly due to the rental income growth of our shopping malls, partly offset by the rent concessions granted to some tenants who had also been adversely affected by the public order events in Hong Kong.

EBIT of the Mainland of China and international railway, property rental and management subsidiary businesses increased by 50.8% to HK$1,089 million, mainly as a result of the performance improvement of Stockholms pendeltåg and higher operating profits from Macao LRT Taipa Line project management and O&M services.

EBIT of others (mainly including project management services performed for Government, Ngong Ping 360 and consultancy businesses, net of project study and business development expenses) reported a loss of HK$2,353 million in 2019, compared with a loss of HK$404 million in 2018, mainly due to the provision of HK$2 billion made in 2019 for the Hung Hom incidents of the SCL project in Hong Kong.

Share of Profit or Loss of Associates and Joint Venture

Share of profit of associates and joint venture decreased by 56.2% to HK$288 million, mainly due to a provision of onerous contract made in 2019 in respect of the South Western Railway franchise agreement in the United Kingdom amounting to HK$436 million. If the provision had been excluded, the share of profit would have increased by HK$66 million, or 10.0%, which was mainly contributed by our associates in Australia and Hangzhou.

Non-recurrent Business Profit

Property development profit increased by 148.8% to HK$5,580 million, mainly derived from the surplus proceeds of MALIBU (LOHAS Park Package 5) and sharing in kind of The LOHAS, as well as sales of inventory units.

Net Profit Attributable to Shareholders of the Company

Revaluation of the Group's investment properties in Hong Kong and Mainland of China, which was performed by independent professional valuation firms, resulted in a revaluation gain of HK$1,372 million in 2019, down by 71.1% when compared with 2018. The decrease was mainly due to the economic downturn stemming from China-US trade tensions as well as the public order events in Hong Kong. Net profit attributable to shareholders of the Company was reduced by 25.5% when compared with 2018. Should the adverse impact of the public order events in Hong Kong and the provisions made be excluded, the net profit attributable to shareholders of the Company would have increased by 4.1% to HK$16,664 million.

Financial Position

HK$ million	**As at 31 December 2019**	As at 31 December 2018	Inc./(Dec.) HK$ million	Inc./(Dec.) %
Net Assets	**186,798**	180,619	6,179	3.4
Total Assets	**289,214**	274,687	14,527	5.3
Total Liabilities	**102,416**	94,068	8,348	8.9
Gross Debt	**39,456**	40,205	(749)	(1.9)
Net Debt-to-equity Ratio (in %)	**15.4%**	18.1%		(2.7)% pts

Net Assets

Our financial position remained strong. The Group's net assets increased by 3.4% from HK$180,619 million as at 31 December 2018 to HK$186,798 million as at 31 December 2019.

Total Assets

Total assets increased by 5.3% from HK$274,687 million to HK$289,214 million. This was mainly due to:

- increase in investment properties due to (i) receipt of a new shopping mall of LOHAS Park Package 7, and (ii) investment revaluation gain of existing portfolio;
- increase in property development receivables upon recognition of property development profit of MALIBU;
- increase in cash retained; and partly offset by
- decrease in property development in progress upon profit recognition of our property development.

Total Liabilities

Total liabilities increased by 8.9% from HK$94,068 million to HK$102,416 million. This was mainly due to:

- increase in amount received in respect of Hong Kong property development; and
- provision of HK$2.0 billion made in respect of the Hung Hom incidents of the SCL project in Hong Kong.

Gross Debt and Cost of Borrowing

Gross debt of the Group (being loans and other obligations, bank overdrafts and short-term loans) decreased by 1.9% to HK$39,456 million. Weighted average borrowing cost of the Group's interest-bearing borrowings remained at 2.8% p.a., the same as that in 2018.

Net Debt-to-equity Ratio

Net debt-to-equity ratio was 15.4% at 31 December 2019, a decrease of 2.7% points from 18.1% as at 31 December 2018, mainly driven by an increase in cash balances generated by operating activities, as well as cash receipts in respect of Hong Kong property development.

Cash Flow

HK$ million	2019	2018
Net Cash Generated from Operating Activities, Net of Fixed and Variable Annual Payments	**13,988**	8,267
Net Receipts from Property Development	**5,916**	3,720
Other Cash Outflow in Investing Activities	**(7,490)**	(7,956)
Net Repayment of Debts and Net Interest Payment	**(2,362)**	(2,390)
Dividends Paid to Shareholders of the Company	**(6,649)**	(1,281)
Increase in Cash, Bank Balances and Deposits#	**3,286**	**207**

Excluding effect of exchange rate change

Net Cash Generated from Operating Activities, Net of Fixed and Variable Annual Payments

Net cash generated from operating activities, net of fixed and variable annual payments for Hong Kong railway and related operations was HK$13,988 million, which was HK$5,721 million higher than that in 2018, mainly due to the payment of the land premium for the Wong Chuk Hang Station package to the Government amounting to HK$5,214 million in 2018 (which was not repeated in 2019).

Net Receipts from Property Development

Net receipts from property development were HK$5,916 million, comprising mainly cash receipts from LOHAS Park, Wu Kai Sha Station and Wong Chuk Hang packages, partly offset by the Company's contribution payment for the LOHAS Park package.

Other Cash Outflow from Investing Activities

Other cash outflow from investment activities was HK$7,490 million, which mainly included capital expenditure of HK$6,072 million (comprising HK$5,291 million for investing in additional assets for our Hong Kong existing railways and related operations, HK$308 million for Hong Kong investment properties, HK$292 million for Hong Kong railway extension projects and HK$181 million for the Mainland of China and overseas subsidiaries), and investments of HK$1,416 million in our associate and joint venture.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

ESG is becoming increasingly important to our operations across MTR, not only in terms of our environmental and social performance but also with regard to our corporate governance. All are essential to the way we conduct our business and help us maintain our reputation as a responsible business that connects communities and betters the lives of our passengers, customers and staff.

We are looking into current trends on sustainability initiatives such as inclusive mobility, carbon-neutral transit and transport, congestion reduction and better access to multi-modal transit, as well as inclusion and diversity. Beyond this, we encourage every part of our business to be conscious of ESG and to set appropriate ESG targets.

Electrically powered mass transit railway is widely regarded as the most environmentally sustainable way to transport large numbers of people in cities. At MTR, we strive to be one of the most resource efficient and ecologically sustainable railways in the industry. We have set targets to reduce electricity consumed per passenger-km by 21% in our heavy rail network by 2020 compared with 2008 and to achieve a 12% reduction in energy use for our investment property portfolio by 2023, using 2013 as the baseline. In addition to lowering our energy consumption, we have implemented initiatives in our existing railway network and railway development plans that help us reduce our environmental impacts. We have also developed a Green Finance Framework to provide support to our green finance initiatives for increasing energy efficiency, using natural resources sustainably and adapting to climate change.

At the same time, we understand the importance of engaging our stakeholders in the communities where we operate. We prioritise safety at all levels in our Company and promote a Safety First culture among our staff, customers and contractors. Additionally, we have introduced community engagement activities that connect us with young people, children, the elderly and vulnerable social groups. We also aim to create a work environment that is engaging and supportive of our staff, whom we consider to be our most valuable asset.

Just as important is the need to ensure and maintain high corporate governance standards in order to align ourselves with the interests of our stakeholders. We have thus adopted best practices in corporate governance, with a well-defined governance structure, board diversity and mechanism for effective crisis management.

To keep our stakeholders informed about our sustainability performance, we have been publishing a sustainability report every year for the past two decades that outlines our ESG initiatives and the progress we have made, including our ESG targets. It is prepared in accordance with the reporting standards published by the Global Reporting Initiative: Core option and in compliance with the disclosure requirements of the ESG Reporting Guide of the Hong Kong Stock Exchange. Our sustainability report is available on a separate and standalone sustainability website.

Safety First

Safety, which is always our highest priority, is a key element of our ESG strategy. During the year, we launched a "Zero Harm" initiative to raise awareness of safety among our customers, staff and contractors. It equips staff with clear guidelines and sound training for instilling a preventive "Zero Harm" culture at MTR for the protection of our staff and customers.

This initiative augments our Corporate Strategic Safety Plan, which is reviewed and revised every four years to guide us on managing safety across all our business units. The Corporate Strategic Safety Plan complements our Corporate Safety Management Model, which provides an effective and robust framework for assuring our safety performance across our businesses.

As a result of the public order events in Hong Kong, the total number of reportable events[1] on our Hong Kong heavy rail and light rail networks increased by 16% in 2019. Excluding the impact caused by the public order events, the total number of reportable events would have decreased by 2%.

Enterprise Risk Management

Our business by its very nature is subject to a variety of risks and uncertainties, many of which change over time. This was particularly true of the past year, when our operations were affected by incidents associated with the public order events. Accordingly, we have been adopting many measures to further enhance the security and safety of our stations, passengers and staff, including early closures of the stations and additional security staffing.

On an ongoing basis, business units across the Company follow the Company's Enterprise Risk Management ("ERM") framework that underpins their day-to-day business activities. The Risk Committee, which is one of the Board Committees, reviews the ERM framework and policy, as well as the Company's top risks and emerging risks, and their respective mitigation measures.

The current top three focus areas for risk management of the Company include maintaining an effective and balanced relationship with key stakeholders, people and operations safety and new projects delivery and cost. All of us at the senior management level are fully aware of the key risks we face and are committed to attain the highest standards of corporate governance to ensure we are on top of these risks and able to take prompt actions accordingly.

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

OUR PEOPLE

As at 31 December 2019, MTR along with our subsidiaries employed a total of 17,742 people in Hong Kong and 16,521 people outside Hong Kong. Our associates employed an additional 16,534 people in and outside Hong Kong.

Our goal is to develop our colleagues in line with our business growth and succession needs, and their personal development. Our commitment to providing a fulfilling and caring environment to nurture and motivate our colleagues for better job performance and career advancement is demonstrated by the stability of our workforce, with the voluntary staff turnover rate remained low at 4.4% in Hong Kong during 2019. We provided an average of 7.1 training days per staff in Hong Kong during the year. We also continued to recognise and reward our colleagues for their dedication and professionalism through our robust human resources strategies in place in Hong Kong, the Mainland of China and international business hubs.

MTR ACADEMY

Our MTR Academy was established to train railway management and operational talents, as well as provide railway-related services, maintenance and management programmes for local and overseas participants. The MTR Academy also offers programmes that bring our rail expertise into the Mainland of China and Belt and Road countries. In 2019, close to 1,100 participants attended these programmes.

OUTLOOK

As I indicated at the beginning of my review, 2019 has been the most challenging year in our 40-year history as a company and certainly in my 24-year career with MTR.

Looking forward, we expect the outlook for both the global and local economy to be challenging, with many uncertainties in the current environment, such as the slower growth in major economies, the global geopolitical situation, ongoing local public order events in Hong Kong and the COVID-19 outbreak.

In our Hong Kong transport operations, even though our patronage has some defensiveness against slow economic growth, we will need to contend with a variety of risks and uncertainties, including higher unemployment, reduced tourist arrivals and, particularly, the recent COVID-19 outbreak.

As previously disclosed by the Company, the Group's Hong Kong transport operations, Hong Kong station commercial businesses and Hong Kong property rental businesses have been adversely affected as a result of the public order events in Hong Kong, which affected patronage, involved damage and vandalism to certain MTR stations and facilities, necessitating repair, maintenance or replacement and led to other costs being incurred for the enhancement of staffing and security as well as retail concessions and abatements.

Since the beginning of 2020, the COVID-19 epidemic has caused a significant impact on Hong Kong and other parts of the world. As a part of Hong Kong, we have been working together with the people of Hong Kong to fight against this outbreak.

As a result of the COVID-19 outbreak, several boundary crossings between Hong Kong and the Mainland have been closed (including the crossings at our Lo Wu, Lok Ma Chau and Hong Kong West Kowloon stations, as well as the

Intercity through train control point at Hung Hom Station), resulting in no cross boundary passengers during the period of closure and the closure of the station shops at these stations. As we have previously announced, in addition, the work-from-home and school closure measures, coupled with the much reduced tourist and local leisure travellers, are having a significant negative impact on the patronage of our Domestic Service.

For the two months of January and February in 2020, the Group's total rail and bus patronage under Hong Kong transport operations was down 34% as compared with the same period in 2019, mainly due to the impacts of COVID-19 and the aftermath effect of public order events. The recently opened Tuen Ma Line Phase 1 will only generate a marginal patronage increase, and hence its financial contribution is expected to be minimal in 2020. We have also recently announced that there will be no actual adjustment to MTR fares for the remainder of 2020.

The performance of our station retail and property rental businesses will depend on the retail market condition, which is likely to result in a decline in performance as a result of the public order events in Hong Kong and the more recent COVID-19 outbreak. For current leases, the Company has been implementing a number of rental relief measures, particularly for small to medium sized tenants (by waiving half of their rent in February and March 2020) while for leases to be renewed, we expect there will be downward pressure on the rentals. The LOHAS, our new mall at LOHAS Park, is still expected to open in the second half of 2020, but pre-leasing has been slower than expected as a result of the COVID-19 outbreak. The longer term impact of COVID-19 and the Hong Kong public order events on the asset valuation of our investment property portfolio will only be able to be ascertained once the market conditions have stabilised.

As a result of the above issues and, in particular, the COVID-19 outbreak, the Group's Hong Kong transport operations, Hong Kong station commercial and property rental businesses and also our Mainland China businesses, are being significantly affected. Based on our preliminary unaudited internal management accounts (which have not been reviewed or audited by the auditor of the Group), the estimated total financial impact of the COVID-19 outbreak and the aftermath of the Hong Kong public order events for the first two months of 2020 amounted to around HK$1.3 billion on the net profit of the Group's recurrent businesses, mainly attributable to lower patronage and therefore, lower revenue, relief agreed for tenants in relation to station closures, the half-month rental reduction granted to small to medium sized tenants for February, lower advertising revenue, as well as the negative financial impact on our Mainland China businesses. In response to this challenging situation and to mitigate the financial impact of it, while seeking to keep Hong Kong moving, the Group has taken a number of cost control measures. The impact of the COVID-19 outbreak on the Group is likely to continue for some time, but the precise timing and scale of the impact is difficult to predict and will depend on the development of the situation.

When taking into account the rail and property businesses as a whole, the Board of Directors of the Company is of the view that the overall financial position of the Group remains sound. The Board of Directors of the Company currently proposes to maintain the Company's present progressive ordinary dividend policy. The Board of Directors of the Company will continue to monitor the financial position and business prospects of the Group and will make further announcement(s), as appropriate.

On the property development front, after the award of LOHAS Park Package 12 in February 2020, in the next 12 months or so, subject to market conditions, we aim to tender out three property development packages which are likely to be our last package at LOHAS Park and our fifth and sixth packages at Wong Chuk Hang Station. These packages are expected to provide about 4,050 residential units in total. The booking of development profits from LOHAS Park Package 6 is now dependent on construction progress. Depending on market conditions, we currently expect to conduct pre-sales of LOHAS Park Package 8, 9C (OCEAN MARINI) and 10 and Tai Wai Station in the next 12 months.

For our new railway projects in Hong Kong, we will continue to work on the remaining sections of the Shatin to Central Link project and to prepare for the opening of the full Tuen Ma Line in 2021. As for the Hung Hom to Admiralty Section (East Rail Line extending to Admiralty Station), the targeted completion in the first quarter of 2022 is still facing challenges and there are continuing efforts being made with the aim of meeting the programme. We also anticipate working closely with Government on the three new railway projects referred to in the 2019 Policy Address and will seek new opportunities for growth in markets outside of Hong Kong.

I want to take this opportunity to congratulate Mr Adi Lau on his appointment to the role of Managing Director – Operations and Mainland Business, having previously served as Operations Director. He is succeeded in this latter role by Dr Tony Lee who, until his new appointment, was the Deputy Operations Director. Additionally, I would like to welcome Ms Linda Choy as the Company's new Corporate Affairs Director. She succeeds Ms Linda So, whom we thank for her years of service to the Company.

Finally, I want to extend a tremendous vote of thanks to all our staff, who have continued to show their commitment to our customers and communities during the challenging times of the past nine months. They have played a critical role in keeping our trains and property services running and maintained the highest level of professionalism at all times.

We will continue to work together with the communities to keep Hong Kong and all the cities that we serve moving forward in the year to come.

Dr Jacob Kam Chak-pui
Chief Executive Officer
Hong Kong, 5 March 2020

2%
fewer reportable events
excluding impact of public order events

99.9%
passenger journeys on-time

5.61 million
average weekday patronage

HONG KONG TRANSPORT OPERATIONS

AIM

We strive to be the best public transport service provider in Hong Kong by offering safe, reliable and caring service to our customers. At the same time, we seek to generate sustainable returns so that we can invest in our network, further improve our high levels of service and address the changing expectations of our customers. These investments involve replacing and upgrading our existing railway assets as well as constructing new railway lines. Together, they are part of our plan for the next generation of railways that will support Hong Kong's development as an economy and as a society.

CHALLENGES

- Safety of our railway operations services
- Managing major asset upgrades and replacements without compromising our service performance or the customer experience
- Workforce transition and how to deliver extensive training to our railway operations employees relevant to the innovative technologies we are introducing

STRATEGIES

- Review our approach to risk management and station design for enhanced security
- Deliver on our excellent track record and safety culture. Equip staff with clear guidelines and sound training with regard to operations and customers and raise our customers' awareness of safety through targeted campaigns and information
- Maintain high performance standards that exceed the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. Continue our stringent maintenance regime, investing significantly in renewing and upgrading our railway assets
- Understand and deliver what matters most to our customers, enhance the travel experience of commuters and also meet the needs of an aging population
- Develop our staff by inspiring, engaging and training them while continuing to offer long-term, rewarding careers in various disciplines

OUTLOOK

Despite the major challenges faced by MTR during the year, we believe that railway will continue to be the backbone of public transportation in Hong Kong well into the foreseeable future.

Although our business will continue to be resilient during economic change, we will need to contend with a variety of risks, including uncertainties surrounding higher unemployment, reduced tourist arrivals, and particularly the recent COVID-19 outbreak. As a result of the COVID-19 outbreak, several boundary crossings between Hong Kong and the Mainland had been closed (including the closure of our Lo Wu, Lok Ma Chau and Hong Kong West Kowloon stations as well as the Intercity through train control point at Hung Hom Station) resulting in no cross boundary passengers during the period of closure and the closure of station shops at these stations, while the work from home and school closure measures coupled with much reduced tourist and local leisure travellers are having a significant negative impact on the patronage of our Domestic Service.

During the year, we adjusted fares by +3.3% underpinned by the Fare Adjustment Mechanism, while simultaneously offering a 3.3% fare discount for Octopus users. Hence, there was no actual fare increase for Octopus users in 2019/2020. In view of the outbreak of COVID-19, we have also decided that there will be no actual adjustment to MTR fares for the remainder of 2020 by means of fare rebates or other arrangements.

Ahead of the opening of the full Shatin to Central Link, we opened the Tuen Ma Line Phase 1 on 14 February 2020, allowing passengers on the Ma On Shan Line to travel directly to Kai Tak Station in East Kowloon.

FINANCIAL PERFORMANCE

HK$ million	Year ended 31 December 2019	2018	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**19,938**	19,490	2.3
EBITDA	**5,909**	8,171	(27.7)
EBIT	**(591)**	1,985	n/m
EBITDA Margin (in %)	**29.6%**	41.9%	(12.3)% pts.
EBIT Margin (in %)	**(3.0)%**	10.2%	(13.2)% pts.

The revenue of our Hong Kong transport operations increased by 2.3% to HK$19,938 million in 2019, mainly due to the full year impact of the opening of HSR in September 2018, which more than offset the adverse impact brought about by the public order events. Loss before interest, finance charges and taxation and after variable annual payment was HK$591 million, mainly due to a reduction in total patronage and additional operating and repair and maintenance costs incurred as a result of the impact of the public order events in Hong Kong.

SAFETY

We continued to place the highest priority on passenger safety. Nevertheless, we experienced an increase of 16% on the number of reportable events on our Hong Kong heavy rail and light rail network, mainly due to public order events. Excluding the impact caused by the public order events, the total number of reportable events would have decreased by 2%. Further details on our safety performance can be found in the Ten-Year Statistics of this Annual Report.

To raise awareness of safety on our railways, we continued to support People On Board Social Enterprise Limited by joining them in hosting exhibition booths at the Hong Kong Book Fair, where we promoted railway safety and courteous behaviour.

In July 2019, we kicked off Escalator Safety Campaign 2019 with MTR Ambassador T Chai, featuring WhatsApp stickers, posters and a video to promote escalator safety.

We also held a campaign on the importance of safety on our escalators by organising four Escalator Safety Walks with the Escalator Safety Special Task Force. Other escalator campaigns included hosting Escalator Safety Promotion Booths at stations and organising a post-escalator accident prevention programme.

To improve platform gap safety, we set up a Platform Gap Incident Special Task Force and published platform gap safety messages.

We continued to host the Budding Station Master programme, in which children acted as station ambassadors to distribute safety messages and gifts at selected stations.

At Light Rail, our innovative Integrated Speed and Position Supervision System was implemented so that the speed of light rail vehicles can be monitored in real time, further improving operational safety and efficiency.

PATRONAGE AND REVENUE

	Patronage in million		Revenue HK$ million	
	2019	Inc./(Dec.) %	**2019**	Inc./(Dec.) %
Hong Kong Transport Operations				
Domestic Service	**1,568.2**	(6.1)	**12,714**	(3.9)
Cross-boundary Service	**104.2**	(11.3)	**3,164**	(8.9)
HSR	**16.9**	219.2	**2,098**	249.7
Airport Express	**15.8**	(11.0)	**1,011**	(12.5)
Light Rail and Bus	**207.3**	(10.0)	**677**	(6.4)
Intercity	**1.9**	(48.2)	**175**	(18.2)
	1,914.3	(6.4)	**19,839**	2.3
Others			**99**	6.5
Total			**19,938**	2.3

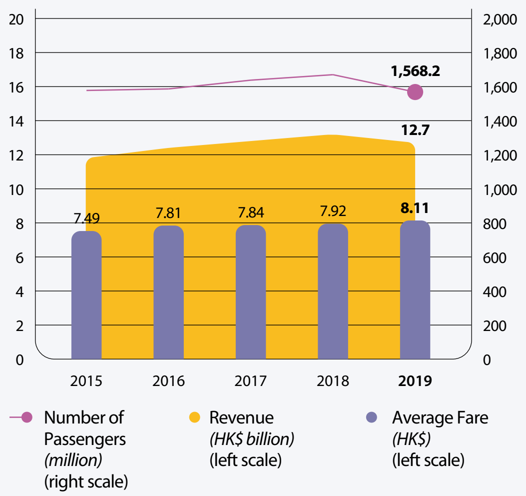
Total patronage of all our rail and bus passenger services in 2019 decreased by 6.4% to 1,914.3 million passenger trips as a result of public order events during the latter half of 2019, as well as a decrease in visitor arrivals and a weakening economy.

Breaking these figures down, our 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) recorded total patronage of 1,568.2 million for the 12 months of 2019, or 6.1% lower than the previous year.

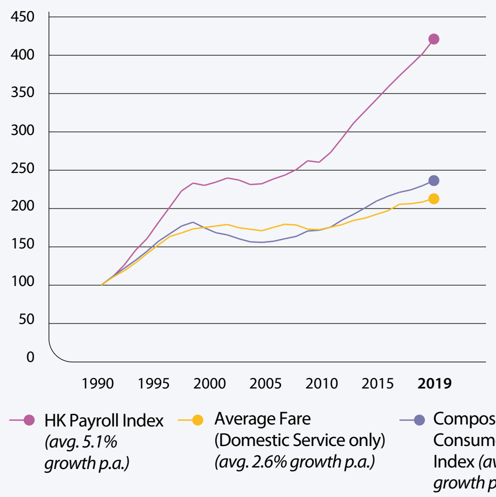
For the Cross-boundary Service to Lo Wu and Lok Ma Chau, patronage fell by 11.3% to 104.2 million, mainly due to the substantial decrease in Mainland visitors. Patronage of the HSR was 16.9 million. Patronage of the Airport Express dropped by 11.0% to 15.8 million as a result of the decline in tourist arrivals.

In 2019, average weekday patronage of all our rail and bus passenger services declined by 4.5% to 5.61 million passenger trips, while our Domestic Service, reported a 4.2% drop to 4.66 million.

Domestic Service – Passengers and Fares



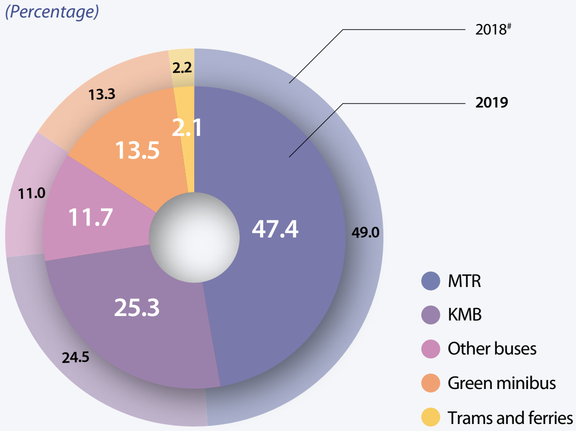
Fare Trend



MARKET SHARE

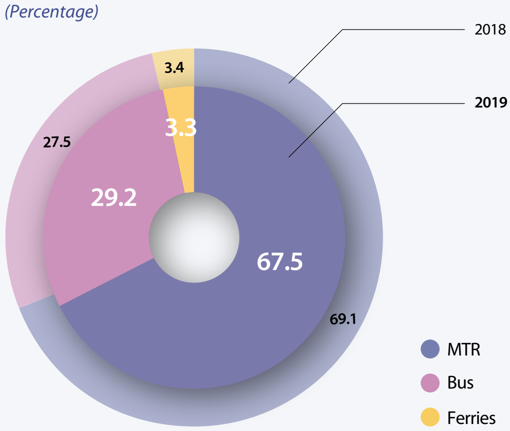
Market Shares of Major Transport Operators in Hong Kong

(Percentage)



Market Shares of Major Transport Operators Crossing the Harbour

(Percentage)



Market share for 2018 was rebased to reflect the impact on the opening of Hong Kong – Zhuhai – Macao Bridge.

Our overall share of the franchised public transport market in Hong Kong during the year was 47.4% as compared with 49.0% in 2018, a decrease of 1.6% points from the year before. The decline was mainly due to the decrease in patronage for all rail services as a result of the public order events. Of this total, the share of cross-harbour traffic was 67.5%, compared with 69.1% in 2018.

In 2019, MTR's Cross-boundary Service and HSR registered a decrease in market share of cross-boundary business from 52.1% to 51.3%. Our market share to and from the airport fell from 22.0% to 20.5%.

FARE ADJUSTMENTS, PROMOTIONS AND CONCESSIONS

For 2019/2020, the overall adjustment rate of MTR fares was +3.3%, which was in accordance with the Fare Adjustment Mechanism ("FAM"). To thank our passengers, commemorate our 40th anniversary and in view of recent outbreak of COVID-19, we offered the following major fare promotions, with overall fare savings amounted to more than HK$900 million as compared with over HK$500 million in the previous period:

- From 30 June 2019 to end of June 2020, we are offering a 3.3% rebate for every Octopus trip, totalling over HK$500 million
- No price adjustment will be made on "MTR City Saver" and "Tuen Mun – Nam Cheong Day Pass" until end of June 2020
- No price adjustment will be made for Monthly Pass Extras until end of June 2020
- The Early Bird Discount Promotion was extended for one year to 31 May 2020, with the discount rate increased to 35% starting October 2019 and the number of stations covered increased to 45

The scheme enables all Octopus users to enjoy a 3.3% fare discount on every paid journey on the MTR, Light Rail and MTR Bus.

Other on-going fare concessions and interchange discounts are offered to different sectors of the community, including the elderly, children, eligible students and persons with disabilities. Along with over HK$2.6 billion on-going fare concessions and interchange discounts, we will be providing customers with over HK$3.5 billion in fare concessions in 2019/2020.

In view of the outbreak of COVID-19, the Company has also decided to ensure, through fare rebates or other arrangements, that there will be no actual adjustment to MTR fares for the remainder of 2020, despite the fare adjustment rate for 2020/2021 under the FAM that will only be derived after the Census and Statistics Department announces the year-on-year percentage change in the Nominal Wage Index (Transportation Section) for December 2019 and other relevant figures later in the first quarter of 2020. Detailed arrangements will be announced by the end of March 2020 when the statistics are published. After this plan is implemented, Octopus fares charged would have stayed the same from January 2019 to the end of 2020.

SERVICE PERFORMANCE

Train service delivery and passenger journeys on-time in our heavy rail network remained at 99.9%, excluding the effects of public and external events. This exceeded both the targets in our Operating Agreement and our own more demanding Customer Service Pledges. Train service delivery is a measure of the actual train trips run against the train trips scheduled to be run by the Company, and passenger journeys on-time is a measure of all passenger journeys that are completed within five minutes of their scheduled journey times.

In 2019, more than 2.07 million train trips were made on our heavy rail network and more than 0.96 million trips on our light rail network. There were 10 delays on the heavy rail network and no delays on the light rail network lasting 31 minutes or more caused by factors within our control, a decrease of 16.7% from the year before.

Our service performance was marred by two incidents during the year. The first, on 18 March, involved a collision between two non-passenger trains on the Tsuen Wan Line near Central Station during a test of a new signalling system after service hours. A panel comprising senior MTR personnel and local and overseas experts was subsequently set up to investigate the root causes of the incident, and its findings were made public in July 2019. The detailed investigation concluded that the incident was caused by software implementation errors made by the contractor of the new signalling system, and a number of improvement measures have been recommended for the contractor. We have been overseeing the contractor in implementing the improvement measures, and will exercise extra vigilance and strengthen monitoring on the contractor's deliveries.

Operations Performance in 2019

Service Performance Item	Performance Requirement	Customer Service Pledge Target	**Actual Performance**
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on-time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	**99.8%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line,Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.8%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	700,000	**3,400,912**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	700,000	**8,798,055**
Ticket reliability: smart ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	10,500	**49,140**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.9%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.7%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.8%**
– Light Rail	N/A	99.0%	**99.7%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability*	N/A	N/A	**N/A**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.7%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.9%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.5%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	93.0%	**99.8%**
Cleanliness			
– Train compartment: cleaned daily	N/A	99.0%	**99.9%**
– Train exterior: washed every two days (on average)	N/A	99.0%	**100.0%**
Northwest transit service area bus service			
– Service Delivery	N/A	99.0%	**99.8%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within six working days	N/A	99.0%	**100.0%**

* *Performance data for Light Rail will be available after completion of installation, testing and trial operations of the new Light Rail platform Octopus processors.*

The second incident, on 17 September, involved a train derailment on East Rail Line near Hung Hom Station. Three cars of a Hung Hom-bound East Rail Line train shifted out of their positions on the track and the fourth and fifth cars were separated.

Following this incident, we set up an investigation panel comprising MTR personnel as well as experts from Hong Kong and overseas, and the results of its investigation were made public on 3 March 2020. It was concluded that the incident was caused by dynamic track gauge widening at a turnout near Hung Hom Station. The Company has accepted the recommendations made by the panel and is taking actions to prevent the occurrence of those of a similar nature.

To gauge customer satisfaction levels concerning our services and fares, we carry out regular surveys and research, the results of which are published in our Service Quality Index and Fare Index respectively. Our performance in 2019 was mainly affected by the adjusted train services during public order events in Hong Kong.

Service Quality Index	2019	2018
Domestic and Cross-boundary services	**66**	70
Airport Express	**79**	82
Light Rail	**58**	67
Bus	**68**	71
HSR	**83**	–

Fare Index	2019	2018
Domestic and Cross-boundary services	**56**	59
Airport Express	**70**	75
Light Rail	**58**	68
Bus	**66**	68
HSR	**78**	–

The high level of service provided by MTR was again recognised in the number of awards received during the year, some of which are listed below:

- Best Long Service Award, Top Service Awards 2019
  Next Magazine
- Public Transportation Category Award,
  Hong Kong Service Awards 2019
  East Week Magazine
- Public Transportation Category Award,
  Sing Tao Service Awards 2018
  Sing Tao Daily
- UITP Excellence in Marketing Campaign Award 2019
  UITP
- WEBSITE STREAM and MOBILE STREAM – TRIPLE GOLD AWARD,
  Web Accessibility Recognition Scheme 18/19
  Hong Kong Internet Registration Corporation

MTR is one of the participants of The Community of Metros ("CoMET"), which comprises 19 metro systems around the world to benchmark performance and improve practices across the industry. In 2018, performance in terms of service reliability, punctuality and our cost efficiency level was one of the best among the participants. The 2018 CoMET benchmarking results can be found in the "Performance Metrics" section on our sustainability website.

ENHANCING THE CUSTOMER EXPERIENCE

To achieve our vision for the future of rail travel in Hong Kong, we continued major upgrades and replacements on the existing rail network and implemented a variety of technology initiatives to enhance the customer experience. Over HK$9.8 billion was invested to maintain, upgrade and renew our Hong Kong railway assets in 2019.

More Frequent Services

Extra train trips

To make our customers' journeys more comfortable, new rounds of MTR train service enhancements were implemented in April and July 2019, when an extra 101 train trips per week were added to the Island Line, Tsuen Wan Line, Kwun Tong Line and East Rail Line.

Since 2012, more than 3,200 train trips per week have been added to the MTR heavy rail network and over 600 trips per week to the light rail network.

Upgrade of Signalling System

During the year, work continued on the upgrade of our signalling system, which is necessary for increasing the frequency of our services. The contract for the replacement of the signalling systems for the Tsuen Wan, Island, Kwun Tong, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express, was awarded at about HK$3.3 billion in 2015.

After the non-passenger train collision incident during a non-traffic hours drill test for the new signalling system in March 2019, all train tests relating to the new signalling systems were immediately suspended. As safety is always our top priority, we will only resume train testing after obtaining the consent of Government.

We also completed reliability tests on the new signalling system for East Rail Line, which is different from the new system for Tsuen Wan Line.

Greater Comfort for Passengers

New Trains

For a total investment of HK$6 billion, we are purchasing 93 new, more comfortable 8-car trains to replace the existing trains on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. In 2019, seven more trains, in addition to the five delivered, were sent to Hong Kong. All new trains underwent rigorous testing and commissioning.

New Light Rail Vehicles

As demand for our light rail services increases, we are replacing 30 light rail vehicles and purchasing 10 additional light rail vehicles at a total cost of HK$745 million. Testing and commissioning of the first two replacement light rail vehicles entered the final stages in 2019 and will be ready to enter passenger service starting in 2020. The 10 additional new light rail vehicles will be used to expand the size of the Light Rail fleet to 150 in 2023.

The new light rail vehicles are designed to enhance the passenger experience by providing an advanced LED lighting system as well as better handrail and straphanger arrangements in the compartment.

Replacement of Air Conditioning Systems

For the comfort of our passengers, we have been replacing the air conditioning systems in stations across our network. The work involves the replacement of 160 chillers (about half of all our chillers) with new, more energy-efficient versions.

The replacement programme will be carried out in five phases with target completion in 2022. In the first and second phases, the replacement of 61 chillers in 11 stations and four depots were completed. The third phase of the project, which will take place from 2019 to 2020, covers 31 existing chillers for 10 stations and one depot.

Enhancing Station Facilities

We are providing public toilets for passengers at interchange stations when these stations are undergoing major renovation works.

During the year, new toilets were opened at Central, Tiu Keng Leng, Yau Tong and Lai King stations. New toilets at Yau Ma Tei and North Point stations are also targeted for opening in the second half of 2020, and in Tsim Sha Tsui Station by the third quarter of 2021. Babycare rooms will also be provided in the new public toilets.

Other feature upgrades include the installation of additional wide gates and seats, mobile charging spots, water dispensers for refillable bottles, as well as new footbridges, exits and entrances.

As Hong Kong's population is aging, we are also trying to meet the needs of the elderly with new initiatives at designated stations that focus on four key areas: accessibility, mobility, and the provision of toilets and information. Included in these enhancements are the addition of middle handrails and seats in longer adits, large signage, magnifiers and alphabet cards at Customer Service Centres in our network.

Enhancing Passenger Journeys through Technology

Another aspect of enhancing the customer experience is investing in new technology that will deliver more personalised services and smoother journeys.

Across our various mobile applications, we have been making use of Artificial Intelligence (AI) and Internet of Things (IoT) technologies to offer a wide range of personalised services, such as a new Alighting Reminder, Estimated Waiting Time Indicator at Admiralty Station and MTR Bus Real-Time Schedules. We have also upgraded our Trip Planner to provide point-to-point transport advice, such as connecting public transport information, and revamped the user interface of the Airport Express function on the MTR Mobile app. The MTR Mobile app had about 1.4 million active users per month in 2019.

Internally, we have been applying technology to improve internal processes and maintenance. These include chatbots and Robotic Process Automation (RPA) tools that help to reduce repetitive office tasks. Additionally, we have been using big data and AI to optimise planning and engineering works scheduling, as well as video and image analytics to monitor the health of our railway assets. We have also introduced Augmented Reality and Virtual Reality in our training curriculum to simulate actual working conditions with a totally immersive 3D environment.

To keep up with trends in mobile phone payments, we began accepting Alipay, Alipay HK, WeChat Pay and WeChat Pay HK at selected Ticket Issuing Machines in our stations.

48,148
Advertising Units

4G
Data Access along the Journey

1,492
Station Shops with
67,337m²

HONG KONG STATION COMMERCIAL BUSINESSES

AIM

Our aim is to provide an enhanced travel experience for our customers by offering a variety of railway related services, particularly through our station retail outlets, advertising and telecommunications services.

CHALLENGES

Station Retail

- Damage caused to MTR stations during public order events curtailed the business of our retail tenants
- New forms of e-commerce presented increasing challenges to traditional retailers

Advertising

- A weakened local and global economy caused advertising revenue to decline as advertisers tightened spending
- Damaged station environments due to public order events led to booking postponements
- Competition with mobile advertising continued to grow at the expense of traditional media

Telecommunications

- Rapidly growing demand for mobile data has put a strain on the telecom systems

STRATEGIES

Station Retail

- Maintain goodwill among our tenants during public order events by offering rental concessions, giving priority to sole proprietors and small to medium sized tenants
- Optimise trade floor space and retail value on existing and new lines
- Broaden the tenant base and maximise growth opportunities
- Refine the trade mix to enhance customer service and rentals

Advertising

- Offer more aggressive and flexible sales packages as well as extra sales incentives
- Promptly repair the damaged advertising units
- Continue the digital transformation of advertising products

Telecommunications

- Work with telecom operators to explore the provision of 5G services in MTR in order to enhance mobile communications for our customers within the railway network
- Continue to facilitate operators to upgrade the telecommunications infrastructure

OUTLOOK

In an uncertain economic environment affected by the public order events and the recent COVID-19 outbreak, our Hong Kong station commercial businesses will face additional challenges in the year ahead.

Over the longer term, demand for space in MTR stations should remain robust, given the high traffic from millions of commuters travelling through our stations each day. Along with the 35 shops opened in 2018 at Hong Kong West Kowloon Station, the opening of the Tuen Ma Line Phase 1 on 14 February 2020 added 32 new shops.

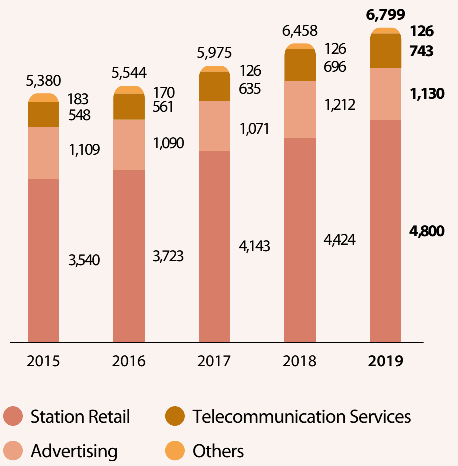
703 new advertising units from the opening of the Tuen Ma Line Phase 1 will bring incremental contributions, while digitisation will ensure the longer term growth of advertising revenue.

FINANCIAL PERFORMANCE

	Year ended 31 December		
In HK$ million	**2019**	2018	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**4,800**	4,424	8.5
Advertising Revenue	**1,130**	1,212	(6.8)
Telecommunication Income	**743**	696	6.8
Other Station Commercial Income	**126**	126	–
Total Revenue	**6,799**	6,458	5.3
EBITDA	**6,119**	5,891	3.9
EBIT	**5,122**	5,025	1.9
EBITDA Margin (in %)	**90.0%**	91.2%	(1.2)% pts.
EBIT Margin (in %)	**75.3%**	77.8%	(2.5)% pts.

Revenue from Hong Kong Station Commercial Businesses

(HK$ million)



Total revenue of the Hong Kong station commercial businesses in 2019 was 5.3% higher than in 2018 at HK$6,799 million, mainly attributable to the incremental contribution from HSR in station retail rental revenue.

STATION RETAIL

Station retail rental revenue during the year rose by 8.5% to HK$4,800 million, mainly due to the full-year effect of new Duty Free Shops at Hong Kong West Kowloon Station, rate increases derived from refinements to the trade mix, and renewals by tenants, the majority of which were concluded before mid-2019. Rental reversion and the average occupancy rate in 2019 in our station kiosks were 3.7% and over 99% respectively.

As at 31 December 2019, there were 1,492 station shops occupying 67,337 square metres of retail space, representing an increase of 22 shops and 1,045 square metres of lettable space when compared with

31 December 2018. The increases were mainly due to the new opening of shops in University, North Point, Kowloon, Lo Wu, Tsuen Wan West, Austin, Nam Cheong and Hong Kong West Kowloon stations.

To support non-governmental organisations and social enterprises to provide caring services for the community, we rent selected station shops to them along West Rail Line at a nominal rate to run their businesses. In 2019, a total of 10 station shops were leased on this basis.

ADVERTISING

Advertising revenue decreased by 6.8% to HK$1,130 million in 2019 as both tourism and retail markets contracted in the second half of the year. To offset the slump in advertising sales, we launched a series of aggressive and flexible sales packages as well as sales incentive programmes. We are also continuing our digital strategy on the advertising formats for longer term growth.

As at 31 December 2019, the number of advertising units in stations and trains had increased to 48,148, including new 108" LED Zones installed at Central, Causeway Bay and Kowloon Tong stations. MTR continued to provide free advertising space to 51 non-profit organisations to support their work during 2019.

TELECOMMUNICATIONS

Revenue from telecommunications in 2019 rose by 6.8% to HK$743 million as a result of incremental revenue from new service contracts and capacity enhancement projects.

To provide more capacity, a new commercial telecom system is being installed by operators at 31 stations.

By 31 December 2019, the works had been completed at 21 stations.

We continued to work with telecom operators to explore the provision of 5G services in our stations.

Managing over
104,000
Residential Units

13
Shopping Malls in our Portfolio

About 22,000
Residential Units and 3 Shopping Malls Under Development

HONG KONG PROPERTY AND OTHER BUSINESSES

AIM

In addition to connecting communities, we aim to be an industry leader by creating integrated communities along our rail network. To provide excellent service for these developments, we apply our expertise in all aspects of property development and management, as well as engaging the community.

CHALLENGES

Property Rental

- Expanding our investment property portfolio without affecting existing railway operations and new railway projects
- Changes in customer behaviour and retail space demand due to the evolving market environment such as e-commerce development
- Uncertainties arising from US-China trade tensions, public order events and the recent COVID-19 outbreak in Hong Kong affected sentiment and tourist spending

Property Management

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

Property Development

- The property development market is vulnerable to the recent COVID-19 outbreak and to fluctuations in global capital flows

STRATEGIES

Property Safety

- Safety at our construction sites, investment and managed properties and adjoining railway facilities is our top priority
- Closely monitor the public order events and take appropriate measures in our malls

Property Rental

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

Property Management

- Offer a world-class property management service that meets or exceeds customer requirements and expectations
- Develop and promote more green projects with greater energy efficiency for the health of our residents and tenants

Property Development

- Optimise the integration between our property developments and the railway network, as well as other modes of transport
- Expand by seeking the rezoning of feasible existing railway sites and by applying our proven Rail plus Property integrated development model to potential new rail projects
- Deliver property developments of a high standard, on time and within budget
- Continuously improve our standards through innovation and by capturing new development opportunities

OUTLOOK

Property rental income will be subject to market conditions, though partly moderated by the stable rent structure in the typical three-year tenancy cycle. Retail sales in Hong Kong are expected to be negatively affected by the public order events and the recent COVID-19 outbreak. For current leases, the Company has been implementing a number of rental relief measures, particularly for small to medium sized tenants (by waiving half of their rent in February and March 2020). For leases to be renewed, we expect there will be downward pressure on the rentals. The LOHAS, our new mall at LOHAS Park, is expected to be opened in the second half of 2020. However the pre-leasing is slower than expected as a result of the COVID-19 outbreak. Revenue from property management is recurrent and dependent on the properties under management, which will increase as new projects are completed.

Profit from property development is dependent on the sale of property developments and construction progress, and will vary from year to year. The booking of development profits of LOHAS Park Package 6 is now dependent on construction progress. After the award of LOHAS Park Package 12 in February 2020, in the next 12 months or so, subject to market conditions, we aim to tender out three property development packages, which are likely to be our last package at LOHAS Park and our fifth and sixth packages at Wong Chuk Hang Station. These packages are expected to provide about 4,050 residential units in total.

FINANCIAL PERFORMANCE

In HK$ million	Year ended 31 December 2019	2018	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**4,833**	4,748	1.8
Revenue from Property Management	**304**	307	(1.0)
Total Revenue	**5,137**	5,055	1.6
EBITDA	**4,286**	4,242	1.0
EBIT	**4,264**	4,225	0.9
EBITDA Margin (in %)	**83.4%**	83.9%	(0.5)% pt.
EBIT Margin (in %)	**83.0%**	83.6%	(0.6)% pt.

PROPERTY RENTAL

In 2019, property rental revenue increased by 1.8% to HK$4,833 million, mainly due to rental growth in our shopping malls, and partly offset by the rent concessions granted to some tenants whose business had been adversely affected by the public order events. Our shopping malls in Hong Kong achieved a positive rental reversion rate of 3.1% during the year (or 7% including a special rental case), mainly due to the fact that leases expiring in 2019 had already been renewed or re-let in late 2018 and early 2019 when market sentiment was more positive.

As at 31 December 2019, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre were close to 100% let.

As at 31 December 2019, the Company's attributable share of investment properties in Hong Kong was 217,774 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 portfolio won many awards during the year. Telford Plaza received the "Top 25 My Favourite Shopping Mall Events" award at Shopping Mall Awards 2019, organised by Hong Kong Economic Times. ELEMENTS received the "Digital EX 2019 Awards" in the Top Ten Malls competition organised by Metro Finance.

Reducing energy consumption is an important goal for us. In 2013, we set a target to reduce energy use in our investment properties portfolio by 12% by 2023. As of 2019, the target reduction of 12% had been achieved. Further discussion can be found in our Sustainability Report 2019.

Investment Property Portfolio in Hong Kong (as at 31 December 2019)

Location	Type	Lettable floor area *(sq. m.)*	No. of parking spaces	Company's economic interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping Centre	39,331	–	100%
	Car Park	–	993	100%
Telford Plaza II 7-8/F, Kowloon Bay, Kowloon	Shopping Centre	2,397	–	100%
Telford Plaza II 3-6/F, Kowloon Bay, Kowloon	Shopping Centre	19,057	–	50%
	Car Park	–	136	50%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping Centre	11,094	–	100%
	Car Park	–	651	100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping Centre	15,410	–	100%
	Wet Market	1,216	–	100%
	Kindergarten	2,497	–	100%
	Car Park	–	415	100%
Maritime Square 1, Tsing Yi	Shopping Centre	28,547	–	100%
	Kindergarten	920	–	100%
	Car Park	–	220	100%
	Motorcycle Park	–	50	100%
Maritime Square 2, Tsing Yi	Shopping Centre	6,448	–	100%
	Car Park	–	65	100%
	Motorcycle Park	–	21	100%
The Lane, Hang Hau	Shopping Centre	2,629	–	100%
	Car Park	–	16	100%
	Motorcycle Park	–	1	100%
PopCorn 2, Tseung Kwan O	Shopping Centre	8,456	–	70%
	Car Park	–	50	70%
PopCorn 1, Tseung Kwan O	Shopping Centre	12,173	–	50%
	Car Park	–	115	50%
	Motorcycle Park	–	16	50%
G/F, No. 308 Nathan Road, Kowloon	Shop Unit	70	–	100%
G/F, No. 783 Nathan Road, Kowloon	Shop Unit	36	–	100%
New Kwai Fong Gardens, Kwai Chung, New Territories	Kindergarten	540	–	100%
	Car Park	–	126	100%
International Finance Centre ("ifc"), Central, Hong Kong				
– Two ifc	Office	39,410	–	100%
– One and Two ifc	Car Park	–	1,308	51%
Phase I, Carpark Building, Kornhill, Quarry Bay, Hong Kong	Car Park	–	292	100%
Roof Advertising Signboard, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Advertising Signboard	–	–	100%
Ten Shop Units, First Floor Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Shop Unit	286	–	50%
Olympian City One, Tai Kok Tsui, Kowloon	Indoor Sports Hall	13,512	–	100%
Olympian City Two, Tai Kok Tsui, Kowloon	Shop Unit	1,096	–	100%
Choi Hung Park & Ride Public Car Park, No. 8 Clear Water Bay Road, Choi Hung, Kowloon	Car Park	–	54	100%
	Motorcycle Park	–	10	100%
	Park & Ride	–	450	100%
Elements, No. 1 Austin Road West, Kowloon	Shopping Centre	45,510	–	81%
	Car Park	–	898	81%
Cross Border Coach Terminus, No. 1 Austin Road West, Kowloon	Coach Terminus	5,113	–	100%
Kindergarten, No. 1 Austin Road West, Kowloon	Kindergarten	1,045	–	81%
Plaza Ascot, Fo Tan	Shopping Centre	7,720	–	100%
	Car Park	–	67	100%
Royal Ascot, Fo Tan	Residential	2,784	–	100%
	Car Park	–	20	100%
Ocean Walk, Tuen Mun	Shopping Centre	6,083	–	100%
	Car Park	–	32	100%
Sun Tuen Mun Shopping Centre, Tuen Mun	Shopping Centre	9,022	–	100%
	Car Park	–	421	100%

Investment Property Portfolio in Hong Kong (as at 31 December 2019)(continued)

Location	Type	Lettable floor area *(sq. m.)*	No. of parking spaces	Company's economic interest
Hanford Plaza, Tuen Mun	Shopping Centre	1,924	–	100%
	Car Park	–	22	100%
Retail Floor and 1-6/F., Citylink Plaza, Shatin	Shopping Centre	12,154	–	100%
The Capitol, LOHAS Park	Shop Unit	391	–	100%
	Residential Care Home for the Elderly	2,571	–	100%
Le Prestige, LOHAS Park	Kindergarten	800	–	100%
	Car Park	–	2	100%
The Riverpark, Che Kung Temple	Shop Unit	154	–	100%
	Kindergarten	708	–	100%
	Car Park	–	5	100%
Hemera, LOHAS Park	Kindergarten	985	–	100%

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

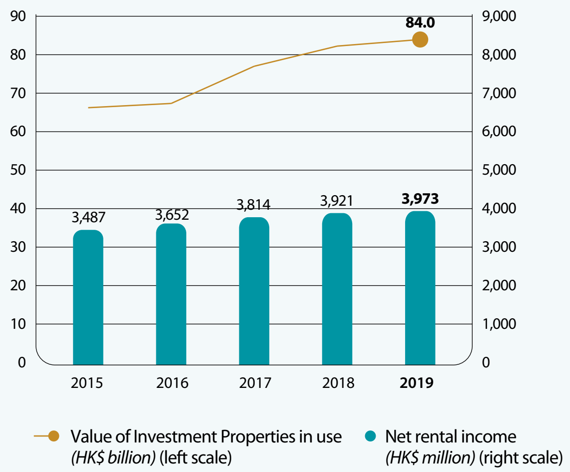
- *Telford Plaza I and II, Luk Yeung Galleria, Maritime Square 1 and 2, New Kwai Fong Gardens, ifc, Olympian City, Elements, Cross Border Coach Terminus and Kindergarten at No. 1 Austin Road West, Plaza Ascot, Royal Ascot, Ocean Walk, Sun Tuen Mun Shopping Centre and Hanford Plaza where the Government Leases expire on 30 June 2047*
- *Choi Hung Park & Ride where the Government Lease expires on 11 November 2051*
- *The Lane where the Government Lease expires on 21 October 2052*
- *PopCorn 2 where the Government Lease expires on 27 March 2052*
- *LOHAS Park where the Government Lease expires on 15 May 2052*
- *Citylink Plaza where the Government Leases expire on 1 December 2057*
- *The Shop Units and Kindergarten of The Riverpark, Che Kung Temple where the Government Lease expires on 21 July 2058*

Properties held for sale (as at 31 December 2019)

Location	Type	Gross floor area *(sq. m.)*	No. of parking spaces	Company's economic interest
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping Centre	6,026*	–	40%
	Car Park	–	330	40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car Park	–	117	40%
The Arch, No. 1 Austin Road West, Kowloon	Residential	548**	–	1%
	Car Park	–	12	1%
Harbour Green, No. 8 Sham Mong Road, Kowloon	Kindergarten	1,299	–	50%
Residence Oasis, No. 15 Pui Shing Road, Hang Hau, Tseung Kwan O	Motorcycle Park	–	5	71%
The Grandiose, No. 9 Tong Chun Street, Tseung Kwan O	Motorcycle Park	–	24	70%
Wings at Sea and Wings at Sea II, LOHAS Park, Tseung Kwan O	Residential	4,725***	–	20.1%
	Car Park	–	435	20.1%
	Motorcycle Park	–	46	20.1%
MALIBU, LOHAS Park, Tseung Kwan O	Residential	2,394***	–	47%
	Car Park	–	157	47%
	Motorcycle Park	–	7	47%
The Palazzo, No. 28 Lok King Street, Shatin	Residential	285***	–	55%
	Retail	2,000	–	55%
	Car Park	–	11	55%
	Motorcycle Park	–	5	55%
Festival City, No. 1 Mei Tin Road, Shatin	Car Park	–	79	100%
Lake Silver, No. 599 Sai Sha Road, Shatin	Residential	1,198***	–	92.88%
	Car Park	–	18	92.88%
The Riverpark, No. 8 Che Kung Miu Road, Shatin	Car Park	–	2	87%

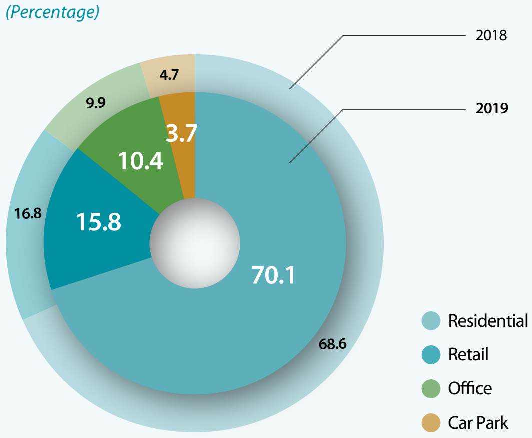
* *Lettable floor area*
** *Brochure gross floor area as per previously issued marketing brochures*
*** *Saleable area*

Investment Properties in Hong Kong



Distribution of Hong Kong Property Management Income

(Percentage)



EXPANDING THE RETAIL PORTFOLIO

Over the next few years, we will open three new malls that will add around 49% to the attributable GFA of our existing retail portfolio as of 31 December 2019, for a total of up to 152,120 square metres. Our target is to open The LOHAS in the second half of 2020 as well as new shopping centres in Tai Wai and Wong Chuk Hang in 2023.

The Company announced on 26 February 2020 that the Company had signed agreements with New World Development Company Limited and Chow Tai Fook Enterprises Limited to acquire their interests in Telford Plaza II shopping centre in Kowloon Bay and PopCorn 2 shopping centre in Tseung Kwan O for a total consideration of HK$3 billion. Upon completion of the transactions on or before 31 March 2020, the Company will hold the entire economic interest of these two shopping centres, which helps to provide a sustainable funding solution to the Company's railway business.

The LOHAS

The LOHAS is a three-storey, 44,500 square metre shopping centre at LOHAS Park that will connect seamlessly with the LOHAS Park Station and nearby residential buildings. It will house Hong Kong's largest indoor ice rink, the largest cinema in Tseung Kwan O, and space for nearly 150 retail tenants providing entertainment, leisure and community services.

As at 31 December 2019, fitout work of The LOHAS is progressing, and is remained on track for its scheduled opening in the second half of 2020.

Tai Wai shopping centre

Construction of the 60,620 square metre GFA shopping centre at Tai Wai Station made progress in 2019. Work on the foundation had been halted due to measures taken to address ground settlement at a localised area of the southbound platform on the East Rail Line at Tai Wai Station. However, this work resumed in January 2019, and the project was rescheduled for completion in 2023.

Wong Chuk Hang shopping centre

Foundation works on this 47,000 square metres GFA shopping centre at Wong Chuk Hang commenced during the year, and the project is on target for completion at the end of 2023.

PROPERTY MANAGEMENT

Hong Kong property management revenue in 2019 decreased slightly by 1.0% to HK$304 million. As at 31 December 2019, MTR managed more than 104,000 residential units and more than 772,000 square metres of office and commercial space in Hong Kong.

PROPERTY DEVELOPMENT

Hong Kong property development profit in 2019 totalled HK$5,531 million, which was derived mainly from the share of surplus proceeds from MALIBU and sharing in kind from The LOHAS, as well as sales of inventory units.

Pre-sales

During the year, the launch of our property development projects at LOHAS Park received a favourable response in the market:

- GRAND MARINI (Package 9B), launched in September 2019: about 49% of 503 units sold
- MARINI (Package 9A), launched in August 2019: about 83% of 647 units sold
- GRAND MONTARA (Package 7B), launched in June 2019: 100% of 504 units sold
- MONTARA (Package 7A), launched in May 2019: 100% of 616 units sold

Pre-sales of Wings at Sea (Package 4A), Wings at Sea II (Package 4B), MALIBU (Package 5) and LP6 (Package 6) continued throughout the year.

For the West Rail property development projects, where we act as agent for the relevant subsidiaries of KCRC, 75% of the 1,172 units at Cullinan West III (Nam Cheong Station) were presold as at 31 December 2019 while pre-sales for Sol City (Long Ping Station (South)) continued.

Property tendering and future development

LOHAS Park Package 12 was awarded to a subsidiary of Wheelock and Company Limited in February 2020.

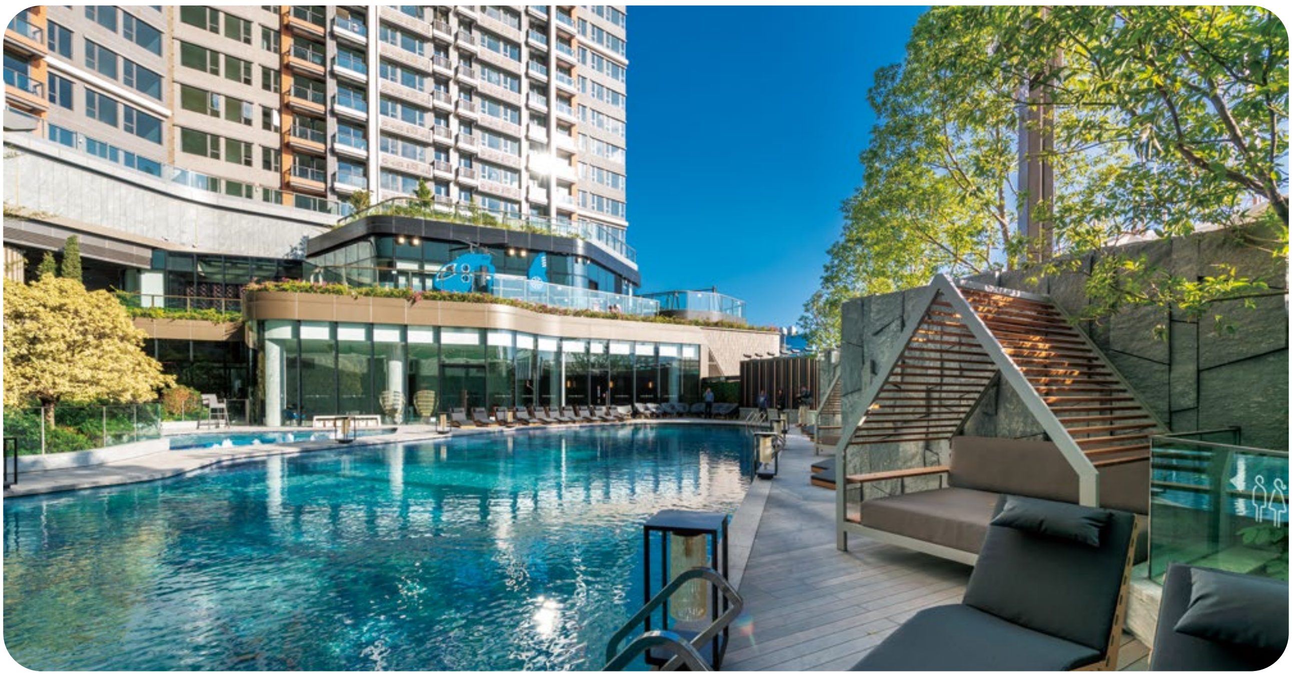
Wong Chuk Hang Station Package 4 was awarded to a consortium formed by Kerry Properties Limited, Swire Properties Limited and Sino Land Company Limited in October 2019.

LOHAS Park Package 11 was awarded to a consortium formed by Sino Land Company Limited, K. Wah International Holdings Limited and China Merchants Land Limited in April 2019.

With the successful tendering of LOHAS Park Package 11 and 12, the majority of the packages at LOHAS Park have now been awarded and are in various stages of development.

A total of 16 new residential property projects now under development will come on stream to provide about 22,000 new units in the market, which will be delivered over the next six years or so.

At the Siu Ho Wan Depot Site, approval was received on 12 February 2019 from the Chief Executive in Council for the draft Outline Zoning Plan to develop this area into a community, comprising about 14,000 public and private housing units together with a 30,000 square metre shopping mall. We are currently conducting detailed technical studies of this project, and our discussions with Government are ongoing. At this early stage, there is no assurance that the project will be commercially viable.



Progress of Property Development Packages Awarded

Location	Project Status: Design	Project Status: Foundation Works	Project Status: Superstructure
Ho Man Tin Station Package 1	Completed	In Progress	
Ho Man Tin Station Package 2	In Progress		
LOHAS Park Package 4	Completed	Completed	Completed
LOHAS Park Package 5	Completed	Completed	Completed
LOHAS Park Package 6	Completed	Completed	In Progress
LOHAS Park Package 7	Completed	Completed	In Progress
LOHAS Park Package 8	Completed		In Progress
LOHAS Park Package 9	Completed	Completed	In Progress
LOHAS Park Package 10	Completed	Completed	In Progress
LOHAS Park Package 11	In Progress		
Tai Wai Station	Completed	Completed	In Progress
Tin Wing Stop	Completed	In Progress	
Wong Chuk Hang Station Package 1	Completed	Completed	In Progress
Wong Chuk Hang Station Package 2	Completed	Completed	In Progress
Wong Chuk Hang Station Package 3	Completed	In Progress	
Wong Chuk Hang Station Package 4	In Progress		
Yau Tong Ventilation Building	In Progress		

West Rail Line Property Development Plan

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

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

Property Development Packages Completed during the year and Awarded

Location	Developers	Type	Gross floor area (sq. m.)	Tender award date	Expected completion date
Ho Man Tin Station					
Package 1	Goldin Properties Holdings Limited	Residential	69,000	December 2016	2022
Package 2	Chinachem Group	Residential	59,400	October 2018	2024
LOHAS Park Station					
MALIBU	Wheelock and Company Limited	Residential	102,336	November 2014	2019
LP6	Nan Fung Group Holdings Limited	Residential	136,970	January 2015	2020
MONTARA and GRAND MONTARA	Wheelock and Company Limited	Residential Retail Kindergarten	70,260 44,500 1,160	June 2015	By phases in 2021 2019 2019
Package 8	CK Asset Holdings Limited	Residential	97,000	October 2015	2021
MARINI, GRAND MARINI and Phase 9C (OCEAN MARINI)	Wheelock and Company Limited	Residential Kindergarten	104,110 810	December 2015	By phases in 2021
Package 10	Nan Fung Group Holdings Limited	Residential	75,400	March 2016	2022
Package 11	Sino Land Company Limited, K. Wah International Holdings Limited and China Merchants Land Limited	Residential	88,858	April 2019	2025
Package 12	Wheelock and Company Limited	Residential	89,290	February 2020	2026
Tai Wai Station					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	October 2014	2022
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	February 2015	2024
Wong Chuk Hang Station					
Package 1	Road King Infrastructure Limited and Ping An Real Estate Company Limited	Residential	53,600	February 2017	2022
Package 2	Kerry Properties Limited and Sino Land Company Limited	Residential	45,800	December 2017	2023
Package 3	CK Asset Holdings Limited	Residential Retail	92,900 47,000	August 2018	2024
Package 4	Kerry Properties Limited, Swire Properties Limited and Sino Land Company Limited	Residential	59,300	October 2019	2025
Yau Tong Ventilation Building					
Yau Tong Ventilation Building	Sino Land Company Limited and CSI Properties Limited	Residential	30,225	May 2018	2025
Kam Sheung Road Station #					
Package 1	Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited	Residential	114,896	May 2017	2025
Long Ping Station #					
Sol City	Chinachem Group	Residential	41,990	June 2013	2019
Nam Cheong Station #					
Cullinan West	Sun Hung Kai Properties Limited	Residential Retail Kindergarten	214,700 26,660 1,000	October 2011	By phases from 2017 – 2019
Yuen Long Station #					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	August 2015	2022

as a development agent for the relevant subsidiaries of KCRC

* *excluding a bicycle park with cycle track*

^ *including a 24-hour pedestrian walkway and a covered landscape plaza*

Property Development Packages to be Awarded Notes 1 and 2

Location	Type	Gross floor area (sq. m.)	Period of package tenders	Expected completion date
LOHAS Park Station	Residential	About 140,000	2020 – 2021	2025 – 2026
Wong Chuk Hang Station	Residential	105,900		

Notes:

1 *Property development packages for which we are acting as development agent for the relevant subsidiaries of KCRC are not included.*

2 *These property development packages are subject to review in accordance with planning approval, land grant conditions and completion of statutory processes.*

OTHER BUSINESSES

Ngong Ping 360

Visitor numbers and revenue at the Ngong Ping Cable Car and associated theme village ("Ngong Ping 360") dropped as a result of the public order events and decline in visitors to Hong Kong. Revenue decreased by 17.6% to HK$392 million, and patronage dropped by 20.6% to 1.45 million.

Promotional activities launched during the year targeted different customer segments. These included special offers to Hong Kong residents as well as a joint promotion with High Speed Rail and Hong Kong-Zhuhai-Macao Bridge. Other promotions were held to attract families for the Chinese New Year, Easter and Christmas holidays.

Octopus

The Company's share of profit from Octopus Holdings Limited in 2019 increased by 5.9% to HK$234 million, mainly due to higher revenue from transaction business, good sales of Octopus Ornaments, Sold Tourist Octopus and Corporate Octopus as well as higher investment income. As at 31 December 2019, more than 22,000 service providers in Hong Kong accepted Octopus payments. Total cards and other stored-value Octopus products in circulation stood at 35.9 million, while average daily transaction volumes and value were 14.9 million and HK$214.9 million respectively.

Shatin to Central Link Tai Wai to Hung Hom Section

99.8%

Complete

Hung Hom to Admiralty Section

82.3%

Complete

Worked with Government on detailed planning and design

of **3 Railway Projects**

under Railway Development Strategy 2014

HONG KONG NETWORK EXPANSION

AIM

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

CHALLENGES

- Target completion of full Tuen Ma Line is anticipated to be in 2021, and the targeted completion of Hung Hom to Admiralty Section in the first quarter of 2022 is still facing challenges
- Continue to cooperate with relevant authorities, including the Commission of Inquiry, on their review of the Hung Hom incidents under the Shatin to Central Link project
- Maintain knowledge pool and expertise gained during construction projects for future railway projects under Railway Development Strategy 2014, including the three new lines mentioned in the 2019 Policy Address

STRATEGIES

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

OUTLOOK

Although we made steady progress on the Shatin to Central Link project during the year, its final delivery will be dependent on a number of factors both within and outside the Company's control. These include the timeliness and quality of construction work carried out by contractors, interface and integration issues with existing operating lines, as well as repairs to damage caused during the public order events. While the Tuen Ma Line Phase 1 commenced service in February 2020, we will work to complete the remaining sections of the Shatin to Central Link. We also anticipate working closely with Government on the three new railway projects under Railway Development Strategy 2014 on their detailed planning and design.

In 2019, we made further progress on the Shatin to Central Link. Looking beyond the Shatin to Central Link, the projects announced under the Railway Development Strategy 2014 ("RDS 2014") have the potential to increase Hong Kong's railway network by a further 35 km. We welcomed the intention of the Government, as mentioned in the 2019 Policy Address, to commence the detailed planning and design for three new lines: the Tung Chung Line Extension, Tuen Mun South Extension and Northern Link (and Kwu Tung Station).

SHATIN TO CENTRAL LINK

The ten-station 17-km Shatin to Central Link, a project managed by MTR on behalf of Government, is a strategic railway that will enhance the existing rail network and improve connectivity in Hong Kong. The first phase is the 11-km Tai Wai to Hung Hom Section, and the second phase is the 6-km Hung Hom to Admiralty Section.

The first phase, the Tai Wai to Hung Hom Section, will connect the Ma On Shan Line to the West Rail Line, via Diamond Hill and Hung Hom stations, to form the Tuen Ma Line. When the second phase, the Hung Hom to Admiralty Section is completed, the East Rail Line will run under Victoria Harbour to Exhibition Centre Station and Admiralty Station via Hung Hom.

When completed, the Shatin to Central Link as a whole will connect several existing railway lines and significantly reduce travel time between the New Territories North, Kowloon and Hong Kong Island. Passengers will also have more alternative routes to choose from, particularly in the busy cross-harbour section of the Tsuen Wan Line and the Tai Wai to Kowloon Tong section of the East Rail Line.

Project Progress

As at 31 December 2019, 99.8% of the Tai Wai to Hung Hom Section and 82.3% of the Hung Hom to Admiralty Section had been completed.

At Exhibition Centre Station, all bulk excavation works for the station were completed in June 2019. Progress on the remaining foundation works, including piling works for station entrances and nearby facilities, continued during the year as did construction works for the station superstructure, West Approach Tunnels and related ventilation facilities.

Construction works for the cross-harbour immersed tube tunnel and the bored tunnels on the Hong Kong Island section were completed in 2019. At year end, the project team was carrying out track laying, electrical and mechanical installation works to pave the way for the installation of the overhead line and trackside equipment.

Programme for delivery

On 11 February 2020, the Company entered into relevant agreements with Government and KCRC to supplement the current agreements to enable the Company to operate the Tuen Ma Line Phase 1 in substantially the same manner as the existing railway network for a period of two years from 14 February 2020.

The Tuen Ma Line Phase 1 opened on 14 February 2020 enables passengers on the Ma On Shan Line to travel directly to Kai Tak Station in East Kowloon via Hin Keng and Diamond Hill stations. Meanwhile, the expanded Diamond Hill Station has become a new interchange between the Tuen Ma Line and Kwun Tong Line, allowing passengers from the New Territories North and East districts to travel onward to East Kowloon and Hong Kong Island East more conveniently.

The full line opening of the Tuen Ma Line is anticipated to be in 2021. As for the Hung Hom to Admiralty Section (East Rail Line extending to Admiralty Station), the targeted completion in the first quarter of 2022 is still facing challenges and there are continuing efforts being made with the aim of meeting the programme.

As the existing East Rail Line will connect with the future Hung Hom to Admiralty section, its signalling system must be upgraded for compatibility with the Shatin to Central Link project. Damage to facilities on the East Rail Line as a result of the recent public order events has caused delays to the originally scheduled testing of the new signalling system during non-service hours.

Concerns relating to construction works

In the first half of 2018, allegations were raised concerning the workmanship of certain construction matters relating to three stations of the Shatin to Central Link, in particular the works at Hung Hom Station extension.

We took immediate steps to investigate these matters and report the Company's findings to Government while reserving the Company's position against relevant contractors.

A Commission of Inquiry ("COI") was subsequently set up by the HKSAR Chief Executive in Council to investigate matters relating to the diaphragm wall and the platform slab at the Hung Hom Station extension, as well as the adequacy of the Company's project management and supervision systems, among other issues.

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

On 26 March 2019, the Government published the redacted Interim Report of the COI concerning project quality issues at the Hung Hom Station extension. While recognising it to be an interim report, the COI found that the Hung Hom Station extension diaphragm wall and platform slab construction works are safe.

The COI also made a number of comments regarding the Company's performance and systems as well as a number of recommendations for the future. We welcomed such recommendations, many of which concurred with the findings of our own review conducted by the Capital Works Committee of the Board. We have already begun implementing some of the recommendations and will continue to strengthen our project management regime.

The Final Report of the COI is expected to be submitted to Government by 31 March 2020.

In July 2019, the Company submitted to Government two separate final reports in respect of incidents relating to the Hung Hom Station extension, NAT, SAT and HHS. These reports contain, inter alia, proposals for suitable measures required at certain locations to achieve code compliance.

Funding

Under the entrustment agreement for the construction and commissioning of the Shatin to Central Link between the Company and Government dated 29 May 2012 ("Entrustment Agreement"), Government is responsible for bearing all the work costs specified in the Entrustment Agreement, except for certain costs for which the Company is responsible under the existing service concession agreement with KCRC.

On 5 December 2017, the Company submitted its updated estimate to Government for review on the estimated Shatin to Central Link Cost to Complete for the main construction works under the Entrustment Agreement. The Company increased its estimate by HK$16,501 million from HK$70,827 million to HK$87,328 million. Since submission of this updated estimate to the Government, the Company has been liaising with the Government to facilitate their review and verification process.

The Company carried out a further review and revalidation of the Shatin to Central Link Cost to Complete which was submitted to Government for review on 11 February 2020. The Company's submission included an additional amount of project management cost for the Company. Government responded with requests for further information and clarification and has objected to the inclusion of any additional amount of project management cost. As stated in the Company's announcement on 28 February 2020, the Company notes that Government has issued its paper for the first stage of the Legislative Council process for the approval of additional funding for the Shatin to Central Link project and that Government's paper does not include any provision by Government for any additional amount of project management cost for the Company. The Company is currently addressing these matters with Government. Once these issues are resolved the Company will issue an announcement regarding this matter. The Company continues to exercise rigorous cost control with the objective of ensuring that construction costs are contained as far as possible.

OTHER NEW RAILWAY PROJECTS

In addition to the Shatin to Central Link, the Government has identified seven additional rail projects to be implemented under RDS 2014. Proposals have been submitted for five of these: 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.

MTR will work with Government on the detailed planning and design for three new lines announced in the Chief Executive's 2019 Policy Address, namely the Tung Chung Line Extension, Tuen Mun South Extension and Northern Link. We expect to commence detailed planning and design on these new lines in 2020 and will continue to provide further information and details to Government in order to facilitate the formal release of Policy Support.

For the East Kowloon Line and North Island Line, we will continue to provide supplementary information on previously submitted project proposals to Government. In the year ahead, we will work closely with Government departments to address the technical and financial issues as requested.

For the Hung Shui Kiu Station and South Island Line (West), the two remaining projects to be implemented under RDS 2014, we received invitations to submit project proposals in May and June 2019 respectively. Technical studies are in progress to prepare submission of project proposals in 2020.

In the longer term, we look forward to participating in the strategic planning and transport studies to be undertaken by Government in 2020, to support the sustainable development of the rail network.

11 Railway Services in 4 Countries

2,102 km Operating Route Length outside of Hong Kong

2,276 million Total Patronage outside of Hong Kong

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

AIM

In line with our objective to become a leading multinational company, we are taking our strategy of growing and connecting communities into markets beyond Hong Kong. We have established a presence in three key geographies – Mainland of China, Europe and Australia. In each of these, we aim to become recognised as the best rail operator by focusing on delivering what customers really want.

CHALLENGES

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

STRATEGIES

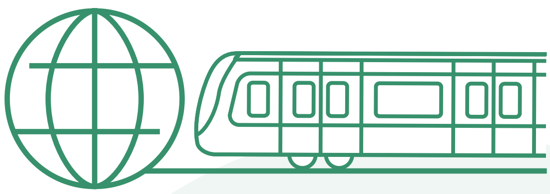
- Leverage our world leading performance in delivering integrated railway services to capture construction, operation and maintenance opportunities in our existing markets
- Adapt our business models, such as Rail plus Property, to suit the Mainland and overseas contexts
- Selectively pursue opportunities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

OUTLOOK

Revenue from our Mainland of China and International businesses is derived mainly from the provision of rail and rail related services through our subsidiaries and associates. Demand for these services depends partly on the economic situation in the markets concerned, which varies from region to region. Growth in profit will hinge, among other things, on our success in overcoming the serious challenges faced by Stockholm commuter rail and the South Western Railway franchise. With the opening of three new lines in 2019, namely Sydney Metro North West Line, initial section of Hangzhou Metro Line 5 and Macao Light Rapid Transit Taipa Line, we expect these lines will begin to make a financial contribution in 2020. In other markets outside Hong Kong, we will continue to seek new growth opportunities.

The Group's Mainland of China and international operations are being affected by the COVID-19 outbreak, as this spreads around the world. The Group is working hard to mitigate the financial and operational impacts of the outbreak and to keep its Mainland of China and international operations running to serve essential workers and those who need to travel in the cities in which we operate.

The expertise and experience we have gained in Hong Kong have been used on a growing portfolio of railway-related businesses in the Mainland of China, Macao, Europe and Australia. Our railway businesses outside Hong Kong carried an average of about 7.2 million passengers per weekday in 2019.



FINANCIAL PERFORMANCE

Year ended 31 December HK$ million	Mainland of China and Macao Railway, Property Rental and Property Management Businesses			International Railway Businesses			Total		
	2019	2018	Inc./(Dec.) %	**2019**	2018	Inc./(Dec.) %	**2019**	2018	Inc./(Dec.) %
Recurrent Businesses									
Subsidiaries									
Revenue	**1,881**	1,458	29.0	**19,204**	19,419	(1.1)	**21,085**	20,877	1.0
EBITDA	**529**	388	36.3	**796**	488	63.1	**1,325**	876	51.3
EBIT	**517**	376	37.5	**572**	346	65.3	**1,089**	722	50.8
EBIT (Net of Non-controlling Interests)	**517**	376	37.5	**412**	198	108.1	**929**	574	61.8
EBITDA Margin (in %)	**28.1%**	26.6%	1.5% pts.	**4.1%**	2.5%	1.6% pts.	**6.3%**	4.2%	2.1% pts.
EBIT Margin (in %)	**27.5%**	25.8%	1.7% pts.	**3.0%**	1.8%	1.2% pts.	**5.2%**	3.5%	1.7% pts.
Recurrent Business Profit	**472**	**338**	**39.6**	**200**	**48**	**316.7**	**672**	**386**	**74.1**
Associates and Joint Venture									
Share of EBIT	**1,005**	989	1.6	**(403)**	(26)	(1,450.0)	**602**	963	(37.5)
Share of Profit/(Loss)	**457**	**470**	**(2.8)**	**(403)**	**(33)**	**(1,121.2)**	**54**	**437**	**(87.6)**
EBIT of Subsidiaries (Net of Non-controlling Interests) and Share of EBIT of Associates and Joint Venture	**1,522**	1,365	11.5	**9**	172	(94.8)	**1,531**	1,537	(0.4)
Profit attributable to Shareholders of the Company									
– Arising from Recurrent Businesses (before Business Development Expenses)							**726**	**823**	**(11.8)**
– Business Development Expenses							**(201)**	(263)	(23.6)
– Arising from Recurrent Businesses (after Business Development Expenses)							**525**	**560**	**(6.3)**
– Arising from Mainland of China Property Development							**49**	90	(45.6)
– Total							**574**	**650**	**(11.7)**
Number of passengers carried by our railway subsidiaries, associates and joint venture outside of Hong Kong (in millions)							**2,276**	2,186	4.1

In the Mainland of China and Macao, recurrent business profit from our railway, property rental and property management subsidiaries increased by 39.6% to HK$472 million, mainly due to incremental contributions from Macao Light Rapid Transit ("LRT") Taipa Line O&M and project management services.

In our International businesses, recurrent business profit from our railway subsidiaries increased by 316.7% to HK$200 million, mainly due to the recognition of profit from Sydney Metro City & Southwest's Early Works Deed and the reduced loss of MTR Pendeltågen AB.

Our share of profit from our associates and joint venture decreased by 87.6% to HK$54 million, mainly due to the onerous contract provision made for First MTR South Western Trains Limited.

Excluding Mainland of China property development, our railway, property rental and management subsidiaries (after business development expenses), together with our associates and joint venture outside of Hong Kong, contributed net after-tax profits of HK$525 million in 2019 on an attributable basis, a decrease of 6.3% compared with 2018, and represented 10.5% of total 2019 recurrent profits.

RAILWAY BUSINESSES IN THE MAINLAND OF CHINA

Beijing

Our 49%-owned associate, Beijing MTR Corporation Limited, operates four lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14") and Beijing Metro Line 16 ("BJL16"). On-time performance in 2019 averaged 99.9% across the four lines.

Beijing Metro Line 4 and the Daxing Line

For the year, the combined ridership of BJL4 and the Daxing Line was about 455 million passenger trips, while average weekday patronage was more than 1.35 million, similar to 2018.

Beijing Metro Line 14

The first three phases of BJL14 recorded a combined passenger trips of about 251 million and average weekday patronage of over 788,000 in 2019, an increase of 6% over 2018. Targeted full line opening will be after 2021.

Beijing Metro Line 16

BJL16 is a Public Private Partnership project whose first phase, the 19.6-km Northern Section, commenced operation in December 2016. In 2019, the line recorded about 39 million passenger trips, with average weekday patronage at over 120,000. Full line operation, which will mark the start of the operating concession, is tentatively targeted after 2021.

Shenzhen

Shenzhen Metro Line 4 ("SZL4"), which is operated by MTR Corporation (Shenzhen) Limited, saw patronage grow by 3% to 239 million in 2019, while average weekday patronage rose to 666,000. On-time performance remained at 99.9%.

As noted in previous reports, although patronage has continued to grow on SZL4 there has been no increase in fares since we started operating the line in 2010. In this project, the public sector funding support is in the form of cash grants. At present, the Shenzhen Municipal Government is in the planning process to implement a fare adjustment mechanism. If a suitable fare adjustment mechanism is not put in place in the near future, the long-term financial viability of this line will be impacted.

Our consultancy subsidiary in Shenzhen entered into a project management agreement to supervise construction of the Northern Extension of SZL4, a project that is financed by the Shenzhen Municipal Government. As civil and E&M works made good progress towards the completion of the programme, discussions with the Shenzhen Municipal Government continued with regard to the operational and maintenance arrangements in preparation for its opening at the end of 2020.

Hangzhou

Hangzhou Metro Line 1 and Extension

Our 49%-owned associate in Hangzhou, Hangzhou MTR Corporation Limited, operates Hangzhou Metro Line 1 and its extension. Patronage on this line increased by 9.6% in 2019 to 296 million, with average weekday patronage at 822,000. On-time train performance remained at 99.9%.

Hangzhou Metro Line 5

The 51.5-km Hangzhou Metro Line 5 is an underground metro line that runs from Xiangzhanglu Station in Xiaoshan District to Lutinglu Station in the Yuhang District of Hangzhou, with a total of 38 stations.

In June 2019, the initial section of the line went into service and received a positive response from passengers. Total patronage since its opening was 16 million, with an average weekday patronage of 92,000. The latter section, which was still under construction at the end of the year, is targeted to go into service in the first half of 2020.

This project is a PPP contract through a joint venture company, Hangzhou MTR Line 5 Corporation Limited, in which we have a 60% share. Under this PPP contract, the joint venture has responsibility for the trains and E&M systems (including signalling and other systems), architectural finishes, as well as subsequent operations, assets maintenance and renewals for a period of 25 years.

The joint venture company's total investment in this project is estimated at RMB10.9 billion, which will be financed by bank borrowings and equity investments from shareholders. MTR has contributed an equity investment of RMB2.616 billion into this joint venture. The civil works, such as the construction of stations and tunnels, are being undertaken by Hangzhou Metro Group.

PROPERTY BUSINESSES IN THE MAINLAND OF CHINA

Shenzhen

The Tiara residential development at Shenzhen Metro Longhua Line Depot Site Lot 1 comprises a total developable GFA of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA). More than 98% of the residential units have been sold and handed over to buyers.

TIA Mall held its official opening in August 2019 and the average occupancy rate was 74% during the period.

Tianjin

In March 2017, a framework agreement was signed with a subsidiary of Beijing Capital Land Limited for the disposal of our 49% interest in Tianjin TJ-Metro MTR Construction Company Limited, as well as the conditional future acquisition of an approximately 91,000 square metre GFA shopping centre to be developed on the Beiyunhe Station site. Relevant government approval was obtained in July 2017 for the disposal of our 49% interest, and the Sale and Purchase Agreement for the shopping centre was signed on 26 January 2018. Based on the construction progress, project completion is expected to be delayed from 2022 to 2024 due to the additional works required for railway safety assurance during basement construction.

Guangdong-Hong Kong-Macao Greater Bay Area

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

Property Rental and Management Businesses

The Company also manages self-developed and other third-party properties in the Mainland of China, with a total managed area of 390,000 square metres as at 31 December 2019. The average occupancy rate of our shopping mall in Beijing, Ginza Mall, was 98% in 2019.

MACAO

Our wholly-owned subsidiary was awarded an MOP 5.88 billion (HK$5.71 billion) service contract for operating and maintaining the Macao LRT Taipa Line – the first rapid transit system in Macao – over a period of 80 months. The contract covered the line's testing and commissioning activities, operation of train services, as well as the maintenance of trains, the signalling system and other infrastructure.

Commencing service on 10 December 2019, the 9.3-km line now connects 11 stations from the Taipa Ferry Terminal to Ocean Station, and was well accepted by the public.

EUROPEAN RAILWAY BUSINESSES

United Kingdom

TfL Rail/Elizabeth Line

In London, MTR Corporation (Crossrail) Limited ("MTR Crossrail"), a wholly owned subsidiary of the Company, operates the Crossrail operating concession under the TfL Rail brand.

Starting in December 2019, service on 57-km route between Paddington and Reading was commenced, in addition to the existing TfL Rail service between Liverpool Street and Shenfield in the east of London, and between Paddington and Heathrow Airport in the west. As the operator of the line (to be renamed the Elizabeth line upon full line opening), we continue to support Transport for London on its phased opening.

In 2019, the overall performance of TfL Rail was satisfactory and remained one of the most reliable rail services in the UK.

South Western Railway

Through our associate First MTR South Western Trains Ltd, we have a 30% share in the South Western Railway franchise, one of the largest rail networks in the UK, in partnership with FirstGroup plc. The South Western Railway runs 998 km and serves 203 stations across London and southwestern England. In 2019, the financial performance of this franchise continued to suffer for a number of reasons, and we have made an announcement on the provision of GBP43 million against our share of maximum potential loss under the Franchise Agreement.

First MTR South Western Trains Ltd is in discussions with the Department for Transport regarding potential commercial and contractual remedies in respect of the uncertainties affecting the performance of the franchise, including infrastructure reliability, timetabling delays and industrial action. While these discussions are constructive, they remain ongoing. The outcome and therefore the impact on the associate's ability to continue operating the franchise, is at this stage uncertain.

Sweden

MTR, the largest rail operator in Sweden by passenger volume, operates three key rail businesses in the country: Stockholm Metro, MTR Express and the Stockholm commuter rail service ("Stockholms pendeltåg").

Stockholm Metro

In 2019, Stockholm Metro continued to register stable operation and satisfactory performance.

MTR Express

MTR Express (Sweden) AB, a wholly-owned subsidiary that operates the MTR Express intercity service between Stockholm and Gothenburg, was ranked the second most innovative company in Sweden on the Swedish Innovation Index. Patronage growth in 2019 was steady with narrowed losses. New marketing initiatives were implemented to stimulate ridership.

Stockholm commuter rail

Our wholly-owned subsidiary, MTR Pendeltågen AB, operates Stockholms pendeltåg, which serves the greater Stockholm area with 54 stations, covering a total route length of 247 km.

The operational and financial performance of this commuter rail service significantly improved in 2019 following the difficulties of 2018. However, MTR Pendeltågen AB will likely remain in a loss-making position for a year or so despite narrowed losses in 2019.

The concession for this service, which was granted to MTR Pendeltågen AB in 2016, runs for ten years to December 2026, with an option for the public transport authority to extend for four more years.

MTR Tech AB and Emtrain AB

The Company's wholly-owned subsidiary MTR Tech AB, which carries out rolling stock maintenance for Stockholm metro, performed satisfactorily in 2019.

The concession of the Stockholm commuter rail service includes the maintenance of rolling stock, which had been in a 50% shareholding agreement with Euromaint Rail AB through a company known as Emtrain AB. In 2019, MTR Tech AB bought out the other 50% shareholding from Euromaint Rail AB, and Emtrain AB is now a 100%-owned subsidiary of MTR Tech AB.

AUSTRALIA

Melbourne's Metropolitan Rail Service

In Melbourne, our 60%-owned subsidiary Metro Trains Melbourne Pty. Ltd. operates the 409-km Melbourne metropolitan rail network.

The operational performance of the Melbourne metropolitan rail network was affected by network improvement works initiated by the city government, among other issues. We have since made rectification plans and put in place the resources needed to restore service to previous performance levels. Indeed, our good record of performance over the term of the previous franchise was one of the reasons for the renewal of our concession to November 2024, with an option to further extend for a maximum of three years.

Sydney Metro North West Line

In Sydney, MTR is a member of a consortium, Northwest Rapid Transit ("NRT") Consortium, responsible for the design, financing and construction, as well as the operation and maintenance of the Sydney Metro North West Line, the first stage of Sydney Metro.

The 36-km North West Line includes eight new metro stations and five existing stations upgraded to metro standards, and service was commenced in May 2019. A high level of customer satisfaction achieved in its initial period of operation. Equipped with state-of-the-art rail service features such as fully automated (driverless) trains and platform screen doors, it has been commended by the Premier of the New South Wales State Government and well received by the public.

GROWTH OUTSIDE OF HONG KONG

Mainland of China

In Beijing, we were awarded the 49.7-km Beijing Metro Line 17 ("BJL17") O&M concession in December 2019. BJL17 will have 21 stations and serve the east of Beijing. This is a 20-year concession (no later than 31 December 2045) commencing from the first phase opening of the line, which is targeted for the end of 2021. We will lease the rolling stock over the 20-year period, with lease payments to be made in two instalments after the opening of each phase.

A Letter of Intent was signed on 14 January 2020 in which the Company was invited by Chengdu Rail Transit Group to joint-venture with them on station retail businesses. Both parties are looking forward to concluding the deal on the joint-venture agreement(s), subject to a business case assessment that justifies our participation in this new line of business in the Mainland of China.

We continued our efforts to identify development opportunities in Beijing, Hangzhou and, in particular, the Guangdong-Hong Kong-Macao Bay Area.

United Kingdom

In the UK, we submitted a bid for the West Coast Partnership franchise but were unsuccessful.

Nordic Region

In Stockholm, we submitted a bid for the O&M of Roslagsbanan, the commuter network connecting Stockholm and the municipalities north of the city. The result of the bid is expected in the second quarter of 2020.

Australia

In Australia, the NRT consortium, of which we are a member, reached an agreement with the New South Wales Government in November 2019 to conclude the contract for the extension to the existing NRT PPP with Sydney Metro. The NRT PPP contract package includes new metro trains and core rail systems as well as the operations and maintenance component for NRT to operate the combined Metro North West and City and Southwest lines until 2034. MTR will invest in the project and take the lead in the NRT PPP project works and railway operations and maintenance of both the City and Southwest Line and the Metro North West Line as a combined single line from 2024.

Mainland of China and International Railway Businesses at a Glance

	MTR Corporation Shareholding	Business Model	Commencement of Franchise / Expected Date of Commencement of Operation	Franchise / Concession Period	Total Number of Stations (Number of Stations Managed)	Route Length (km)
Mainland of China						
Beijing Metro Line 4 ("BJL4")	49%	Public-Private-Partnership ("PPP")	September 2009	30 years	24	28.2
Daxing Line of BJL4	49%	Operations and Maintenance ("O&M") Concession	December 2010	10 years	11	21.8
Beijing Metro Line 14 ("BJL14")	49%	PPP	Phase 1 to 3: by phases from May 2013 to December 2015 Full Line: Targeted after 2021	30 years from December 2015	Phase 1 to 3: 30[Note 1] Full Line: 37	Phase 1 to 3: 43.8 Full Line: 47.3
Beijing Metro Line 16	49%	Phase 1: O&M Concession Full Line: PPP	Phase 1: December 2016 Full Line: Targeted after 2021	Phase 1: till full line opens Full Line: 30 years	Phase 1: 10 Full Line: 29	Phase 1: 19.6 Full Line: 49.8
Beijing Metro Line 17	49%	O&M Concession	Subject to local government arrangement	20 years after service commencement (no later than 31 December 2045)	Full Line: 21	Full Line: 49.7
Shenzhen Metro Line 4	100%	Build-Operate-Transfer[Note 2]	Phase 1 and 2: by phases from July 2010 to June 2011	30 years	Full Line: 15	Full Line: 20.5
Hangzhou Metro Line 1 ("HZL1")	49%	PPP	November 2012	25 years	31	48
HZL1 Extension	49%	O&M Concession	November 2015	End together with HZL1 concession	3	5.6
Hangzhou Metro Line 5	60%	PPP	Initial Section: June 2019 Latter Section: first half of 2020	25 years	Initial Section: 12 Latter Section: 26	Initial Section: 17.8 Latter Section: 33.7
Macao						
Macao Light Rapid Transit Taipa Line	100%	O&M Service Contract	December 2019	80 months	11	9.3
Europe						
TfL Rail/Elizabeth Line, United Kingdom	100%	O&M Concession	May 2015	8 years	Until End 2019: 33 (23) Full line: 41 (32)	Until End 2019: 97 Full line: 118
South Western Railway, United Kingdom	30%	O&M Concession	August 2017	7 years	203 (186)	998
Stockholm Metro, Sweden	100%	O&M Concession	November 2009	8 years till 2017 and 6 years extension till 2023	100	108
MTR Express, Sweden	100%	Open Access Operation	Initial service: March 2015 Full schedule: August 2015	Operating license is subject to renewal	6 (0)	457
Stockholm commuter rail, Sweden	100%	O&M Concession	December 2016	10 years	54 (50)	247
Australia						
Melbourne's Metropolitan Rail Service	60%	O&M Concession	November 2009	8 years till 2017 and 7 years extension till 2024	222	409
Sydney Metro North West Line	Mixed	PPP (Operations, Trains & Systems)	May 2019	15 years	13	36
Sydney Metro City and Southwest Line	Mixed	PPP (Operations, Trains & Systems)	Subject to local government arrangement, target in 2024	10 years after service commencement	18	30

Notes:

1 *BJL14 Phase 2 East Section has 12 stations, 11 opened (one is currently bypassed). BJL14 Phase 3 Middle Section has 11 stations, ten opened (one is currently bypassed).*

2 *Shenzhen Metro Line 4 Phase 1 assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Limited took over the operation of Phase 1 in July 2010.*

HK$54,504
million
Total Revenue
Increased by 1.1%

HK$10,560
million
Underlying Business
Profit Decreased
by 6.2%

Strong Credit
Ratings
AA+
by Standard & Poor's
(long-term)

FINANCIAL REVIEW

A review of the Group's results and operations is featured in the preceding sections. This section discusses and analyses the results in greater level of details.

PROFIT AND LOSS

HK$ million	Year ended 31 December 2019	2018	Inc. / (Dec.) HK$ million	%
Total Revenue	**54,504**	53,930	574	1.1
Recurrent Businesses				
EBIT from Hong Kong Businesses and Mainland of China and International Subsidiaries	**7,807**	11,876	(4,069)	(34.3)
Share of Profit or Loss of Associates and Joint Venture	**288**	658	(370)	(56.2)
Project Studies and Business Development Expenses	**(276)**	(323)	(47)	(14.6)
Total Recurrent EBIT	**7,819**	12,211	(4,392)	(36.0)
Interest and Finance Charges	**(939)**	(1,208)	(269)	(22.3)
Income Tax	**(1,740)**	(1,835)	(95)	(5.2)
Non-controlling Interests	**(160)**	(148)	12	8.1
Recurrent Business Profit	**4,980**	9,020	(4,040)	(44.8)
Non-recurrent Business Profit	**5,580**	2,243	3,337	148.8
Underlying Business Profit	**10,560**	11,263	(703)	(6.2)
EBIT Margin# (in %)	**13.8%**	21.5%		(7.7%) pts.
EBIT Margin# (excluding Mainland of China and International Subsidiaries) (in %)	**19.3%**	32.8%		(13.5%) pts.
Results on Normalised Basis ("Normalised Basis")^				
Recurrent Businesses				
EBIT from Hong Kong Businesses and Mainland of China and International Subsidiaries	**12,554**	11,876	678	5.7
Share of Profit or Loss of Associates and Joint Venture	**724**	658	66	10.0
Project Studies and Business Development Expenses	**(276)**	(323)	(47)	(14.6)
Total Recurrent EBIT	**13,002**	12,211	791	6.5
Interest and Finance Charges	**(939)**	(1,208)	(269)	(22.3)
Income Tax	**(2,191)**	(1,835)	356	19.4
Non-controlling Interests	**(160)**	(148)	12	8.1
Recurrent Business Profit	**9,712**	9,020	692	7.7
Non-recurrent Business Profit	**5,580**	2,243	3,337	148.8
Underlying Business Profit	**15,292**	11,263	4,029	35.8
EBIT Margin# (in %)	**21.7%**	21.5%		0.2% pt.
EBIT Margin# (excluding Mainland of China and International Subsidiaries) (in %)	**31.6%**	32.8%		(1.2%) pts.

\# *Excluding profit on Hong Kong property development and share of profit or loss of associates and joint venture.*

^ *Results on normalised basis are estimates based on certain assumptions to represent financial performance if the adverse impact of the public order events in Hong Kong on the Group's Hong Kong businesses (HK$2.3 billion), and the provisions for the Hung Hom incidents of the SCL project in Hong Kong (HK$2 billion) and the South Western Railway franchise agreement in the United Kingdom (HK$0.4 billion) had been excluded.*

Total Revenue

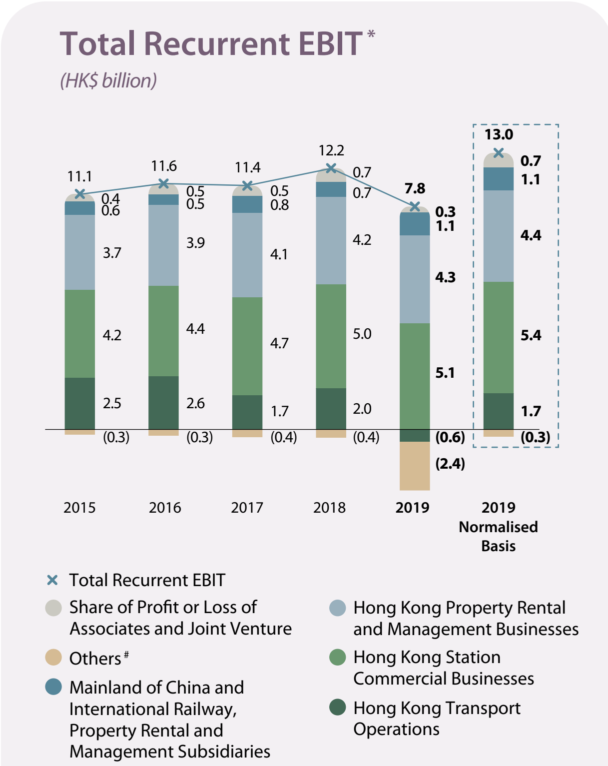
The Group's total revenue in 2019 increased slightly by 1.1% to HK$54,504 million. The increase was mainly due to the full year contribution from HSR and higher revenue contributions from our Mainland of China and international subsidiaries, but offset mostly by the reduction in fare revenue in our Hong Kong transport operations, as well as the rental concessions granted to some tenants in our station kiosks and shopping malls because of the public order events in Hong Kong since June 2019.

Total Recurrent EBIT

The Group's total recurrent EBIT (including share of profit or loss of associates and joint venture as well as project study and business development expenses) in 2019 decreased by 36.0% to HK$7,819 million. The decrease was mainly due to the impact of the public order events in Hong Kong on our Hong Kong businesses and the provisions made for the Hung Hom incidents of the SCL project in Hong Kong and the South Western Railway franchise agreement in the United Kingdom.

Should the above adverse impacts be excluded, total normalised recurrent EBIT would have increased by 6.5% to HK$13,002 million.

On a normalised basis, the contribution from Hong Kong Transport Operations would have decreased 2.9% pts. to 13.4% of total normalised recurrent EBIT, mainly due to higher depreciation and amortisation charges resulting from asset additions to the Hong Kong railway network and a one-off refund of Government rent and rates in 2018 that did not recur in 2019.



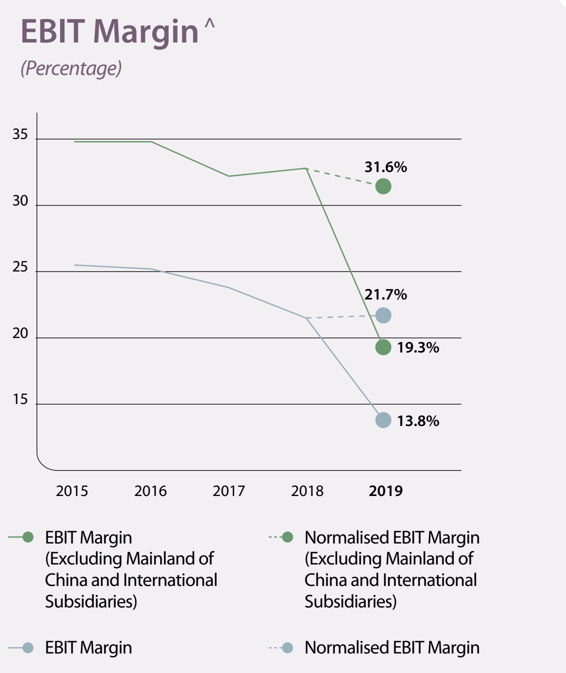
* Including share of profit or loss of associates and joint venture as well as project study and business development expenses

\# Others represents "Other Businesses, and Project Study and Business Development Expenses"

On the other hand, the contribution from Mainland of China and International Railway, Property Rental and Management Subsidiaries would have increased 2.5% pts. to 8.4%, mainly due to performance improvement of our Stockholm commuter rail ("Stockholms pendeltåg") and improved operating profits from Macao LRT Taipa Line project management and O&M services.

EBIT Margin

On a normalised basis, total EBIT margin (excluding profit on Hong Kong property development and share of profit or loss of associates and joint venture) would have increased by 0.2% pt. to 21.7%, in line with 2018. The increase was mainly due to the improvement in EBIT margin for Mainland of China and International subsidiaries, partly offset by the lower EBIT margin for Hong Kong businesses. The improvement in EBIT margin for Mainland of China and International subsidiaries was mainly attributable to the performance improvement of Stockholms pendeltåg and higher operating profit from Macao LRT Taipa Line project management and O&M services. The lower EBIT margin for Hong Kong businesses was mainly due to higher depreciation and amortisation charges resulting from asset additions to the Hong Kong railway network and a one-off refund of Government rent and rates in 2018 that did not recur in 2019, as mentioned in the preceding section.



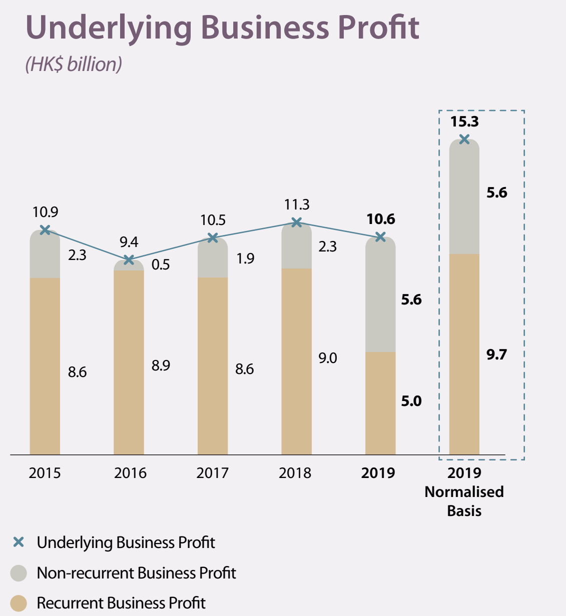
^ *Excluding profit on Hong Kong property development and share of profit or loss of associates and joint venture*

Interest and Finance Charges

Interest and finance charges for recurrent businesses were HK$939 million, representing a decrease of 22.3% from 2018, mainly due to higher interest income from deposits and savings in interest expenses mainly due to lower average debt outstanding. A detailed review of the Group's financing activities is featured in the ensuing section.

Underlying Business Profit

The Group's underlying business profit was HK$10,560 million, representing a decrease of 6.2% from 2018. On a normalised basis, underlying business profit was HK$15,292 million, an increase of 35.8% over 2018.



STATEMENT OF FINANCIAL POSITION

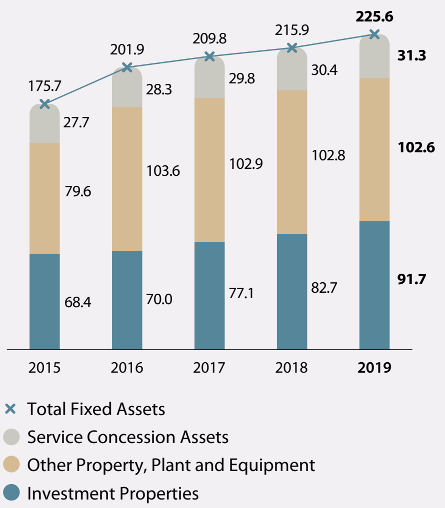
HK$ million	As at 31 December 2019	As at 31 December 2018	Inc. / (Dec.) HK$ million	Inc. / (Dec.) %
Fixed Assets	**225,605**	215,925	9,680	4.5
Property Development in Progress	**12,022**	14,840	(2,818)	(19.0)
Interests in Associates and Joint Venture	**10,359**	8,756	1,603	18.3
Debtors and Other Receivables	**11,169**	9,576	1,593	16.6
Cash, Bank Balances and Deposits	**21,186**	18,022	3,164	17.6
Other Assets	**8,873**	7,568	1,305	17.2
Total Assets	**289,214**	274,687	14,527	5.3
Total Loans and Other Obligations	**(39,456)**	(40,205)	(749)	(1.9)
Creditors and Other Liabilities	**(38,881)**	(30,475)	8,406	27.6
Obligations Under Service Concession	**(10,350)**	(10,409)	(59)	(0.6)
Deferred Tax Liabilities	**(13,729)**	(12,979)	750	5.8
Total Liabilities	**(102,416)**	(94,068)	8,348	8.9
Net Assets	**186,798**	180,619	6,179	3.4
Represented by:				
Total Equity Attributable to Shareholders of the Company	**186,606**	180,447	6,159	3.4
Non-controlling Interests	**192**	172	20	11.6
Total Equity	**186,798**	180,619	6,179	3.4

Fixed Assets

Fixed assets increased by 4.5% to HK$225,605 million, mainly due to receipt of the shopping mall of LOHAS Park Package 7 and investment revaluation gain of the existing portfolio, the recognition of right-of-use assets upon the adoption of HKFRS 16, as well as renewal and upgrade works for our existing Hong Kong railway network. With the new asset additions in our Hong Kong railway network, depreciation and amortisation increased by 5.1%.

Fixed Assets Growth

(HK$ billion)



Property Development in Progress

Property development in progress decreased mainly due to profit recognition of MALIBU and The LOHAS.

Interests in Associates and Joint Venture

Interests in associates and joint venture increased, mainly due to the equity injections into Hangzhou Line 5 (HZL5) joint venture and Sydney Metro Northwest (SMNW) and share of profit from associates.

Debtors and Other Receivables

Debtors and other receivables increased mainly due to the increase in property development receivables upon recognition of the property development profit of MALIBU.

Cash, Bank Balances and Deposits

Cash, bank balances and deposits increased mainly due to cash inflow from operating activities and cash receipts in respect of our Hong Kong property development. The increase was partly offset by capital expenditure and dividend payments.

Total Loans and Other Obligations

Total loans and other obligations decreased mainly due to the net repayment of borrowings (primarily bank loans), partly offset by the recognition of lease liabilities upon the adoption of HKFRS 16.

Creditors and Other Liabilities

Creditors and other liabilities increased mainly due to the amount received in respect of our Hong Kong property development, the provision for the Hung Hom incidents of the SCL project, as well as a timing difference for provisional tax payments in 2019.

Total Equity

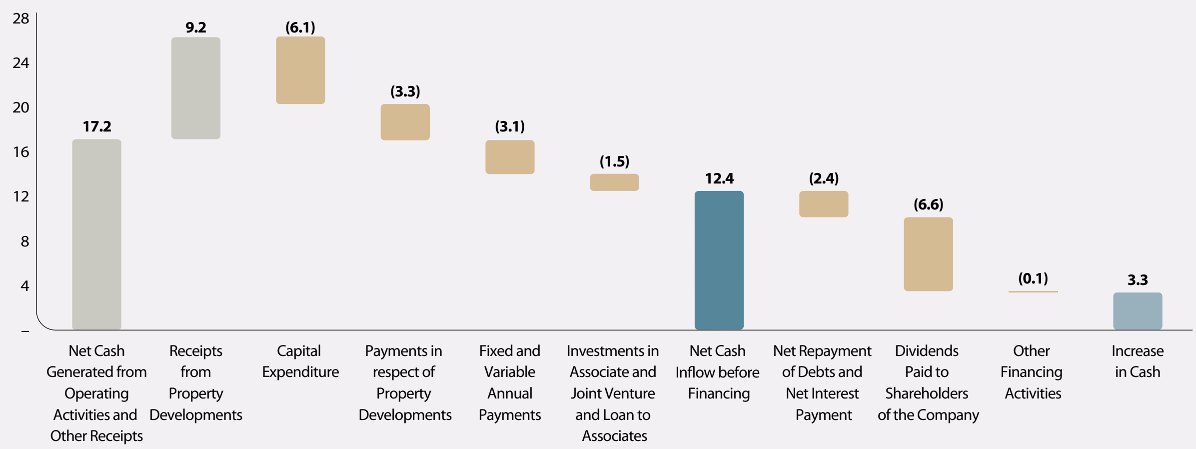
Total equity increased by HK$6,179 million, mainly due to the profit recorded for the year, partly offset by the payments of the 2018 final ordinary dividend and 2019 interim ordinary dividend during the year.

CASH FLOW

HK$ million		**2019**		2018
Net Cash Generated From Operating Activities and Other Receipts		**17,164**		11,281
Receipts from Property Developments		**9,175**		4,235
Net Cash Receipts		**26,339**		15,516
Capital Expenditure		**(6,072)**		(6,447)
Payments in respect of Property Developments		**(3,259)**		(515)
Fixed Annual Payment		**(750)**		(750)
Variable Annual Payment		**(2,305)**		(1,933)
Investments in Associate and Joint Venture and Loan to Associates		**(1,539)**		(1,840)
Total Cash Outflow		**(13,925)**		(11,485)
Net Cash Inflow before Financing		**12,414**		4,031
Net Repayment of Loans and Capital Market Instruments	**(1,678)**		(1,548)	
Net Interest Payment	**(684)**		(842)	
Net Repayment of Debts and Net Interest Payment		**(2,362)**		(2,.390)
Dividends Paid to Shareholders of the Company		**(6,649)**		(1,281)
Other Financing Activities		**(117)**		(153)
Increase in Cash		**3,286**		207
Cash, Bank Balances and Deposits (incl. bank overdraft) as at 1 January		**18,022**		18,350
Increase in Cash		**3,286**		207
Effect of Exchange Rate Changes		**(122)**		(535)
Cash, Bank Balances and Deposits (incl. bank overdraft) as at 31 December		**21,186**		18,022

Cash Flow for the Year Ended 31 December 2019

(HK$ billion)



Net Cash Generated from Operating Activities and Other Receipts

The increase in net cash generated from operating activities and other receipts by HK$5,883 million was mainly due to the payment of the land premium for the Wong Chuk Hang Station package to the Government amounting to HK$5,214 million in 2018, which did not recur in 2019, and a timing difference for provisional tax payments in 2019.

Receipts from Property Development

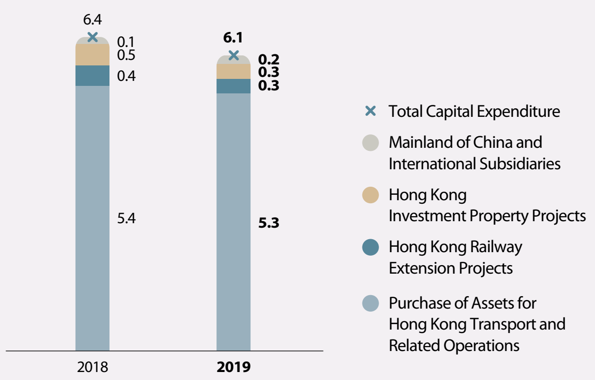
The increase in receipts from property development was mainly due to cash receipts from the LOHAS Park Packages.

Capital Expenditure

In 2019, capital expenditure mainly comprised cash outflow of HK$5,291 million for Hong Kong transport and related operations, HK$292 million for Hong Kong railway extension projects and HK$308 million for investment property projects.

Capital Expenditure

(HK$ billion)



Payments in Respect of Property Developments

The increase in payments in respect of property development was mainly due to the cash payments for the LOHAS Park packages.

Investments in Associate and Joint Venture and Loan to Associates

Investment in associate and joint venture and loans to associates in 2019 mainly related to the equity injections into the HZL5 joint venture and SMNW.

Net Repayment of Debts and Net Interest Payment

In 2019, net repayment of debts and net interest payment comprised of (i) mainly repayment of bank loans of HK$13,337 million, (ii) proceeds mainly from capital market instruments of HK$11,659 million to the financing portfolio to achieve lower interest costs, and (iii) a net interest payment of HK$684 million.

A detailed review of the Group's financing activities is featured in the ensuing section.

Dividends Paid to Shareholders of the Company

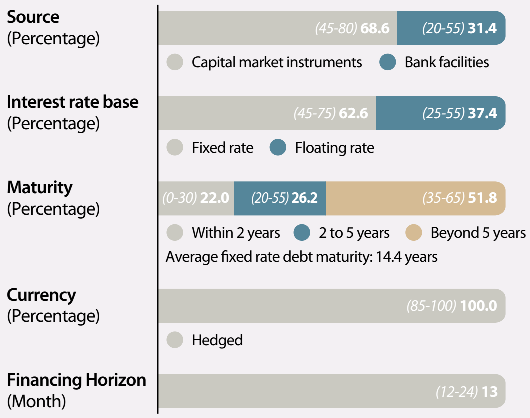
The Group paid dividends of HK$6,649 million (2018: HK$1,281 million) in cash, being the 2018 final dividend of HK$0.95 per share and the 2019 interim dividend of HK$0.25 per share. The higher cash dividend payment was the result of Government's election for cash dividends in 2019 in respect of 2018 final and 2019 interim dividends, and for scrip dividends in 2018 in respect of 2017 final and 2018 interim dividends.

FINANCING ACTIVITIES

Preferred Financing Model and Debt Profile

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

(Preferred Financing Model) vs. **Actual debt profile**
As at 31 December 2019



Growth in the global economy slowed down during the year against the backdrop of the US-China trade war. In January 2020, the International Monetary Fund cut its global growth estimation for 2019 to 2.9%, the lowest projection level since 2008-2009. The growth projection for 2020 was also lowered to 3.3%, with a rebound expected to be led by emerging markets but major economies such as the US, China, Japan and India slowing further.

In the absence of inflationary pressures, major central banks have been pursuing easing monetary policies to reduce downside risks to growth. The US Federal Reserve cut interest rates three times in 2019, while the European Central Bank restarted its bond purchase programme in November and cut the interest rate on bank reserves to a historic low. However, trade and geopolitical tensions continued to disrupt economic activities, leading to abrupt shifts in risk sentiment. The recent outbreak of COVID-19 only exacerbated the situation.

USD short term interest rates fell, with the 3-month USD Libor dropping from 2.81% p.a. at the start of 2019 to 1.91% p.a. at year end. The Hong Kong Monetary Authority also lowered its base rate three times in 2019, but HKD short term interest rates were more volatile. The 3-month HKD Hibor started the year at 2.33% p.a., fell to a low of 1.56% p.a. in February, then subsequently moved within a small range between 2.12% p.a. and 2.66% p.a. in the second half of the year before ending the year at 2.43% p.a.

Longer term USD and HKD rates both exhibited downward trends with high volatility. The benchmark 10-year US Treasury yield started the year at 2.68% p.a. and fell sharply to 1.46% p.a. in September before rebounding to close the year at 1.92% p.a. The 10-year HKD swap rate started the year at 2.45% p.a. and fell to a low of 1.45% p.a. in August before closing the year at 2.04% p.a.

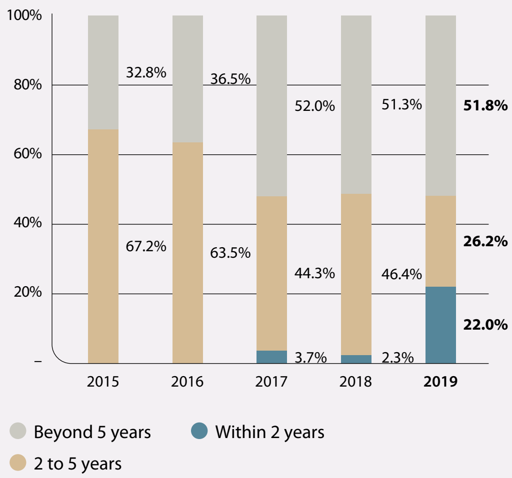
In 2019 the Company focused on transactions that can achieve lower interest costs. Two MTNs (total HK$1.2 billion equivalent) and several bilateral bank loans (total HK$2.3 billion), with tenors between 6 to 12 months, were added to the financing portfolio.

Outside Hong Kong, a 25-year bank loan of CNY 6.5 billion was closed in June for the Hangzhou Line 5 project, and an A$ 2.7 billion financing package was closed in November for the Sydney Metro City and South West project and the Sydney Metro North West project.

Maturity Profile

The graph below shows the maturity profiles of the Company's interest bearing borrowings at the 2015-2019 year-end. This demonstrates the spread of the maturities of the Company's borrowings and well-managed refinancing risk. The increase in the proportion of borrowing with maturities within two years in 2019 was related to activities aiming at interest cost reduction.

Maturity Profile



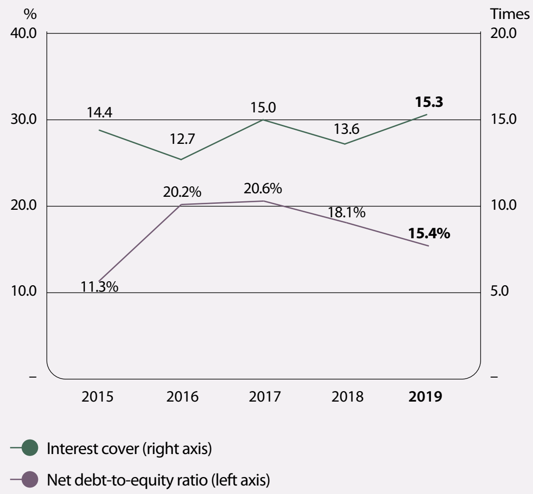
* *The Company monitors the refinancing risk (i.e. the debt maturity profile) based on available committed facilities. The profiles from 2015-2018 have been restated on this basis*

Gearing Ratio and Interest Coverage

The Group's gearing ratio, as measured by the net debt-to-equity ratio, decreased by 2.7 percentage points to 15.4% at year-end 2019 from 18.1% at year-end 2018, mainly due to strong net cash inflow during the year. The Group's interest cover increased from 13.6 times to 15.3 times.

The graph below shows the level of leverage and our ability to meet interest payment obligations over the past five years.

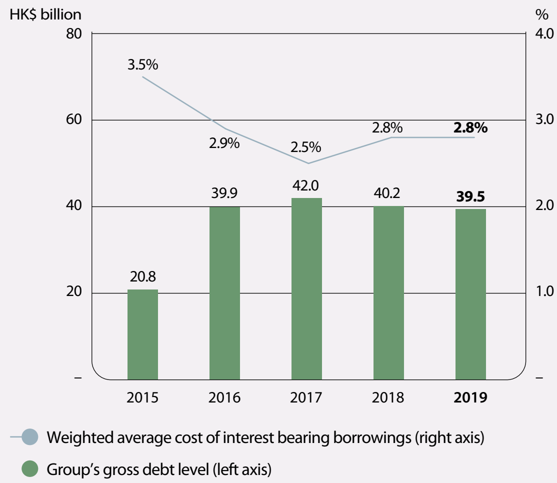
Net Debt-to-Equity Ratio and Interest Coverage



Cost of Borrowing

The Group's consolidated gross debt position decreased from HK$40,205 million at year-end 2018 to HK$39,456 million at year-end 2019. The weighted average cost of interest bearing borrowings of the Group remained at 2.8% p.a.

Group's Gross Debt Level and Weighted Average Cost of Interest Bearing Borrowings

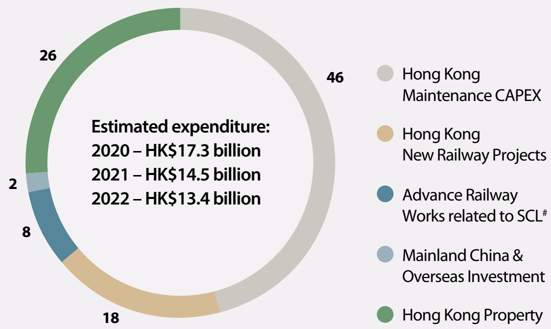


Financing Capacity

The Group's capital expenditure and investment mainly consists of three parts: Hong Kong railway projects (including maintenance), Hong Kong property investment and development, and Mainland of China and overseas investments. The total spending from 2020 to 2022 is estimated at HK$45.2 billion.

Capital Expenditure and Investment (2020-2022)

(Percentage)



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

Capital expenditure on the Hong Kong railway projects (including maintenance cost for the Hong Kong railway system) will continue to constitute a significant portion of the capital expenditure in 2020-2022. Expenditure on Hong Kong property investment and development is mainly related to the enabling works at LOHAS Park and the acquisition of the Company's remaining interests in Telford Plaza II shopping centre and PopCorn 2 shopping centre.

Based on its cash balance and available committed banking facilities as well as its ready access to both the loan and debt capital markets, the Group believes that it will have sufficient financing capacity to fund its capital expenditure and investment programme.

Credit Ratings (as of 5 March 2020)

Credit ratings	Short-term*	Long-term*
Standard & Poor's	A-1+/A-1+	AA+/AA+
Moody's	-/P-1	Aa3/Aa3
Rating & Investment Information, Inc. (R&I)	a-1+	AA+

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

TEN-YEAR STATISTICS

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Financial										
Consolidated Profit and Loss *(in HK$ million)*										
Total revenue										
– Hong Kong transport operations	**19,938**	19,490	18,201	17,655	16,916	16,223	15,166	14,523	13,509	12,635
– Hong Kong station commercial businesses	**6,799**	6,458	5,975	5,544	5,380	4,963	4,588	3,680	3,422	2,853
– Hong Kong property rental and management businesses	**5,137**	5,055	4,900	4,741	4,533	4,190	3,778	3,401	3,083	2,845
– Mainland of China and international railway, property rental and management subsidiaries	**21,085**	20,877	17,194	13,562	12,582	12,627	13,246	12,786	12,411	10,260
– Other businesses	**1,545**	1,990	2,174	2,339	2,290	2,153	1,929	1,349	998	925
– Recurrent businesses	**54,504**	53,870	48,444	43,841	41,701	40,156	38,707	35,739	33,423	29,518
– Mainland of China property development	**–**	60	6,996	1,348	–	–	–	–	–	–
– Total	**54,504**	53,930	55,440	45,189	41,701	40,156	38,707	35,739	33,423	29,518
Total EBITDA										
– Recurrent businesses	**15,351**	18,843	17,677	16,947	16,260	15,478	14,399	12,895	12,124	10,917
– Hong Kong property development	**5,707**	2,574	1,097	311	2,891	4,216	1,396	3,238	4,934	4,034
– Mainland of China property development	**(25)**	25	2,314	366	(140)	(55)	–	–	–	–
– Total	**21,033**	21,442	21,088	17,624	19,011	19,639	15,795	16,133	17,058	14,951
Depreciation and amortisation	**(5,237)**	(4,985)	(4,855)	(4,127)	(3,849)	(3,485)	(3,372)	(3,208)	(3,206)	(3,120)
Variable annual payment	**(2,583)**	(2,305)	(1,933)	(1,787)	(1,649)	(1,472)	(1,247)	(883)	(647)	(45)
Total EBIT										
– Recurrent businesses										
EBIT										
Hong Kong transport operations	**(591)**	1,985	1,656	2,572	2,493	2,710	2,716	2,881	2,701	2,877
Hong Kong station commercial businesses	**5,122**	5,025	4,722	4,362	4,230	3,927	3,668	2,969	2,799	2,441
Hong Kong property rental and management businesses	**4,264**	4,225	4,082	3,912	3,650	3,427	3,092	2,764	2,490	2,280
Mainland of China and international railway, property rental and management subsidiaries	**1,089**	722	814	490	640	782	704	520	381	259
Other businesses	**(2,077)**	(81)	(53)	58	53	129	86	(7)	23	111
Project studies and business development expenses	**(276)**	(323)	(332)	(361)	(304)	(454)	(486)	(323)	(123)	(216)
Share of profit or loss of associates and joint venture	**288**	658	494	537	361	121	158	456	297	139
Sub-total	**7,819**	12,211	11,383	11,570	11,123	10,642	9,938	9,260	8,568	7,891
– Non-recurrent businesses										
Property developments	**5,682**	2,599	3,411	675	2,751	4,161	1,396	3,238	4,934	4,034
– Total	**13,501**	14,810	14,794	12,245	13,874	14,803	11,334	12,498	13,502	11,925
Profit attributable to shareholders of the Company arising from:										
– Recurrent businesses	**4,980**	9,020	8,580	8,916	8,565	8,024	7,437	6,914	6,243	5,397
– Property developments	**5,580**	2,243	1,935	530	2,329	3,547	1,163	2,704	4,225	3,260
– Underlying businesses	**10,560**	11,263	10,515	9,446	10,894	11,571	8,600	9,618	10,468	8,657
– Investment property revaluation	**1,372**	4,745	6,314	808	2,100	4,035	4,425	3,757	5,088	4,074
– Total	**11,932**	16,008	16,829	10,254	12,994	15,606	13,025	13,375	15,556	12,731
Profit for the year	**12,092**	16,156	16,885	10,348	13,138	15,797	13,208	13,514	15,688	12,844
Earnings per share *(in HK$)*	**1.94**	2.64	2.83	1.74	2.22	2.69	2.25	2.31	2.69	2.21
Ordinary dividend per share *(in HK$)*	**1.23**	1.20	1.12	1.07	1.06	1.05	0.92	0.79	0.76	0.59
Ordinary dividend proposed and declared	**7,574**	7,359	6,728	6,317	6,207	6,116	5,335	4,575	4,396	3,405
Share price at 31 December *(in HK$)*	**46.05**	41.20	45.80	37.70	38.40	31.80	29.35	30.50	25.15	28.30
Market capitalisation at 31 December *(HK$ million)*	**283,574**	252,947	275,156	222,629	224,956	185,284	170,187	176,692	145,490	163,364
Consolidated Financial Position *(in HK$ million)*										
Total assets	**289,214**	274,687	263,768	257,340	241,103	227,152	215,823	206,687	197,684	181,660
Loans, other obligations and bank overdrafts	**39,456**	40,205	42,043	39,939	20,811	20,507	24,511	23,577	23,168	21,057
Obligations under service concession	**10,350**	10,409	10,470	10,507	10,564	10,614	10,658	10,690	10,724	10,749
Total equity attributable to shareholders of the Company	**186,606**	180,447	166,304	149,461	170,055	163,325	152,557	142,904	131,907	121,914
Financial Ratios										
EBITDA margin◊ *(in %)*	**28.1**	35.0	36.1	38.3	38.7	38.4	37.2	36.1	36.3	37.0
EBITDA margin◊ (excluding Mainland of China and international subsidiaries) *(in %)*	**42.0**	54.5	53.5	54.0	53.3	53.1	53.4	53.6	55.6	55.1
EBIT margin$^{\varphi}$ *(in %)*	**13.8**	21.5	23.8	25.2	25.5	26.1	25.3	24.6	24.7	26.3
EBIT margin$^{\varphi}$ (excluding Mainland of China and international subsidiaries) *(in %)*	**19.3**	32.8	32.2	34.8	34.8	35.4	35.6	36.1	37.5	38.9
Net debt-to-equity ratio *(in %)*	**15.4**	18.1	20.6	20.2	11.3	7.6	11.8	11.0	11.6	12.3
Return on average equity attributable to shareholders of the Company arising from underlying businesses *(in %)*	**5.8**	6.5	6.7	5.9	6.5	7.3	5.8	7.0	8.2	7.7
Interest cover *(times)*	**15.3**	13.6	15.0	12.7	14.4	15.2	11.5	13.0	14.5	10.5

◊ *Excluding profit on Hong Kong property development.*

φ *Excluding profit on Hong Kong property development and share of profit or loss of associates and joint venture.*

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Hong Kong Transport Operations										
Revenue car-km operated *(thousand)*										
Domestic and Cross-boundary services	**301,552**	308,742	301,541	287,828	284,487	273,771	269,141	260,890	254,407	253,067
Airport Express	**22,971**	23,190	23,202	23,276	23,242	23,232	23,216	23,134	19,603	19,833
Light Rail	**10,592**	11,139	11,145	11,152	11,034	10,728	10,554	10,453	10,166	9,586
Total number of passengers *(thousand)*										
Domestic Service	**1,568,196**	1,669,973	1,637,898	1,586,522	1,577,457	1,547,757	1,474,659	1,431,040	1,366,587	1,298,714
Cross-boundary Service	**104,183**	117,448	112,549	113,274	114,241	113,049	111,362	109,707	103,881	99,954
High Speed Rail	**16,923**	5,302[@]	–	–	–	–	–	–	–	–
Airport Express	**15,764**	17,710	16,621	16,133	15,725	14,881	13,665	12,695	11,799	11,145
Light Rail	**155,885**	179,411	178,502	178,709	176,149	174,199	171,652	167,210	161,289	154,522
Bus	**51,484**	51,025	50,744	50,413	50,537	50,404	47,738	45,962	43,956	40,883
Intercity	**1,880**	3,630	3,698	3,739	4,080	4,348	4,324	4,028	3,787	3,244
Average number of passengers *(thousand)*										
Domestic Service – weekday average	**4,658**	4,862	4,772	4,608	4,577	4,490	4,297	4,148	3,968	3,770
Cross-boundary Service – daily average	**285**	322	308	309	313	310	305	300	285	274
High Speed Rail – daily average	**46**	53[#]	–	–	–	–	–	–	–	–
Airport Express – daily average	**43**	49	46	44	43	41	37	35	32	31
Light Rail – weekday average	**448**	506	503	500	493	487	482	466	451	433
Bus – weekday average	**151**	147	146	144	145	144	137	131	126	118
Intercity – daily average	**5**	10	10	10	11	12	12	11	10	9
Average passenger km travelled										
Domestic and Cross-boundary services	**10.6**	10.8	10.8	10.9	11.0	11.0	11.0	10.9	10.9	10.9
Airport Express	**28.2**	28.3	28.5	28.4	28.4	28.6	29.0	29.0	29.4	29.4
Light Rail	**2.7**	2.7	2.7	2.7	2.7	2.7	2.8	2.8	2.8	2.8
Bus	**4.5**	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Average car occupancy *(number of passengers)*										
Domestic and Cross-boundary services	**59**	62	63	64	65	67	65	65	63	60
Airport Express	**19**	22	20	20	19	18	17	16	18	17
Light Rail	**40**	44	44	44	44	45	45	45	45	45
Proportion of franchised public transport boardings (%)	**47.4**	49.0[&]	49.1	48.4	48.5	48.1	46.9	46.4	45.4	44.3
HK$ per car-km operated *(Hong Kong Transport Operations)*										
Total revenue	**51.7**[*]	53.4[*]	52.5	53.0	51.3	51.0	48.4	47.6	45.9	43.2
Operating costs	**33.0**[*]	28.2[*]	28.5	27.7	27.2	26.8	24.9	24.2	23.1	21.5
Operating profit	**18.7**[*]	25.2[*]	24.0	25.3	24.1	24.2	23.5	23.4	22.8	21.7
HK$ per passenger carried *(Hong Kong Transport Operations)*										
Total revenue	**9.40**[*]	9.26[*]	9.10	9.06	8.73	8.52	8.31	8.20	7.99	7.86
Operating costs	**5.99**[*]	4.89[*]	4.93	4.73	4.63	4.47	4.27	4.18	4.02	3.91
Operating profit	**3.41**[*]	4.37[*]	4.17	4.33	4.10	4.05	4.04	4.02	3.97	3.95
Safety Performance										
Domestic Service, Cross-boundary Service and Airport Express										
Number of reportable events[^]	**1,164**	1,056	1,148	1,134	1,246	1,327	1,408	1,761	1,769	1,592
Reportable events per million passengers carried[^]	**0.69**	0.58	0.65	0.66	0.73	0.79	0.88	1.13	1.19	1.13
Number of staff and contractors' staff accidents[Δ]	**81**	50	46	61	64	57	67	58	44	46
Light Rail										
Number of reportable events[^]	**163**	87	104	191	157	122	118	151	164	165
Reportable events per million passengers carried[^]	**1.05**	0.48	0.58	1.07	0.89	0.70	0.69	0.90	1.02	1.07
Number of staff and contractors' staff accidents[Δ]	**8**	2	5	8	6	4	4	2	7	5
Employees										
Hong Kong										
Corporate management and support departments	**1,899**	1,932	1,882	1,837	1,792	1,756	1,676	1,600	1,486	1,362
Station commercial businesses	**234**	204	191	192	182	170	158	148	144	144
Operations	**12,211**	11,948	11,591	11,349	10,891	10,404	10,033	9,460	9,244	9,026
Projects	**1,531**	1,711	2,144	2,615	2,684	2,764	2,804	2,495	2,109	1,794
Property and other businesses	**1,549**	1,500	1,440	1,416	1,384	1,350	1,305	1,273	1,282	1,291
Mainland of China and international businesses	**318**	331	276	230	194	180	182	224	179	212
Outside of Hong Kong										
Offshore employees	**16,521**	14,270	10,781	9,866	8,157	7,530	7,078	6,955	6,851	6,672
Total	**34,263**	31,896	28,305	27,505	25,284	24,154	23,236	22,155	21,295	20,501

@ *High Speed Rail service commenced on 23 September 2018.*

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

& *Market share for 2018 was rebased to reflect the impact on the opening of Hong Kong – Zhuhai – Macao Bridge.*

* *Does not include the High Speed Rail service.*

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

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

INVESTOR RELATIONS

MTR has been participating in international capital markets in the 40 years since its establishment.

As an acknowledged leader in investor relations practice in Asia, we are respected for our high standards of corporate governance and disclosure. We believe that by communicating our strategies, business development and future outlook to investors in a clear, transparent and proactive manner helps to enhances shareholder value. We therefore engage regularly with both institutional and retail investors.

COMMUNICATING WITH INVESTORS

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

The management of MTR makes every effort to ensure that investors have a thorough understanding of our business. In 2019, we held 359 meetings with institutional investors and analysts in Hong Kong and elsewhere. We also participated in investor conferences and roadshows, both in Hong Kong and in other major financial markets around the world.

The Company's Annual General Meeting ("AGM") is one of the principal channels of communication with shareholders. Further details on the 2019 AGM are set out in the "Annual General Meeting" section of the "Corporate Governance Report" on pages 113 to 114 of this Annual Report.

ACCESS TO INFORMATION

Our corporate website provides investors with equal and timely access to Company information. The Investor Information section provides details on our financial performance in readily accessible form. Financial reports, patronage figures, together with other Company news and stock exchange filings, are all accessible on the website.

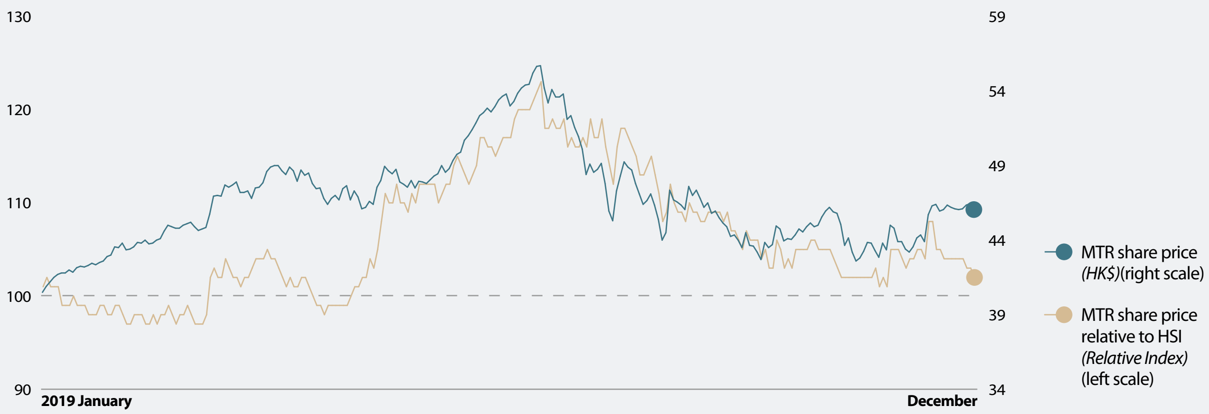
In addition to the shareholder services offered by Computershare, our dedicated hotline answered about 43,000 enquiries from individual shareholders in 2019.

INDEX LISTING AND RECOGNITIONS

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

Our Annual Report achieves considerable recognition each year for presenting a clear picture of the Company's performance and strategy. Our 2018 Annual Report, for example, won a Bronze Award in the "General" category of the 2019 Best Annual Reports Awards competition by the Hong Kong Management Association, as well as 10 awards in the 2019 International ARC Annual Report Competition by MerComm, Inc.

SHARE PRICE PERFORMANCE



FINANCIAL CALENDAR 2020

Announcement of 2019 annual results	5 March
Annual General Meeting	20 May
Last day to register for 2019 final dividend	25 May
Book closure period	26 May to 29 May
2019 final dividend payment date	16 July
Announcement of 2020 interim results	August
2020 interim dividend payment date	October
Financial year end	31 December

DIVIDEND INFORMATION

Dividend per Share

	(in HK$)
2018 Total Ordinary Dividend	1.20
2019 Interim Ordinary Dividend	0.25
2019 Final Ordinary Dividend	0.98

Dividend Policy

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

SHAREHOLDINGS AS AT 31 DECEMBER 2019

Ordinary Shares

Shares outstanding	6,157,948,911 shares
Hong Kong SAR Government Shareholding	4,634,173,932 shares (75.26%)
Free float	1,523,774,979 shares (24.74%)

Market Capitalisation

(as at 31 December 2019)	HK$ 283,574 million

SHARE INFORMATION

Stock Codes

Ordinary Shares

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

CONTACTS

Shareholder Services

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

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

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

Shareholder Enquiries

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

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

Investor Relations

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

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

Email: investor@mtr.com.hk

Annual Report 2019

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

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

If you are not a shareholder, please write to:

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

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

Principal Place of Business and Registered Office

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

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

HK$18 million
in-kind Support for NGOs and Community Organisations

259
volunteering projects organised

HK$21 million
Community Investment Initiatives

CORPORATE RESPONSIBILITY

MTR's success has been built on the clear vision, mission and values that steer our corporate behaviour and guide us in achieving business results. We also recognise that corporate responsibility is crucial to maintaining our position as a responsible business that contributes to and benefits society.

As an organisation whose mission is to connect people and communities, we provide rail and property services that are closely linked to the lives of people in the communities we serve. Underpinned by our sustainable financial model, corporate responsibility is about operating safely and responsibly in all aspects of our business and contributing positively to the development of the communities in which we operate.

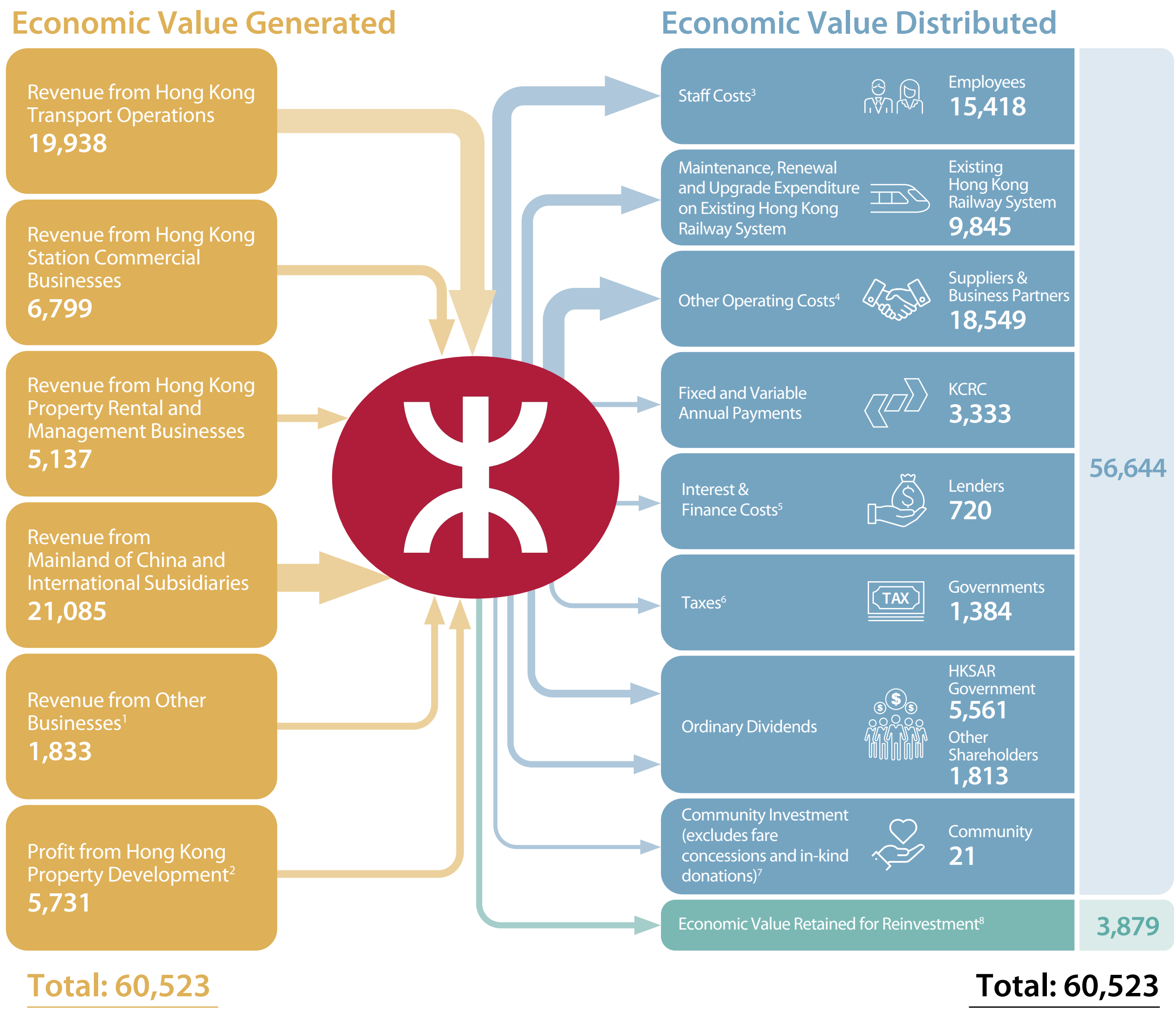
We are placing greater emphasis on our Environmental, Social and Governance ("ESG") behaviour and practices across MTR. During the year, we began a comprehensive review of our business strategy, which includes studies on how to strengthen our reputation.

To keep stakeholders up to date on our ESG performance, we have published a sustainability report every year for the past two decades. It fulfils the disclosure requirements of both the Hong Kong Stock Exchange ESG Reporting Guide and the Global Reporting Initiative: Core option. We also produce a separate sustainability website, which in addition to the sustainability report itself, provides details of our approach to sustainability and serves as a focal point of the Company.

The sustainability report contained an Independent Assurance Report prepared by an external auditor, which performed limited assurance in relation to certain sustainability performance data. These include data for both the Hong Kong and Mainland of China and International businesses covering Greenhouse Gas ("GHG") emissions, staff indicators such as turnover and training days, safety performance for operations, staff and contractors, and supply chain management numbers.

VALUE ADDED AND DISTRIBUTION STATEMENT IN 2019

(HK$ MILLION)



Notes:

1. *Includes share of profit or loss of associates and joint venture.*
2. *Before taking into account staff costs of HK$24 million.*
3. *Excludes staff costs related to Hong Kong railway system maintenance of HK$2,443 million, capitalised for asset creation of HK$1,286 million and recoverable of HK$602 million.*
4. *For simplicity reason, operating costs include interest income, netted with profit attributable to non-controlling interests. Excludes operating costs related to Hong Kong railway system maintenance of HK$2,320 million.*
5. *Excludes interest expenses capitalised for asset creation of HK$449 million.*
6. *Represents current income tax and excludes deferred tax for the year.*
7. *Includes donations, sponsorships and other community engagement contributions, and excludes ongoing fare concessions and promotions of HK$2,675 million and in-kind donations of HK$18 million.*
8. *Economic value retained for reinvestment to generate future economic values. This represents underlying business profit attributable to shareholders of the Company (before depreciation, amortisation and deferred tax) for the year retained, after the amounts distributed to our stakeholders and invested in asset maintenance, renewal and upgrade of our Hong Kong railway system.*

GOVERNANCE AND POLICIES

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

Our management approach to corporate responsibility comprises a number of policies, including our Corporate Responsibility Policy, Safety Policy, Green Procurement Policy, Climate Change Strategy, and Modern Slavery and Human Trafficking Statement. These policies are overseen by the Board's Corporate Responsibility Committee, which provides strategic guidance and reviews our corporate responsibility practices and performance. Please also refer to the Corporate Responsibility Committee in the "Corporate Governance Report" (pages 99 to 100) of this annual report for its principal responsibilities. Our Corporate Responsibility Steering Committee supports our corporate responsibility efforts by providing direction on responsible business practices across all divisions.

OUR FOCUS ON SAFETY

The safety of our customers, employees and business partners is always our number one priority. We ensure a safe and healthy environment by cultivating a safety-first culture, promoting continuous improvement, and engaging and educating our stakeholders on the requirements of our Corporate Safety Policy.

Our Corporate Strategic Safety Plan, which is reviewed and revised every four years, helps us to manage safety across all our business areas in support of our growth and global expansion. We also have a Corporate Safety Management Model with a framework for overseeing our safety performance across eight core elements of our business.

For details on how we enhance customer safety, please refer to the section "Hong Kong Transport Operations" (page 36) of this Annual Report.

We also take a rigorous approach with regard to the safety of our staff, contractors and systems. To promote our safety-first culture, we hold a Corporate Safety Month each year alongside ongoing initiatives to address specific safety issues. Another initiative, Zero Harm, was launched to raise safety awareness among our customers, staff and contractors by providing them with clear guidelines and training in safety.

Moreover, we invest heavily in the maintenance of our assets and assess operational safety impacts throughout the lifecycles of our projects.

ENVIRONMENTAL PROTECTION

As an electrically powered mass transit railway, MTR is already a provider of low-carbon and environmentally sustainable mode of transport for large volumes of people in cities. Our biggest contribution to the environment, therefore, comes from avoiding pollution, such as emissions from our fleet of road vehicles including buses.

In addition to lowering our direct emissions, we strive to use resources as efficiently as possible and to minimise the other environmental impacts of our business, as set out in our Corporate Responsibility Policy.

As a builder of new railways and property developments, we are conscientious of our environmental responsibilities before undertaking any new projects. In Hong Kong, Environmental Impact Assessment has to be conducted before the start of any designated project, and we have to ensure that appropriate mitigation measures are in place. We are also guided by Environmental Management Systems that are independently audited and certified to be ISO 14001 compliant.

In June 2018, we established a new Green Finance Framework, which builds on our previous Green Bond Framework to include more types of green financing, such as green loans and green credit facilities. The framework takes into account the recommendations of the Green Loan Principles issued by the Asia Pacific Loan Market Association in March 2018. With this framework in place, we are able to pursue sustainable public transport infrastructure projects, while demonstrating our support for green finance initiatives. Details of our sustainable investments are provided in our annual Green Finance Report, which will be published on our sustainability website in May 2020.

Reducing carbon emission by continuing to cut down electricity consumption and adopting energy efficiency measures is an important goal for us. We have set a target of achieving a 21% reduction from 2008 levels in the electricity consumption per passenger-km in our heavy rail network by 2020. One of our reduction initiatives is to replace our air conditioning systems with more energy-efficient chillers in our Hong Kong network. By the end of 2019, a reduction of 12% in our electricity consumption per passenger-km as compared to the base year had been achieved.

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

OUR SUPPLIERS

All our suppliers and contractors are required to comply with our Supplier Code of Practice, which sets out a compulsory behavioural framework covering ethical standards, human and labour rights and supply chain management. We also have a Green Procurement Policy that promotes high standards of environmental protection and sustainability, both internally and among our suppliers and contractors. To comply with the UK Modern Slavery Act, we have updated our Modern Slavery and Human Trafficking Statement to elucidate our commitment to preventing any incidence of modern slavery or human trafficking within our supply chains and business.

HOW WE CONTRIBUTE TO SOCIETY

Community Connect is our platform for initiatives that help a wide range of sectors in the communities we serve, while also enhancing the liveability of our city. We offer a wide range of programmes and activities that are carefully designed to support and engage communities across all 18 districts of Hong Kong. In addition, we enhance passengers' travel experiences by providing a showcase for local and international artists through our Art in MTR programme.

We also encourage our employees to volunteer for activities that benefit the community and, on a corporate level, collaborate with non-profit organisations and social enterprises to address evolving community needs.

Youth, Children and the Elderly

For many years, we have been organising youth programmes that support young people's aspirations for a better future. These programmes are designed to equip them with the skills and knowledge they will require in an increasingly complex world, as well as provide them with opportunities to succeed in their careers. In 2019, there were about 83,000 participants in our youth and children's programmes.

One of the youth programmes we offer, the STEM Challenge, has been running since 2017 with the aim of stimulating secondary school students' interest in STEM (Science, Technology, Engineering and Mathematics) subjects. In the 2018/19 programme, over 700 students in 132 teams submitted their proposals for sustainable infrastructure. Finalists from 14 teams presented on the Pitch Day in May 2019, and the three best performing teams joined a study tour to visit MTR's railway operations in London.

A series of STEAM (Science, Technology, Engineering, Art and Mathematics) workshops held in August, during which parents and their children had the opportunity to participate in specially designed interactive workshops to challenge themselves.

Our annual summer programme, 'Train' for life's journeys, has been running for 11 years and helped secondary school students to develop soft skills and strengthen their self-confidence through a series of interactive workshops, an adventure camp and job tasting at MTR. The Youth Forum, which brought together working youth, students and our management, also provided a platform to engage and understand the perspectives of our young people.

We also continued to run two programmes for young children – the Budding Station Master programme, in which children act as station ambassadors handing out safety

messages and gifts in selected stations, and the interactive MTR Safety Experience Zone at Tsing Yi Station, where children receive safety tips on riding our trains.

In addition to the programmes we provide for our young passengers, we organised a variety of activities aimed at the elderly. These included the 18 Districts x MTR Ngong Ping 360 Elderly Programme in which elderly people from 18 districts were invited to enjoy free cable car rides and lunch at Ngong Ping Village. About 12,000 seniors attended this popular programme in 2018/2019. Other initiatives aimed at seniors in the year included a series of talks for the elderly on safety and the Elderly Ambassadors programme in which seniors were trained to assist their peers on how to make the most of their MTR experience.

Community Outreach

Under our "More Time Reaching Community" scheme, we encourage our colleagues to volunteer their own time to serve the community. In 2019, our staff and retiree volunteers organised a total of 259 projects, involving around 4,400 participating volunteer headcount to serve the elderly, mentally and physically challenged people, children, youth and underprivileged families. A series of MTR-themed volunteering activities for underprivileged children were also organised in celebration of MTR's 40th Anniversary.

During the year, the Group donated and sponsored HK$12.7 million to charitable and other organisations.

Art and Culture

We offer space in various stations for art exhibitions under the Art in MTR programme to promote artistic talent and the public's appreciation of art.

Under this programme, we held an exhibition in honour of the resident artists of the Jockey Club Creative Arts Centre. In support of the World Green Organisation's design competition for addressing the issue of land shortages, we featured the work of the winners at Sheung Wan and Sai Wan Ho stations.

RECOGNITION FOR CORPORATE RESPONSIBILITY

In 2019, MTR was again listed as a constituent member of global sustainability indices for investors, including the Dow Jones Sustainability Asia Pacific Index and the FTSE4Good Index. We also achieved an AAA rating in the MSCI Sustainability Indexes.

In 2019, MTR was awarded the 10 Years Plus Caring Company Logo by the Hong Kong Council of Social Service for the fifth consecutive year in recognition of our commitment to caring for the community, employees and the environment.

We also received the Award of Excellence, the Diamond Award and Outstanding Award of the Corporate and Employee Contribution Programme 2018/19 by The Community Chest. These awards recognise the contributions of our staff and the Corporation and reflect our strong commitment to the community.

Our commitment with corporate responsibility was also recognised with the Corporate Responsibility Award we received at the Hong Kong Service Awards 2019 organised by East Week Magazine.

7.1
Average Training Days per Employee in Hong Kong

50,000+
Staff Worldwide

HUMAN RESOURCES

Our staff are pivotal to our success. We are committed to inspiring, engaging and developing our people. As at 31 December 2019, the Company together with our subsidiaries employed 17,742 people in Hong Kong and 16,521 people outside of Hong Kong. Our associates also employed an additional 16,534 people in Hong Kong and worldwide.

RECRUITMENT, TALENT MANAGEMENT AND RETENTION

The Company remains a rewarding place to work, with initiatives in place to engage and motivate staff as well as programmes for training and talent development. In 2019, we hired a total of 1,699 people, and voluntary staff turnover remained low at 4.4% in Hong Kong.

To cater for our current and future operational needs, we rolled out a number of initiatives in search of the best candidates, including a series of Recruitment Days, our online recruitment platform and various social media channels. We also launched a new Employee Referral Programme in January 2019, which received encouraging responses.

To satisfy our long-term succession and manpower needs, we recruited high calibre graduates, including seven Graduate Engineers, five Functional Associates and 10 Graduate Trainees for our graduate development programmes during the year. Our recruitment efforts brought in 59 apprentices and 15 technician associates to our Company. With a view to developing general managers for our future business growth, we launched the General Management Talent Mobility Development Programme in 2019 for our Operations Division. We have also arranged overseas rotations in our hubs for Graduate Trainees and Executive Associates to broaden their exposure of our Mainland of China and international business and to gain critical experience to support their career development.

In support of the Company's initiatives on youth development and engagement, we offered 156 internship placements to students in degree, associate degree or higher diploma courses during the year in Hong Kong. Our Youth Council served as a cross-divisional advisory and consultation platform for our young generation to be our think tank to generate new and innovative ideas on Human Resources initiatives.

We also fully supported the HKSAR Government's Scheme on Corporate Summer Internship on the Mainland and Overseas by providing 12 local university students with the opportunity to work in our Mainland of China and International Business hubs, where they developed new skills and gained international exposure. In addition, we continued our summer internship programme for students with special education needs under the Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme.

To maintain our market competitiveness and enhance staff retention, we continued to conduct regular reviews to provide competitive pay and benefits, short- and long-term incentive schemes, as well as a range of career development opportunities.

STAFF MOTIVATION AND ENGAGEMENT

In celebration of our 40th anniversary, we organised a variety of staff activities, including Theme Park Fun Days for staff and their families and friends, and distributed special anniversary souvenirs, which were positively received by staff.

To familiarise new hires with their new work environment and to help them settle in, we launched a New Joiner Portal during the year. A series of videos was also produced to give new staff a virtual tour of different office premises and key locations around the Corporation.

In early 2019, we launched a series of initiatives to promote staff wellness, including the VitaMe programme, wellness days, and health talks on physical, mental and financial wellbeing.

To support our staff during the public order events since June 2019, our top management held numerous direct communication sessions with frontline staff and staff representatives to address their concerns and deploy mitigation measures. Various staff recognition initiatives were put in place, including a Special Appreciation Award and a one-off Special Recognition Payment to appreciate our staff's commitment and concerted efforts to overcome the unprecedented challenges and maintain the delivery of professional services to keep Hong Kong moving. A dedicated webpage for providing staff with the latest information was also set up, with the use of mass communication channels to thank staff and keep them updated.

LISTENING AND RESPONDING TO STAFF

In the spirit of open communication, we have a well-established two-tier Staff Consultation Mechanism, which comprises the Staff Consultative Council ("SCC") at the corporate level and 45 Joint Consultative Committees ("JCCs") at departmental/sectional levels. It enables management to exchange views with over 1,000 staff representatives directly elected by staff and to discuss issues of common concern. Staff are regularly updated on the discussions achievements arising from these constructive and candid discussions with SCC and JCCs.

We also provide communication channels for our managerial staff. These include face-to-face meetings at the Executive Managers Forum; a twice-yearly Management Communication Meeting with managers from Hong Kong, the Mainland of China and overseas hubs; and focus group sessions for our CEO to better understand our managers and share his management perspective. Our Chairman, CEO and Executives also communicate regularly through a variety of channels to better engage staff, including the Chairman's Letter and CEO Blog.

Through our multinational internal communication platform, MTRconnects, MTR staff can share corporate updates and stories with their colleagues worldwide. In 2019, this platform achieved a view rate of around 200,000.

A CULTURE OF CONTINUOUS LEARNING

To help staff reach their full potential, the Company provides a wide range of training and development programmes for new recruits and in-service staff. In 2019, we held 7,382 training courses in Hong Kong for an average of 7.1 training days per staff member. We also provide an e-platform to encourage staff to learn outside the classroom.

In 2019, we continued to expand the use of technology to help colleagues learn more effectively, including utilising different types of simulators, making better use of Augmented Reality and Virtual Reality and increased coverage on computer based training courseware. This has won us the Excellence Award in the Award for Excellence in Training and Development 2019 at an awards event organised by the Hong Kong Management Association and has been judged as the Best in Application of Technology.

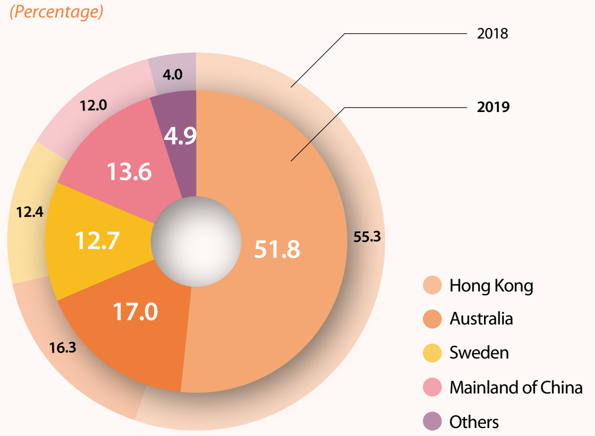
DRIVING WORK IMPROVEMENT

MTR's Work Improvement Team ("WIT") programme plays a prominent role in driving innovation and creating a spirit of improvement. During the year, more than 70 WIT classes were held and 755 projects organised. Our staff suggestion scheme, which was introduced 38 years ago to encourage creativity in the workplace, continued to be a successful channel for soliciting creative ideas.

An online discussion platform, ID Pitch, was launched in the first quarter of 2019 to crowdsource new ideas and promote new ways of working. The launch event focused on go-green initiatives, attracting the participation of 2,100 staff from various divisions with over 1,200 ideas and 3,500 posts generated in 48 hours. Some of the winning ideas were developed into prototypes, tested and later implemented.

Staff Distribution by Geographic Location

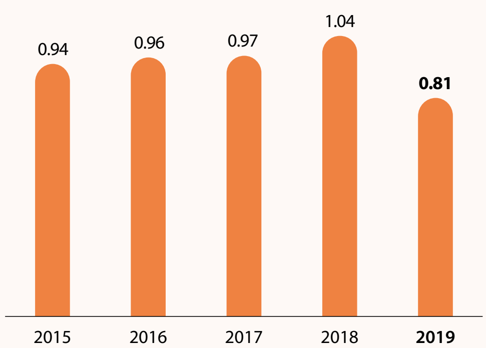
(Percentage)



Staff Productivity – Earnings Per Employee*

*Hong Kong businesses excluding property development

(HK$ million)



MTR ACADEMY

The MTR Academy ("MTRA") has become well recognised in the railway industry as a centre of railway management and engineering expertise. Now offered in the Mainland of China and Belt and Road countries as well as in Hong Kong, the high quality programmes provided by MTRA, specifically the Executive Certificate Programmes, are tailored for training the next generation of railway professionals.

In October 2019, MTRA held its 2nd Graduation Ceremony during which awards were presented to 49 graduates of the Advanced Diploma in Railway Engineering, Advanced Diploma in Transport Operations and Management, and Diploma in Transport Studies. Among the distinguished guests at the ceremony were our Chairman Mr Rex Auyeung, Chief Executive Officer Jacob Kam and Acting Director of the Electrical and Mechanical Services Department, Mr Pang Yiu Hung, JP.

For the Applied Learning – Railway Studies programme, MTRA began providing curriculum and teaching support to the second cohort (2019-2021) in September. Two classes are scheduled under this programme.

During the year, MTRA continued to create momentum in developing local railway talent and joined with other corporate academies to establish a platform with a common goal. This platform, the Corporate Tech Academy Network ("CTAN"), aims to promote Vocational & Professional Education & Training and provide an alternative training route for young people. MTRA, along with other CTAN members, continued to reach students in local secondary schools during the year.

FUTURE PLANS

The Academy will expand its portfolio by offering daytime classes for two Accredited Programmes in the 2020/2021 academic year, with the objective of recruiting DSE graduates.

The Academy plans to diversify its programme areas by riding on MTR's expertise and experience to develop programmes in security services and property management at different levels to nurture new entrants and create lifelong learning opportunities for industry practitioners.

Additionally, we continued to hold ongoing discussions with the Birmingham Centre of Railway Research and Education, University of Birmingham, to bring their MSc/PgD in Railway Safety and Control Systems to Hong Kong. The plan is to deliver the programme as blended learning in the near future.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Corporate governance is the collective responsibility of Members of the Board and the Board firmly believes that good corporate governance is fundamental in ensuring the proper management of the Company in the interests of all of its stakeholders. The Board is conscious about continuous improvement in the arena of corporate governance and takes prompt actions in responding to identified improvement opportunities.

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

Following the unearthing of various issues arising from the construction of the Hung Hom Station Extension of the Shatin to Central Link ("SCL") project in 2018, improvements in the Company's project management processes and procedures have been identified for implementation progressively in 2019 and beyond. Following an external review on enhancing the checks and balances within the relevant processes and procedures relating to the Company's project management regime, a special taskforce has been set up to drive and track the implementation of the recommendations put forward by the external consultant. The recommendations have been categorised with target dates for completion and ownership has been assigned to designated working groups. Digital site management tools have been introduced to enhance site record keeping, communications and supervision, and a new Quality Assurance function has been established within the Engineering Division to provide enhanced quality assurance of project works.

With respect to a review of the Company's internal control and risk management systems for Hong Kong operations (excluding Projects related processes and procedures which have been covered under a separate review (as mentioned in the paragraph above)), PricewaterhouseCoopers has completed its first stage review with seven initiatives proposed. To address the findings from PricewaterhouseCoopers' review mentioned above, management will embark on a series of further reviews. Recommended timelines for and prioritisation of these further reviews will be presented to the Board for approval in 2020.

CORPORATE GOVERNANCE CODE COMPLIANCE

During the year ended 31 December 2019, the Company has complied with the Code.

As mentioned in last year's Report, the Company had prepared itself for complying with the new requirements set out in the Stock Exchange's conclusions to its consultation paper entitled "Review of the Corporate Governance Code and Related Listing Rules" to, inter alia, upgrade the Code provision relating to board diversity to form part of the Listing Rules, to require disclosure of a nomination policy in the Corporate Governance Report and to expand the factors for consideration when assessing the independence of a non-executive director, in advance of these requirements coming into effect on 1 January 2019.

In preparing its Sustainability Report, the Company has followed the Environmental, Social and Governance Reporting Guide ("ESG Guide") as set out in Appendix 27 to the Listing Rules and has made reference to various international reporting standards and guidelines, as such, the Company has substantially met with the new requirements under the ESG Guide which will be implemented for financial years commencing on or after 1 July 2020, following the Stock Exchange's conclusions to its consultation paper entitled "Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules" published in December 2019.

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

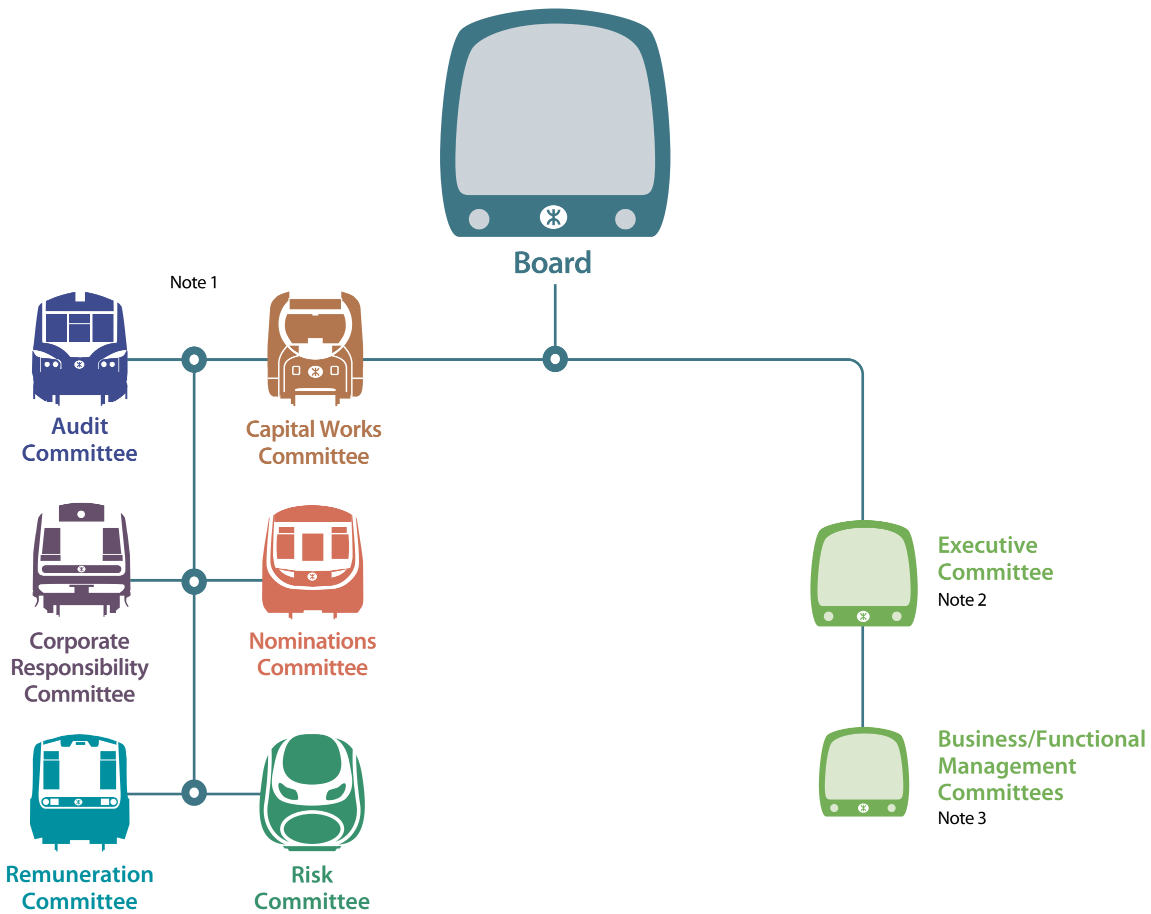
THE BOARD OF DIRECTORS

Overall Management

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

In 2019, recognising the public concern over the issues related to the SCL project, the train collision during signalling testing on the Tsuen Wan Line in March and the derailment near Hung Hom Station on the East Rail Line in September, the Board had held a number of Special Meetings to consider and monitor the incidents and issues relating to the aforesaid matters. In addition, the Company's Capital Works Committee (with delegated authority from the Board) held an additional meeting to discuss the issues related to the SCL project.

Below is a diagram of the governance structure of the Company:



Notes:

1. *All Board Committees are provided with sufficient resources to discharge their duties and can seek independent professional advice (as and when required) at the Company's expense, to perform their responsibilities. The Terms of Reference of each Committee are available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange.*
2. *The Executive Committee is delegated by the Board to handle the day-to-day management of the Company's business pursuant to the Articles of Association and the Protocol; and is chaired by the Chief Executive Officer ("CEO") and made up of ten other Members of the Executive Directorate.*
3. *Key Business/Functional Management Committees are listed out on pages 108 to 109 of this Annual Report.*

Members of the Board and the Executive Directorate Attendance of Meetings and Training in 2019

	Attendance											
	Board Meetings			Board Committees Meetings						Joint AC and RiskC Meeting	2019 AGM	Training[Ω]
	RM	SM	PM	AC	NC	RC	CWC	RiskC	CRC			
Total Number of Meetings	7	8	3	4	2	4	5	4	2	1	1	
Members of the Board												
Non-executive Directors ("NED")												
Rex Auyeung Pak-kuen[1] (Chairman)	5/5	7/7	1/1			1/1			1/1[C]		1/1	√
James Henry Lau Jr[2] (Secretary for Financial Services and the Treasury)	6/7	6/8	3/3		2/2	1/4					0/1	√
Secretary for Transport and Housing (Frank Chan Fan)[3]	5/7	2/8	2/3		2/2	3/4					0/1	√
Permanent Secretary for Development (Works) (Lam Sai-hung)[4]	3/7	3/8	2/3				4/5	2/4		1/1	0/1	√
Commissioner for Transport (Mable Chan)[5]	5/7	6/8	2/3	4/4				3/4		1/1	0/1	√
Independent Non-executive Directors ("INED")												
Andrew Clifford Winawer Brandler	6/7	6/8	3/3	4/4				4/4[C]		1/1	1/1	√
Walter Chan Kar-lok[6]	4/4	6/6	1/1						1/1		N/A	√
Dr Pamela Chan Wong Shui[7][C]	7/7	7/8	3/3		2/2				2/2		1/1	√
Dr Dorothy Chan Yuen Tak-fai	6/7	6/8	3/3			4/4[C]	4/5				1/1	√
Cheng Yan-kee[8]	4/4	5/6	1/1			2/2	3/3				N/A	√
Dr Anthony Chow Wing-kin	5/7	5/8	1/3			4/4	5/5				1/1	√
Dr Eddy Fong Ching	7/7	6/8	3/3	4/4[C]	2/2					1/1	1/1	√
James Kwan Yuk-choi	7/7	7/8	3/3				5/5	4/4		1/1	1/1	√
Rose Lee Wai-mun[9]	6/7	8/8	2/3	4/4				4/4		1/1	1/1	√
Lucia Li Li Ka-lai	7/7	8/8	3/3	4/4					2/2	1/1	1/1	√
Jimmy Ng Wing-ka[10]	4/4	3/6	1/1				3/3		1/1		N/A	√
Benjamin Tang Kwok-bun	7/7	7/8	3/3			3/4		4/4		0/1	1/1	√
Dr Allan Wong Chi-yun	6/7	7/8	2/3		2/2		5/5[C]				1/1	√
Johannes Zhou Yuan[11]	7/7	3/8	3/3	4/4				3/4		1/1	1/1	√
Executive Director ("ED")												
Dr Jacob Kam Chak-pui (CEO)[12]	5/5	5/6	1/1						2/2		1/1	√
Members of the Executive Directorate & the Executive Committee												
Dr Jacob Kam Chak-pui (CEO)[12]	5/5	5/6	1/1						2/2		1/1	√
Adi Lau Tin-shing[13]											1/1	√
Roger Francis Bayliss[14]											1/1	√
Margaret Cheng Wai-ching									2/2		1/1	√
Dr Peter Ronald Ewen											1/1	√
Herbert Hui Leung-wah											1/1	√
Gillian Elizabeth Meller											1/1	√
Linda So Ka-pik[15]									2/2		1/1	√
David Tang Chi-fai											1/1	√
Jeny Yeung Mei-chun											1/1	√
Members departed during 2019												
NED												
Professor Frederick Ma Si-hang (Chairman)[16]	2/3	3/3	1/2		2/2	1/3			1/1[C]		1/1	√
INED												
Vincent Cheng Hoi-chuen[17]	3/3	2/2	1/2			2/2			1/1		0/1	×
Lau Ping-cheung, Kaizer[18]	1/3	2/2	0/2				2/2		0/1		1/1	×
Abraham Shek Lai-him[19]	3/3	2/2	2/2		2/2[C]		1/2				1/1	√
ED, Member of the Executive Directorate & the Executive Committee												
Lincoln Leong Kwok-kuen (CEO)[20]	2/2	1/2	2/2						N/A		N/A	√

Legend:

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

Board Committee Meetings
AC – Audit Committee
NC – Nominations Committee
RC – Remuneration Committee
CWC – Capital Works Committee
RiskC – Risk Committee
CRC – Corporate Responsibility Committee

2019 AGM – Annual General Meeting of the Company held on 22 May 2019

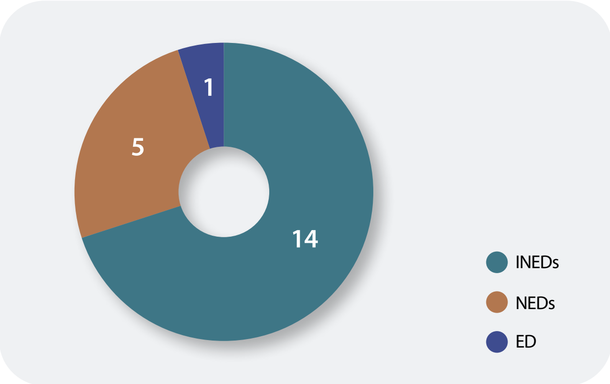
C – Chairman of the committee

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

Notes:

1. *Mr Rex Auyeung Pak-kuen was appointed as a NED of the Company with effect from 7 March 2019. Pursuant to Article 117(a) of the Articles of Association, The Financial Secretary Incorporated appointed Mr Auyeung as Chairman of the Company with effect from 1 July 2019 until 31 December 2021 (both dates inclusive). He also became the chairman of the CRC and a member of each of the NC and the RC of the Company all at the same time with effect from 1 July 2019.*
2. *The alternate directors of Mr James Henry Lau Jr, acting on his behalf, attended one RM, three RC meetings and the 2019 AGM. Mr Lau and his alternate directors were not present at the relevant Board meetings or a portion thereof at which the SCL project, the Express Rail Link project or a proposed property development project were discussed for avoidance of any actual or perceived conflict of interest.*
3. *The alternate directors of Mr Frank Chan Fan, acting on his behalf, attended two RM, four SM, one PM and one RC meeting. Mr Chan and his alternate directors were not present at the relevant Board meetings or a portion thereof at which the SCL project, the Express Rail Link project or a proposed property development project were discussed for avoidance of any actual or perceived conflict of interest.*
4. *The alternate director of Mr Lam Sai-hung, acting on his behalf, attended two RM, three SM and two RiskC meetings. Mr Lam and his alternate director were not present at the relevant Board meetings or a portion thereof at which the SCL project, the Express Rail Link project or a proposed property development project were discussed for avoidance of any actual or perceived conflict of interest.*
5. *The alternate director of Ms Mable Chan, acting on her behalf, attended two RM. Ms Chan and her alternate director were not present at the relevant Board meetings or a portion thereof at which the SCL project, the Express Rail Link project or a proposed property development project were discussed for avoidance of any actual or perceived conflict of interest.*
6. *Mr Walter Chan Kar-lok was elected as a new Board Member and became an INED of the Company with effect from the conclusion of the 2019 AGM, and was appointed by the Board as a member of each of the NC and the CRC of the Company at the same time. He attended the 2019 AGM as a guest in light of his proposed appointment as a Director.*
7. *Dr Pamela Chan Wong Shui was appointed by the Board as the chairman of the NC of the Company with effect from the conclusion of the 2019 AGM.*
8. *Mr Cheng Yan-kee was elected as a new Board Member and became an INED of the Company with effect from the conclusion of the 2019 AGM, and was appointed by the Board as a member of each of the RC and the CWC of the Company at the same time. He attended the 2019 AGM as a guest in light of his proposed appointment as a Director.*
9. *Ms Rose Lee Wai-mun attended one AC meeting by teleconference.*
10. *Mr Jimmy Ng Wing-ka was elected as a new Board Member and became an INED of the Company with effect from the conclusion of the 2019 AGM, and was appointed by the Board as a member of each of the CWC and the CRC of the Company at the same time. He attended the 2019 AGM as a guest in light of his proposed appointment as a Director.*
11. *Mr Johannes Zhou Yuan attended three SM, one AC meeting and the joint AC and RiskC meeting by teleconference.*
12. *Dr Jacob Kam Chak-pui was appointed as the CEO, a Board Member and a member of the CRC of the Company, all with effect from 1 April 2019.*
13. *Mr Adi Lau Tin-shing was appointed as the Managing Director – Operations and Mainland Business and ceased to be the Operations Director of the Company, both with effect from 1 January 2020. As announced by the Company on 12 December 2019, the post of Operations Director was taken up by Dr Tony Lee Kar-yun on 1 January 2020.*
14. *Mr Roger Francis Bayliss was appointed as the Projects Director and a Member of the Executive Directorate of the Company with effect from 18 March 2019.*
15. *As announced by the Company on 20 August 2019, Ms Linda So Ka-pik resigned as the Corporate Affairs Director and ceased to be a Member of the Executive Directorate and a member of the CRC of the Company, all with effect from 16 January 2020. The Company announced on 23 January 2020 that Ms Linda Choy Siu-min has been appointed as the Corporate Affairs Director, a Member of the Executive Directorate of the Company and a member of the CRC of the Company, all with effect from 2 March 2020.*
16. *Professor Frederick Ma Si-hang retired as the Chairman, a Board Member, the chairman of the CRC and a member of each of the NC and the RC of the Company, upon expiration of his tenure after 30 June 2019.*
17. *Mr Vincent Cheng Hoi-chuen retired as an INED and ceased to be a member of each of the RC and the CRC of the Company, all with effect from the conclusion of the 2019 AGM.*
18. *Mr Lau Ping-cheung, Kaizer retired as an INED and ceased to be a member of each of the CWC and the CRC of the Company, all with effect from the conclusion of the 2019 AGM.*
19. *Mr Abraham Shek Lai-him retired as an INED and ceased to be the chairman of the NC and a member of the CWC of the Company, all with effect from the conclusion of the 2019 AGM.*
20. *Mr Lincoln Leong Kwok-kuen retired as the CEO and ceased to be a Board Member, a member of each of the Executive Directorate and the CRC of the Company, all with effect from 1 April 2019.*

Composition of the Board



A list of Members of the Board and the Executive Directorate and their roles and functions is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange. Biographical details of each of the Members of the Board and the Executive Directorate are set out on pages 130 to 142 of this Annual Report.

The Board currently has 20 Members, made up of 14 INEDs, 5 NEDs and 1 ED. As shown in the above chart, the number of INEDs currently comprises more than two-thirds of the Company's Board, which is well above the Listing Rules requirement of having one-third of a board made up of independent non-executive directors.

Government, through The Financial Secretary Incorporated, holds approximately 75.26% of the issued shares of the Company as at 31 December 2019, and is a substantial shareholder of the Company. The Chief Executive of the HKSAR, in the exercise of her right under Section 8 of the MTR Ordinance, has appointed three persons as "additional directors" of the Company (the "Additional Directors"). They are:

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

The Additional Directors are all NEDs and are treated for all purposes (other than the requirement to retire by rotation according to the Articles of Association) in the same way as other Directors and are, therefore, subject to the usual common law duties of directors, including the requirement to act in the best interests of the Company.

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

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

Chairman and CEO

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

The non-executive Chairman is responsible for:

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

The CEO is:

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

Board Committees

The Board Committee memberships and the attendance record of each Member of the Board in 2019 are set out on pages 96 to 97 of this Annual Report.

Audit Committee

Details of the Audit Committee, including its duties and work performed during the year are set out in the Audit Committee Report (pages 115 to 117) of this Annual Report.

Risk Committee

Details of the Risk Committee, including its duties and work performed during the year are set out in the Risk Committee Report (pages 122 to 123) of this Annual Report.

Capital Works Committee

Details of the Capital Works Committee, including its duties and work performed during the year are set out in the Capital Works Committee Report (page 124) of this Annual Report.

Remuneration Committee

Details of the Remuneration Committee, including its duties and work performed during the year are set out in the Remuneration Committee Report (pages 125 to 129) of this Annual Report.

Nominations Committee

Principal responsibilities:

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

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

- The nomination of new Members of the Board (i) for appointment by the Board during 2019; and (ii) for election by shareholders at the 2019 AGM;
- The structure, size and composition of the Board and a list of desirable skills/experience/perspectives for the Board;
- An annual assessment of the independence of each INED of the Company; and
- The re-election of Members of the Board retiring at the 2019 AGM.

The Nominations Committee has conducted an annual review of (i) the current structure, size and composition of the Board and considered the same is appropriate in light of the Company's strategy; and (ii) the list of skillsets of the Board and resolved to recommend to the Board for adding a new skillset. The Nominations Committee has also assessed that the Board currently possesses a balanced mix of skills, experience and diversity of perspectives, is in line with the Company's Board Diversity Policy (the "BD Policy") and is appropriate for continuing to support the execution of the Company's business strategies in an efficient and effective manner.

Corporate Responsibility Committee

Principal responsibilities:

- Overseeing the Company's stakeholder engagement and external communication strategies;
- Recommending the Corporate Responsibility Policy to the Board for approval;
- Monitoring and overseeing the implementation of the Company's Corporate Responsibility Policy and related initiatives;

- Identifying emerging corporate responsibility issues arising from external trends;
- Reviewing the Company's annual Sustainability Report and recommending approval by the Board;
- Reviewing the Company's environmental and social performance; and
- Providing updates to the Board on matters falling within the Committee's remit as required.

Please also refer to the "Corporate Responsibility" section (pages 84 to 89) of this Annual Report.

Work performed during the year:

- Monitoring of the progress of various youth, elderly and district-level community engagement and investment programmes;
- Review and recommendation of the 2018 Sustainability Report to the Board for approval;
- Review of a new Sustainability Report publication schedule;
- Consideration of the Company's performance on various local and international sustainability indices; and
- Endorsement of a Sustainable Procurement Roadmap.

Company Secretary

Ms Gillian Elizabeth Meller, being Legal and European Business Director ("L&EBD") and a Member of the Executive Directorate, reports to the CEO. Her role as Company Secretary includes:

- Providing access to advice and services for Members of the Board;
- Ensuring the correct Board procedures are followed;
- Advising the Board on all corporate governance matters;
- Arranging for Members of the Board, their Alternate Directors and Members of the Executive Directorate, upon their appointment, to receive a comprehensive, formal and tailored induction programme on key areas of business operations and practices of the Company, as well as the general and specific duties of directors under general law (common law and legislation) and the Listing Rules;
- Recommending Members of the Board, their Alternate Directors and Members of the Executive Directorate to attend relevant seminars and courses; and
- Arranging for training on relevant new or amended legislation or other regulations to be provided at Board meetings.

In 2019, Ms Meller undertook over 15 hours of professional training to update her skills and knowledge.

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

A person may be appointed as a Member of the Board at any time either by:

- the shareholders in general meeting in accordance with the "Appointment Procedure for Members of the Board of the Company", which is available on the website of the Company (www.mtr.com.hk); or
- the Board upon the recommendation of the Nominations Committee of the Company; or
- the Chief Executive of the HKSAR in the case of the Additional Directors.

Members of the Board who are appointed by the Board during a year must retire at the first annual general meeting after their appointment and are eligible for election at that meeting.

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

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

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

Nomination Policy

A Nomination Policy (the "Nomination Policy") documenting the procedures and practices that have been adopted by the Company was approved by the Board in January 2019, and is posted on the Company's website (www.mtr.com.hk).

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

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

Nomination Procedures

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

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

Selection Parameters

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

(i) the strategy of the Company;

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

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

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

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

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

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

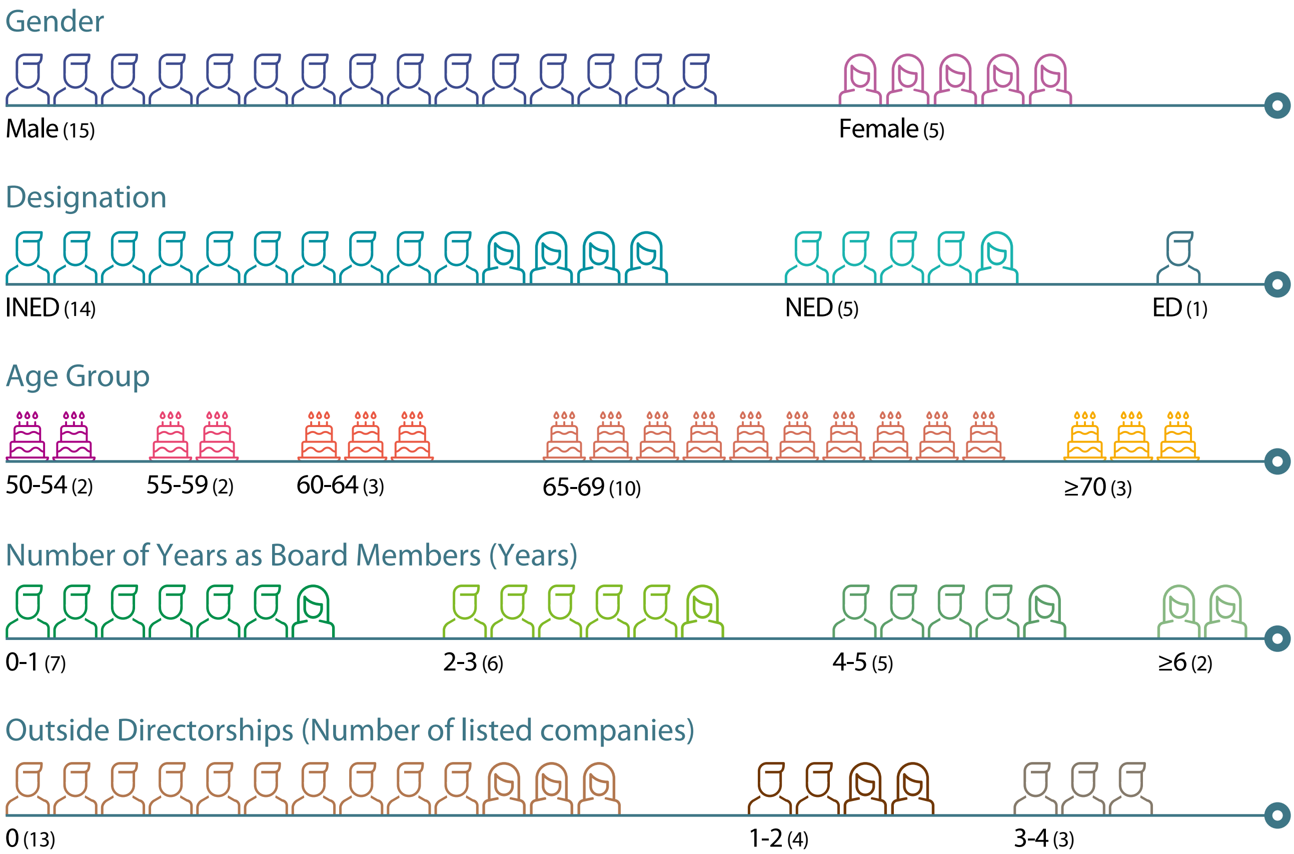
(viii) the independence of a candidate proposed to be appointed as an INED, in particular by reference to the independence requirements under the Listing Rules.

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

Board Diversity

The Company has posted its BD Policy on the Company's website (www.mtr.com.hk). The BD Policy sets out a clear objective and provides that the Company should endeavour to ensure that its Members of the Board have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. The Company is conscious of maintaining a Board made up with INEDs as the majority, together with an appropriate level of female Members on the Board. While conscious efforts are being taken by the Company to fulfil its pledges, all appointments are ultimately made on a merit basis taking into account available and suitable candidates.

The Board reviews the BD Policy on a regular basis to ensure its continued effectiveness. During the year, the Board approved an update to the BD Policy to include an explicit commitment on the part of the Company to maintain an appropriate level of female Members on the Board.



The BD Policy and the list of desirable skills/experience/perspectives of Board Members were taken into account by the Nominations Committee and the Board in considering the following appointments during the year:

(i) Mr Rex Auyeung Pak-kuen as a new NED;

(ii) Dr Jacob Kam Chak-pui as a new ED; and

(iii) Mr Walter Chan Kar-lok, Mr Cheng Yan-kee and Mr Jimmy Ng Wing-ka as new INEDs.

The Committee and the Board formed the view that, with their respective extensive experience in the areas of insurance, legal, town planning, property development, engineering and complex construction projects, as well as their experience gained in the public sector and political arena, each of the new Board Members mentioned above would be a valuable addition to the Board and would further enrich the spectrum of skills, experience and diversity of perspectives of the Board, thereby enhancing the diversity and effectiveness of the Board.

Statutory Confirmations

For the year ended 31 December 2019, the Company has received an annual confirmation from each INED about his/her independence and, in light of the requirements under the Listing Rules which came into effect on 1 January 2019, the interests of his/her immediate family member(s) (as defined under the Listing Rules).

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

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

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

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

Save as disclosed in this Annual Report, none of the Members of the Board or the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) with another Member of the Board or the Executive Directorate. In addition, none of the Members of the Board holds seven (or more) directorships in listed companies (including the Company) or holds any cross-directorships or has significant links with other Members of the Board through involvements in other companies or bodies as at 31 December 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

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

For enhanced monitoring and effectiveness, the Company has launched a new Model Code Managers Management System during the year, which provides an electronic platform to give one-stop access to the relevant key processes to support compliance with the Model Code. Periodic training is also required to be completed by Model Code Managers.

DIRECTORS' INSURANCE

As permitted under the Articles of Association, it has been the practice of the Company to arrange Directors' and Officers' ("D&O") Liability Insurance for which Members of the Board and officers of the Company do not have to bear any excess. To ensure sufficient cover is provided, the Company undertakes an annual review of the Company's D&O insurance policy in light of recent trends in the insurance market and other relevant factors. The review benchmarks the amount of cover against other similar companies and considers whether separate cover will be required for Members of the Executive Directorate or Members of the Board. The conclusion of the review in year 2019 was that the level of cover was adequate and, given this, together with the indemnity provided by the Company to Members of the Board, the broad policy wording and the financial strength of the insurance panel, no additional cover was required.

CORPORATE GOVERNANCE FUNCTIONS REVIEW

The Board conducted an annual review of its Corporate Governance duties in accordance with its Terms of Reference on Corporate Governance Functions and the latest review was done in March 2020. Below is a summary of the work performed during the year ended 31 December 2019 and up to the date of the Report:

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

- Development, review and monitoring of the Code of Conduct and Directors' Manual; and
- Review of the Company's compliance with the Code.

The Board considers that, overall, the Company's Corporate Governance Functions are adequate and appropriate for the Company in light of its current corporate strategy. They will be kept under review in light of the changing legal and regulatory environment and any changes to the Company's business.

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

BOARD PROCEEDINGS

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

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

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

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

The CEO Report, provided to the Board on a monthly basis, covers the overall strategies, principal issues and key events of the Company for the relevant month and provides key information in areas such as the Group's safety performance in different business sectors, financial activities, contingent liabilities, human resources developments and new railway projects, as well as a look ahead to key issues or events in the following three to six months. During the year, the layout of the Report has been modified by summarising the abovementioned information in the CEO Review section, with fuller details in appendices and additional data in attachments, to make the CEO Report more user friendly. This CEO Report together with the discussions at Board meetings, ensures that Members of the Board have an overall understanding of the Company's business and other key information about the Company, and provides up-to-date information to enable them to make informed decisions for the benefit of the Company.

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

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

MATERIAL INTERESTS AND VOTING

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

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

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

There are a number of contractual arrangements that have been entered into between the Company and Government (and/or its related entities), some of which are continuing in nature. As Government is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The sections headed "Connected Transactions" and "Continuing Connected Transactions" (pages 154 to 174) of this Annual Report explain how, in accordance with the Listing Rules, these transactions have been treated.

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

BOARD MEETINGS

The Board held 18 meetings in 2019 (seven Regular Meetings, eight Special Meetings and three Private Meetings), well exceeding the requirement of the Code which requires every listed issuer to hold board meetings at least four times a year.

Regular Meetings

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

In addition, other key matters discussed at Board meetings held in 2019 included:

- Corporate Governance matters, including:
  - A review of the Board's structure and composition and its corporate governance functions; the annual assessment of (i) the independence of the INEDs; and (ii) the effectiveness of the Company's risk management and internal control systems;
  - The appointment of new Members of the Board in 2019;
  - The approval of the Nomination Policy; changes to Board Committee composition; amendments to the Terms of Reference of the Audit Committee and Nominations Committee;
  - Recommendation of the renewal of the Scrip Dividend Scheme; the appointment of new Members of the Board and election/re-election of retiring Members of the Board, for approval by shareholders at the 2019 AGM;
  - Receipt and consideration of reports from Management on key matters such as safety, risk management and sustainability; and
  - Receipt of shareholder analysis and investors' feedback;

- Projects:
  - Receipt of updates on the SCL project and related matters;
- Operations:
  - Review of 2018 train service performance;
  - Receipt of updates on material incidents that happened in 2019;
  - Contract award for maintenance services and asset replacement/upgrading projects; and
  - Receipt of updates on digital project progress and development roadmap – Customer Experience & Railway Asset Management;
- Mainland China and International Businesses:
  - Receipt of updates on Macau, Mainland China and International Businesses, business development opportunities, and approval of potential business investments and partnership opportunities; and
  - Approval of overseas projects and investment;
- Property:
  - Award of contract for investment property works;
  - Approval of tender arrangement for a property development in Hong Kong; and
  - Receipt of updates on property development projects in Hong Kong;
- Human Resources:
  - Approval of 2019 Annual Pay Review;
- Commercial and Marketing:
  - Review of the principles for revising the Company's fares under the Fare Adjustment Mechanism (the "FAM") and approval of the Controlled Fares for 2019 under the FAM; and
  - Review of the proposed fares for new stations on the Tuen Ma Line;
- Financial:
  - Approval of the 2018 Annual and the 2019 Interim Report and Accounts;
  - Approval of the renewal of the US$5 Billion Debt Issuance Programme; and
  - Approval of the 2020 Budget and Longer Term Forecast.

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

Special Meetings

During 2019, a total of eight Special Meetings were held to consider matters relating to the SCL project, the material service incidents in Hong Kong during the year, tender matters in relation to property development projects in Hong Kong and the impact of public order events on the Company.

Private Meetings

During 2019, the Chairman held three Private Meetings at which a range of matters, including consideration of an internal policy on the provision of legal support to staff, management organisational and governance matters, and appointments of the CEO and a senior executive were discussed. In addition, the Chairman met with INEDs only without the presence of other Board Members to discuss the functioning of the Board and the contributions required from INEDs and whether they were spending sufficient time performing them, general strategy and organisational matters of the Company.

The attendance record of each Member of the Board (and each Member of the Executive Directorate) during the year is set out on pages 96 to 97 of this Annual Report.

INDUCTION PROGRAMME AND OTHER TRAINING

Induction Programme

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

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

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

All Members of the Board, Alternate Directors and Members of the Executive Directorate are also given a Directors' Manual on their appointment which sets out, amongst other things, directors' duties and the Terms of Reference of the Board on its Corporate Governance Functions and of its Board Committees. The Directors' Manual is updated from time to time to reflect developments in those areas. The latest update to the Directors' Manual was approved by the Board on 7 January 2020. The updated Directors' Manual has been reorganised to make it more user-friendly with increased focus on Directors' roles and responsibilities and their key obligations from both a statutory and a regulatory perspective. New sections have been added, including an overview of the Company's governance framework and sections on anti-bribery, Directors' time commitments and declarations of interest, the Company's commitment to equal opportunities and the Company's whistle-blowing policy.

Training and Continuous Professional Development

Members of the Board and the Executive Directorate

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

Training

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

Each Member of the Board and the Executive Directorate has also provided to the Company a record of the training he/she has received during the year, which is set out on pages 96 to 97 of this Annual Report.

Senior Executives

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

To support the enhancement of the business acumen, leadership and management skills of the Senior Executives, professors from renowned business schools are engaged to share cutting-edge research and insights on thought leadership, leading change, digital transformation and innovation as well as contemporary management and business topics. A tailored global leadership development programme was also organised in 2019 to enable certain key Senior Executives to enhance their leadership, customer-centric and strategic thinking capabilities.

ACCOUNTABILITY

Members of the Board are responsible for the consolidated accounts of the Group. The consolidated accounts are prepared on a going concern basis and give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of the Group's consolidated financial performance and consolidated cash flows for the year then ended. In preparing the consolidated accounts for the year ended 31 December 2019, Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the consolidated accounts for the year ended 31 December 2019, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the external auditor of the Company (the "External Auditor") are set out on pages 178 to 181 of this Annual Report.

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

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

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

Systems Overview

The Executive Committee is responsible for:

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

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

Business/Functional Management Committees

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

- Operations Executive Management Committee
- Property Executive Management Committee
- Project Control Group
- Investment Committee
- European Business Management Committee
- Australian and International Consultancy Business Management Committee
- Mainland China Business Management Committee
- Macau Business Management Committee
- Information Technology Executive Management Committee
- Corporate Safety Management Committee

- Enterprise Risk Committee
- Executive Tender Panel/Tender Board
- Corporate Responsibility Steering Committee
- Cost Control Committee (Projects)
- Executive Cost Control Committee (Projects)
- Corporate Cyber Security Committee
- Corporate Security Management Committee
- Railway Development Steering Group
- Technical Management Steering Group
- Commercial Letting Committee

Internal Audit

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

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

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

ERM system

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

More details of the features of the ERM system, the process used to identify, evaluate and manage significant risks, the significant risks being managed and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section (pages 118 to 121) of this Annual Report.

Board Oversight

The Board, assisted by the Risk Committee and the Audit Committee respectively, oversees the Company's ERM system and internal control system on an on-going basis and reviews the effectiveness of the systems at least annually. The duties of and work performed in 2019 by the Risk Committee and Audit Committee respectively are set out in the "Risk Committee Report" (pages 122 to 123) and "Audit Committee Report" (pages 115 to 117) of this Annual Report.

Control Activities and Processes

Compliance with Statutes and Regulations

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

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

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

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

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

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

Whistle-blowing Policy

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

Inside Information Policy

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

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

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

Evaluation of the Effectiveness of the Risk Management System

The Company has surpassed the relevant best practices in the Code by completing an effectiveness review of the ERM system for the Company and its subsidiaries, and extending the review to the Company's associates operating in Mainland China and overseas. For the year ended 31 December 2019, the Risk Committee, with delegated authority from the Board, has evaluated the effectiveness of the ERM system of the Company and considers that it is overall effective and adequate.

As a learning organisation, the Company constantly looks for improvement opportunities through internal and external reviews and studies, as well as learning from incidents.

In 2019, the Company encountered a number of challenges on the operational front, including the train collision during signalling testing on the Tsuen Wan Line in March and the derailment near Hung Hom Station on the East Rail Line in September. Following each of these incidents, in-depth investigations were undertaken with lessons learned identified for continuous improvement, and risk controls have also been enhanced.

Details about the "Process of System Effectiveness Review" are set out in the Risk Management section (page 121) of this Annual Report.

Evaluation of the Effectiveness of the Internal Control System

For the year ended 31 December 2019, the Audit Committee, with delegated authority from the Board, evaluated the effectiveness of the internal control system of the Company and its subsidiaries based on the following:

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

The Audit Committee concluded that the internal control system was overall effective.

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

For the year ended 31 December 2019, the annual assessment performed by Finance Division and IAD concluded that there were adequate resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions.

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

In terms of internal audit, the Company is also committed to recruit, train and develop a team of qualified and competent internal auditors to provide independent and objective assurance and consulting services designed to add value and improve the Company's operations. A process to capture updated standards and best practices relating to internal audit is in place. Proper recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. The Head of Internal Audit conducts a formal annual review on the adequacy of staff resources, qualifications and experience of the internal audit function and reports the review results to the Audit Committee. Based on the above, the Audit Committee considered the resources, qualifications and experience of staff of the Company's internal audit function, and its training programmes and budget were adequate.

Board's Annual Review

The Board has, through the Risk Committee and the Audit Committee, overseen the Company's risk management and internal control systems on an on-going basis. The Board has conducted its annual review of the risk management and internal control systems of the Company and its subsidiaries and key associates for the year ended 31 December 2019, and considers that such systems are overall effective and adequate.

The Board has conducted a review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions for the year ended 31 December 2019, and considers the above resource components to be adequate.

CRISIS MANAGEMENT

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

In order to manage the impacts on our businesses arising from the prolonged public order events in Hong Kong in the second half of 2019, the Crisis Management Team was activated to monitor the situation and direct the Company's responses and actions in a coordinated manner, with the safety of our customers, staff and contractors always placed as the top priority. In response to the outbreak of Coronavirus Disease-2019 (COVID-19) in January 2020, the Crisis Management Team was activated to manage its potential impacts on the Company's operations.

GOVERNANCE OF SUBSIDIARIES AND ASSOCIATES

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

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

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

BUSINESS ETHICS

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

The Code of Conduct is reviewed and updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements. Following the release of a revised Code of Conduct to all staff in early May 2018, education programmes including seminars and mandatory CBT Programmes have been introduced to raise staff awareness. In November 2019, a new mandatory CBT Programme on "Understanding Personal Data (Privacy) Ordinance" for all staff was launched with a short quiz as part of the Code of Conduct CBT Programme series. Staff members are also encouraged to report existing or perceived violations or malpractices. Proper procedures have already been put in place pursuant to the whistle-blowing policy of the Company, under which staff members can raise their concerns in a safe environment and in complete confidence if they have genuine suspicions about wrongdoings.

To enable new recruits to embrace the Company's values and ethical commitments, they will be briefed on the Code of Conduct as part of the staff induction programme. New recruits are also required to complete the mandatory CBT Programmes within three months of joining the Company. The Code of Conduct is also uploaded onto the Company's website (www.mtr.com.hk).

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

EXTERNAL AUDITOR

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

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

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of KPMG nationally or internationally) are set out in note 10B to the consolidated accounts on page 206 of this Annual Report.

For maintaining integrity and objectivity as the External Auditor of the Company, KPMG implements policies and procedures to comply with professional ethics and independence policies and requirements applicable to the work it performs. In addition, KPMG requires its audit partner serving the Group to rotate off the audit engagement with the Group at least once every seven years in accordance with the Hong Kong Institute of Certified Public Accountants/ International Federation of Accountants Code of Ethics.

COMMUNICATION WITH SHAREHOLDERS

Annual General Meeting (the "AGM")

The Company's AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to communicate face to face with the Directors about the Company's performance and operations. It has been the practice for the Chairman of the Company, the chairman of each Board Committee, all Members of the Executive Directorate and the External Auditor of the Company to attend AGMs to answer shareholders' questions.

The 2019 AGM was held on 22 May 2019 and, for the first time, the Company provided sign language interpretation in addition to simultaneous Cantonese, English and Putonghua interpretation. For the benefit of the Company's shareholders who did not attend the AGM, the whole proceedings were webcast and posted on the Company's website (www.mtr.com.hk) in the same evening.

The 2020 AGM has been scheduled on 20 May 2020 and the Company plans to continue providing the abovementioned simultaneous interpretation to further facilitate smooth and direct communication between the shareholders of the Company and the Company's Directors and management. The Company is committed to making available meeting facilities to enable all eligible attendees to be able to participate in the AGM.

Resolutions passed at the 2019 AGM

The Chairman proposed separate resolutions for each substantially separate issue at the 2019 AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the 2019 AGM under Article 71 of the Articles of Association to call a poll on all resolutions conducted by electronic means.

A total of 13 resolutions were passed at the 2019 AGM (with resolution no. 3 comprising four separate resolutions), each supported by over 98% of the votes cast. The full text of the resolutions is set out in the 2019 AGM Circular (which comprised Notice of the 2019 AGM) dated 12 April 2019 and the results of the AGM are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

Calling General Meetings

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

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

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

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

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

Procedures for Shareholders Putting Forward Proposals

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

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

Enquiries from Shareholders

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

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

Please also refer to the Investor Relations section (pages 82 to 83) of this Annual Report on other means of communication with shareholders.

CONSTITUTIONAL DOCUMENT

The Articles of Association (in both English and Chinese) are available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange. During the year ended 31 December 2019, there was no change to the Articles of Association.

For and on behalf of the Board

Gillian Elizabeth Meller
Company Secretary
Hong Kong, 5 March 2020

AUDIT COMMITTEE REPORT

As at the date of this Report, the Audit Committee of the Company (referred to as the "Committee" in this Report) consists of six Non-executive Directors, five of whom are Independent Non-executive Directors of the Company. Details of the Committee's membership and members' attendance records during 2019 are set out on pages 96 to 97 of this Annual Report. None of the Committee members is a partner or former partner of KPMG, the Company's external auditor.

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

TERMS OF REFERENCE OF THE COMMITTEE

The Terms of Reference of the Committee (the "ToR") is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

DUTIES OF THE COMMITTEE

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

- Oversight of the relationship with the Company's external auditor, including but not limited to making recommendations to the Board on the appointment of and any change to the Company's external auditor and communicating with the external auditor on financial matters of the Company;
- Review of the financial information of the Company, including but not limited to monitoring the integrity of financial statements;
- Oversight of the Company's financial reporting and internal control systems, including but not limited to overseeing the adequacy of the resources and competence of the Company's accounting and financial reporting functions; and
- Overseeing the Company's Internal Audit function, including but not limited to liaison with the Head of IA, approval of the annual internal audit plan of the Company and receiving periodic reports from the Head of IA.

More details on the duties of the Committee are set out in the ToR and further information can be found in the "Risk Management and Internal Control Systems" section of the Corporate Governance Report on pages 108 to 112 of this Annual Report.

Reporting to the Board

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

The minutes of Committee meetings are prepared by the secretary of the meetings with details of the matters considered by Committee members and decisions reached, including any concerns raised by Committee members, dissenting views expressed and suggestions for enhancing the governance and internal control systems of the Company. The draft minutes are circulated to Committee members for comment after each meeting. The Committee formally adopts the draft minutes at the next subsequent meeting, after taking into account any comments that Committee members may have made. Minutes of Committee meetings are open for inspection by Committee members at the Company's registered office.

In advance of the first regular Committee meeting each year, the secretary of the meetings pre-agrees key agenda items for the year with the Chairman of the Committee who makes a final determination on the agenda for the Committee meetings.

WORK PERFORMED BY THE COMMITTEE IN 2019

In 2019, the Committee held four regular meetings. Representatives of the external auditor, the FD and the Head of IA attended all four regular meetings to report and answer questions about their work. The Committee devoted its attention to the review of the Company's annual and interim results announcement/accounts at the February and August meetings respectively, allowing more time to review and discuss the Company's internal controls, internal audit and other activities at the May and November regular meetings.

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

As mentioned in the last Report, the Committee has mandated the management team to carry out a review of the Company's internal control and risk management systems for non-Railway Projects – Hong Kong operations (the "Review"), with the support of an external consultant, PwC. During the year, the Committee and the Risk Committee jointly endorsed in principle PwC's recommendations from the Review, with focus on reviewing and strengthening the Three Lines of Defence. In addition, the Committee commissioned Internal Audit Department to conduct a special review of the internal controls over the bidding process on the overseas businesses (the "Overseas Review"). A report was then presented to the Committee. To address the findings from the Review and the Overseas Review, management will embark on a series of further Stage 2 reviews. Recommended timelines and prioritisation for these Stage 2 reviews will be presented to the Board for approval in 2020.

Other major works performed by the Committee in 2019 include:

Financial

- Reviewed the draft 2018 Annual Report and Accounts and 2019 Interim Report and Accounts, including the financial impact of the Company's railway construction projects under entrustment by the HKSAR Government, and the relevant disclosure notes in the said Accounts and recommendation of the same for the Board's approval;
- Received updates on the carrying value of the Group's fixed assets;
- Received updates on the latest cost positions of the Company's railway construction projects under entrustment by the HKSAR Government; and
- Previewed the 2019 interim and annual accounting and financial reporting issues.

Internal Audit

- Reviewed Internal Audit Department's Reports;
- Reviewed and endorsed an evaluation paper on Risk Management and Internal Control Systems Effectiveness for 2018 for submission to the Board (focused on the internal control system, as the risk management system effectiveness was separately reviewed and endorsed by the Risk Committee of the Company);
- Reviewed and endorsed a paper on Continuing Connected Transactions for 2018 for submission to the Board;
- Reviewed Whistle-blowing Progress Reports;
- Reviewed a Report on Evaluation of Effectiveness of Internal Audit Department for 2018;
- Received a review on the resources requirements of Internal Audit Department;
- Received a special review report relating to a European project;
- Approved the 2020 Internal Audit Plan;
- Approved updates to the Internal Audit Charter; and
- Held private sessions with the Head of IA without the presence of Management.

External Auditor

- Reviewed KPMG's Audit Plan and strategy for the year ended 31 December 2019;
- Received a summary of KPMG services provided to the Company and fees received by them;
- Pre-approved audit and non-audit services provided by KPMG;
- Received KPMG's reports on the salient features of the 2018 Annual Accounts and 2019 Interim Accounts respectively;
- Received an update relating to Service Concession Payments and tax matters;
- Reviewed the 2018 Auditor's Report;
- Reviewed and approved KPMG's fee proposal for the 2019 annual audit and the 2020 interim review, as well as other audit related and tax services;
- Considered KPMG's independence and other relevant factors when approving the appointment of KPMG in providing non-audit services; and noted KPMG's confirmation of independence in its audit report in respect of the 2018 Annual Accounts and 2019 Interim Accounts respectively; and
- Held private sessions with representatives of KPMG without the presence of Management.

Governance

- Received the 2018 report on outstanding litigation/potential litigation, compliance with statutes and regulations, Operating Agreement and Rail Merger Related Agreements;
- Received interim updates on the review of the Company's Internal Control and Risk Management Framework from PwC;
- Received updates on the Railway Projects Assurance Framework and Second Line of Defence controls for Capital Works Projects; and
- Received the Audit/Risk/Governance Committee Minutes of various subsidiaries of the Company.

RE-APPOINTMENT OF EXTERNAL AUDITOR

The Committee was satisfied with KPMG's work, its independence and objectivity, and therefore recommended the re-appointment of KPMG (which has indicated its willingness to continue in office) as the Group's external auditor for 2020 for approval by the Company's Shareholders at the 2020 Annual General Meeting.

Dr Eddy Fong Ching
Audit Committee Chairman
Hong Kong, 5 March 2020

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

RISK MANAGEMENT

SYSTEM FEATURES

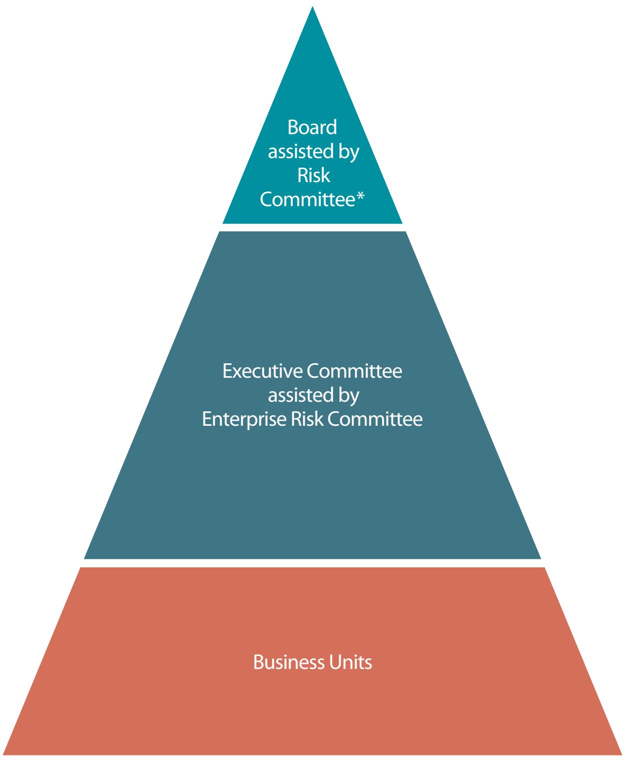
Business units across the Company embrace the Company's Enterprise Risk Management ("ERM") framework that underpins their day-to-day business activities. The framework provides a simple and effective management process to:

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

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

The Executives provided top-down views on the key risks of the Company through discussions on the quarterly enterprise risk reports. Two "Blue Sky" workshops were also held in 2019 to discuss (i) the objectives of and expected outcomes from the ERM function; and (ii) possible longer term risk scenarios associated with the recent public order events in Hong Kong and possible risk controls.

The Company's risks are rigorously identified, assessed and managed. Each risk is evaluated on the basis of the likelihood of the identified risk and the consequence of the risk event, taking into consideration the control measures in place. A risk matrix is used to determine risk ratings (E1 – E4), with E1 being a very high risk and E4 being a low risk. The risk ratings reflect the required management attention and risk treatment effort, and take into account the Company's risk appetite. The highest category of risks, "E1", is subject to Board, Risk Committee and Executive Committee oversight.



- Exercise ongoing risk oversight
- Establish appropriate risk management strategies
- Oversee the ERM framework
- Review top risks and emerging risks
- Conduct annual review of ERM system effectiveness

- Implement and continuously improve ERM framework
- Enterprise Risk Committee
  - Chaired by Legal and European Business Director
  - Comprises representatives from key business functions
  - Steers framework implementation and improvement
  - Reviews Company's top risks and key emerging risks
  - Reports to Executive Committee and Risk Committee quarterly, and to Board every six months

- Establish arrangements and implement risk management process consistent with the Company's ERM framework and policy
- Capture identified risks in risk registers for regular review and monitoring

* *See the Risk Committee Report (pages 122 to 123 of this Annual Report) for duties and work performed by the Committee in 2019*

While risk taking is inevitable in the course of business, the Company's appetite for risk varies, but is particularly low in certain areas, such as in relation to safety and the provision of a reliable transport service.

The Company's ERM system provides an important internal control in identifying and managing enterprise risks affecting the Company. As a learning organisation, the Company constantly looks for improvement opportunities through internal and external reviews and studies, as well as learning from incidents encountered during its operations. Investigations of material incidents such as issues seen in relation to the Shatin to Central Link project, the train collision during signalling testing on the Tsuen Wan Line and the derailment near Hung Hom Station on the East Rail Line, have been undertaken and improvement actions have been identified for implementation.

MANAGEMENT PROCESS FOR SIGNIFICANT RISKS

The Company takes proactive measures to identify, evaluate and manage significant risks arising from its recurrent and growth businesses and from the constantly changing business environment. Risk management strategies are developed for different areas including but not limited to construction, operations, finance, treasury, safety and insurance.

The ERM Team within the Legal and Secretarial Division maintains a list of running issues and risk drivers pertinent to the changing business and external environments, which is used to assist the ERC in identifying potential risks that may emerge.

In 2019, the ERM Team had reviewed the external case of the Boeing 737-Max airplane failure to understand the issues involved and identify lessons learned that could be applied to the Company.

In addition, the ERC, the Executive Committee and the Risk Committee review the Company's enterprise risk profile and brainstorm emerging risks quarterly to ensure that key risks and those cutting across different areas of the business are captured.

Identify Risk*

- Existing businesses
- Changing external environment
- New projects or business ventures
- New and emerging issues or trends which may pose significant risks
- List of running issues and risk drivers for brainstorming
- Change in laws and regulations

Evaluate Risk

- Evaluate risk by estimating likelihood and consequence of the risk event
- Determine risk rating using the risk matrix (E1-E4)

Treat Risk*

- Take into account risk appetite
- Avoid risks where no appetite and possible to do so
- Mitigate – review controls in place to evaluate adequacy and effectiveness and ensure owners in place to implement
- Transfer – take out insurance to transfer risks where cost effective and efficient
- Accept once mitigated to an appropriate level

Report and Monitor Risk

- Capture risks in risk registers
- Periodic ERM reports to
  - Enterprise Risk Committee
  - Executive Committee
  - Risk Committee
  - Board

* *Areas below are not exhaustive*

Key focus areas for risk management of the Company include:

Effective and Balanced Relationship with Key Stakeholders	
Key Challenges	• More challenging political landscape and diverse stakeholders' expectations • Uphold trust and public confidence in light of the Shatin to Central Link incident, the Public Order Events and operational incidents
Key Controls	• Implement tailored engagement plans for different stakeholders to maintain effective communication and understanding • Observe the Company's operating obligations and maintain good performance of the Company

People and Operations safety	
Key Challenges	• Safety and security threats associated with the Public Order Events • More challenging staff relations management due to more diverse profiles and polarised views • Health threat and loss of production arising from the coronavirus pandemic
Key Controls	• Enhanced security arrangements • Review of asset and design standards • Proactive engagement of staff through enhanced communication channels • Implementation of business continuity arrangements • Enhanced cleaning and sterilisation at business premises, including trains, and provision of personal health protective equipment for staff

New Projects Quality, Delivery and Cost	
Key Challenges	• Adherence to programme and cost of projects • Compliance with quality standards and record keeping requirements
Key Controls	• Periodic audits and assurance to ensure compliance with processes and procedures • Monitoring project quality and progress against Key Performance Indicators • Familiarization of staff with the processes and procedures relevant to their work and encouraging lessons learned to be shared • Adoption of technology to strengthen supervision and record keeping • Stringent control of contingency funds

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

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

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

Process of System Effectiveness Review

On behalf of the Executive Committee, the ERC evaluates the effectiveness of the ERM system at least annually. The Legal and European Business Director, who chairs the ERC, presented the ERM system effectiveness review results for the year ended 31 December 2019 to the Executive Committee, which confirmed the review results, on 6 February 2020, and to the Risk Committee on 18 February 2020.

For the year ended 31 December 2019, the Risk Committee, with delegated authority from the Board, has evaluated the effectiveness and adequacy of the Company's ERM system and considers that it is overall effective and adequate, based on a number of review areas.

Factors considered during the review

- Review areas suggested in the Corporate Governance Code for the Board's annual review of the risk management system
- Annual internal certification of risk management effectiveness by Department Heads and Heads of subsidiaries / associates
- Risk management of subsidiaries and associates
- Benchmarking / roundtable / peer group ideas exchange
- Risk management training and promotion held in 2019

Conclusion

The ERM system was considered overall effective and adequate for the year ended 31 December 2019.

CONTINUOUS PROCESS IMPROVEMENT

Key initiatives undertaken in relation to the ERM system in 2019 include the following:

- The ERM Team continued to produce quarterly ERM Newsletters for dissemination to all staff focusing on topical issues in risk management, aiming to raise risk awareness, share good risk management practices and lessons learned from case studies.
- A series of 3 bite-size animated videos, which form a story to promote risk management principles and application, has also been developed. Two of the three videos have been launched, with the last one released in early 2020. The fun and innovative approach has received a good response with over 2,000 staff having watched the videos and participated in the quizzes.
- Acting through the Audit Committee and the Risk Committee, the Board has mandated a review of the Company's internal control and risk management systems for Hong Kong operations, as the first phase, by PwC ("Review"). The first phase of the Review has been completed and the observations were presented to the Audit Committee and the Risk Committee in September 2019. An action plan will be brought back to the Board in 2020 for implementing the recommendations, and one of the key recommendations is an in-depth review of ERM's positioning and structure.

We keep ourselves abreast of the latest developments in risk management through reviews with users, cross-industry benchmarking and experience sharing, including through participation in the UK ERM Roundtable and the HK ERM Roundtable meetings.

RISK COMMITTEE REPORT

As at the date of this Report, the Risk Committee of the Company (referred to as the "Committee" in this report) consists of seven non-executive Directors, five of whom are Independent Non-executive Directors of the Company ("INEDs"). Details of the Committee's members and their attendance records during 2019 are set out on pages 96 to 97 of this Annual Report.

The Committee, with delegated authority from the Board, has evaluated the effectiveness and adequacy of the Company's Enterprise Risk Management ("ERM") system and considers that it is overall effective and adequate.

DUTIES OF THE COMMITTEE

The Committee's Terms of Reference are available on the respective websites of the Company (www.mtr.com.hk) and The Stock Exchange of Hong Kong Limited.

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

The Committee assists the Board in overseeing the Company's ERM system on an ongoing basis. The Committee reviews the effectiveness of the Company's ERM system annually, and reports to the Board in relation to such review. More details of the features of the ERM system and processes, the significant areas of risk being managed, and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section on pages 118 to 121 of this Annual Report. Each year, the Committee agrees on a list of reviews and presentations in respect of selected key risk areas to be considered for that year, taking into account the ongoing activities of the Company at the material time; and invites relevant management to present on the subjects and conduct interactive discussions. The list of matters to be considered is updated as required to include any topical subjects or risks that may emerge during the year. The Committee provides observations and, where applicable, recommendations to management, based on their reviews and discussions.

The secretary of the meetings draws up agendas for each meeting in consultation with the chairman of the Committee, making reference to the list of reviews and presentations determined by the Committee, as well as topical matters at the relevant time.

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

The minutes of the Committee meetings are prepared by the secretary of the meetings with details of the matters considered by the Committee Members, including recommendations and any observations raised by the Committee Members. Draft minutes are circulated to the Committee Members before adoption. The Committee formally adopts the draft minutes at its next subsequent meeting, after taking into account any comments that the Committee Members may have on the draft minutes.

A total of four meetings have been scheduled to be held on a quarterly basis in 2020.

WORK PERFORMED BY THE COMMITTEE IN 2019

In 2019, the Committee held four meetings. During the year, the Committee reviewed the Company's ERM quarterly reports and the effectiveness of the Company's ERM system for the year ended 31 December 2018. A review of the Company's ERM annual report and ERM system effectiveness for the year ended 31 December 2019 was conducted by the Committee on 18 February 2020.

The Committee reviewed the Company's risk profile, top risks and key emerging risks at each of its meetings. At its first meeting, the Committee agreed on a list of "deep dive" reviews and presentations on selected key risk areas for the year (as adjusted during the course of year), which reviews and presentations took place as planned. Relevant Members of the Executive Directorate and managers were invited to present on the "deep dive" reviews to the Committee, with comments and recommendations provided by the Committee for appropriate action by management.

Acting through the Committee and the Audit Committee, the Board has mandated a review of the Company's internal control and risk management systems for Hong Kong operations, as the first phase, by PwC ("Review"). The first phase of the Review has been completed and the observations were presented to the Committee and the Audit Committee in September 2019. An action plan will be brought back to the Board in 2020 for implementing the recommendations, and one of the key recommendations is an in-depth review of ERM's positioning and structure.

The Legal and European Business Director, the General Manager – Governance & Risk Management and the Senior Manager – Enterprise Risk, representing the ERM function, attended all four meetings in 2019 to report and answer questions on ERM related matters.

The Committee considered the following key matters in 2019:

- Impact of pandemics on railway operations
- Handling of super typhoons and service resumption
- Signalling replacement project risks update
- Risk review of Tuen Ma Line phased opening options
- Readiness and preparation for opening of Sydney Metro Northwest, initial section of Hangzhou Metro Line 5 and Macao Light Rapid Transit Taipa Line
- High Speed Rail operations
- Financial sustainability risk update
- Insurance summary update
- Horizon scan on cyber threats
- Data protection, recovery and response
- Octopus cyber security
- Notable cyber incidents summary overviews
- Major global rail accidents summary overviews
- Boeing 737-Max case study

Andrew Brandler
Risk Committee Chairman
Hong Kong, 5 March 2020

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

CAPITAL WORKS COMMITTEE REPORT

As at the date of this Report, the Capital Works Committee of the Company (referred to as the "Committee" in this report) consists of seven Non-executive Directors, six of whom are Independent Non-executive Directors of the Company ("INEDs"). Details of the Committee's members and their attendance records during 2019 are set out on pages 96 to 97 of this Annual Report.

DUTIES OF THE COMMITTEE

The Committee's Terms of Reference are available on the website of the Company (www.mtr.com.hk).

The principal duties of the Committee include overseeing any capital project of the Company in Hong Kong and outside of Hong Kong involving design and/or construction activities ("Relevant Project") with a capital value in excess of HK$10 billion and any other Relevant Project, in the event that such Relevant Project is four months or more behind programme on an overall basis; reviewing the progress of such projects, from both a programme and cost perspective; reviewing matters that could have a material impact on the quality, delivery and management of such projects, including processes and protocols adopted by the Company in supervising and managing the projects and non-compliances in relation to materials, works and processes; checking that there are adequate resources for and supervision of such projects; keeping under review the Company's communication strategy and protocols, and crisis management plan in respect of each of such projects; and reporting to the Board on a quarterly basis and on ad hoc basis if the Committee deems appropriate, in respect of the above.

The secretary of the meetings draws up agendas for each meeting in consultation with the chairman of the Committee, which may take into account topical matters relating to the projects at the relevant time.

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

The minutes of the Committee meetings are prepared by the secretary of the meetings with details of the matters considered by the Committee Members, including recommendations and any observations raised by the Committee Members. Draft minutes are circulated to the Committee Members before adoption. The Committee formally adopts the draft minutes at its next subsequent meeting, after taking into account any comments that the Committee Members may have on the draft minutes.

WORK PERFORMED BY THE COMMITTEE IN 2019

In 2019, the Committee held five meetings at which the following key matters were reviewed and considered:

- reports on the progress and cost status of the Company's capital projects under construction including the Express Rail Link and Shatin to Central Link
- half-yearly reports on projects-related audits conducted by the Company's Internal Audit Department
- half-yearly reports on the construction programme and cost status of all the awarded development projects of the Company's Property Division in Hong Kong, and quarterly updates on the Tai Wai Station Property Development
- special reports on Exhibition Centre Station, To Kwa Wan Station and Hung Hom Station under Shatin to Central Link
- updates on Projects Transformation Programme and implementation of recommendations suggested by independent consultant, Turner & Townsend

Projects Director had attended four Committee meetings after his appointment in March 2019, Engineering Director attended four Committee meetings in 2019, Managing Director – Operations & Mainland Business attended one Committee meetings in 2019, and General Manager – Procurement & Contracts attended four Committee meetings in 2019 to report and answer questions on progress of projects and cost related matters. Other Executives and senior managers were also invited to attend Committee meetings when required.

Dr Allan Wong Chi-yun
Capital Works Committee Chairman
Hong Kong, 5 March 2020

The Capital Works Committee Report has been reviewed and endorsed by the Committee.

REMUNERATION COMMITTEE REPORT

INTRODUCTION

The Remuneration Committee has been delegated the authority to consider and recommend to the Board the Company's remuneration policy and the remuneration packages of the Non-executive Directors, as well as to review and determine the remuneration packages for the Chief Executive Officer and other Members of the Executive Directorate.

Throughout the year, the Committee met regularly to discuss and approve remuneration issues pertaining to the Company's core incentive scheme, long-term incentive scheme, and also the remuneration packages of the Chief Executive Officer and other Members of the Executive Directorate in the light of the Company's remuneration policy, and to consider and make recommendations to the Board on the remuneration packages of the Non-executive Directors. In determining the remuneration of the Chief Executive Officer, the Committee consults with the Chairman and in the case of other Members of the Executive Directorate, the Committee consults with both the Chairman and the Chief Executive Officer in respect of their recommendations.

Currently, the Committee has seven Non-executive Directors, four of whom are independent Non-executive Directors. The Chairman of the Remuneration Committee is an independent Non-executive Director. As necessary and with the agreement of the Chairman of the Remuneration Committee, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues. No individual Director or any of his associates is involved in deciding his own remuneration.

The principal responsibilities of the Remuneration Committee include:

- Formulating a remuneration policy and practices that facilitate the employment of top quality personnel;
- Recommending to the Board the remuneration of the Non-executive Directors;
- Determining, with delegated responsibility, the remuneration packages of Members of the Executive Directorate; and
- Reviewing and approving performance-based remuneration of Members of the Executive Directorate by reference to the Board's corporate goals and objectives.

The Committee's responsibilities are set out in its Terms of Reference and are consistent with the Code.

This Remuneration Committee Report has been reviewed and authorised by the Remuneration Committee of the Company.

REMUNERATION POLICY

It is the Company's policy to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. To achieve this, the Company has taken into consideration a number of relevant factors such as salaries paid by comparable companies, job responsibilities, duties and scope, employment conditions elsewhere in the Company and its subsidiaries, market practices, financial and non-financial performance, and the desired mix of fixed and performance-based remuneration.

The Company is committed to effective corporate governance and employing and motivating top quality personnel. The Company also recognizes the importance of a formal and transparent remuneration policy covering its Board and Executive Directorate.

REMUNERATION FOR NON-EXECUTIVE DIRECTORS

The Remuneration Committee makes recommendations to the Board from time to time on the remuneration of the Members of the Board who are Non-executive Directors. The remuneration of Non-executive Directors is in the form of annual director's fees.

To ensure that Non-executive Directors are appropriately remunerated for their time and responsibilities devoted to the Company, the Committee undertakes periodic reviews and considers the following factors as they put forward recommendations to the Board:

- Fees paid by comparable companies;
- Time commitment;
- Responsibilities of the Non-executive Directors; and
- Employment conditions elsewhere in the Company.

Details of the remuneration for Non-executive Directors are set out in note 11 to the accounts. The current Non-executive Director remuneration framework, in effect since 1 January 2017, is set out below:

	(HK$)
Board	
– Chairman	1,500,000
– Other Members	300,000
Audit Committee and Capital Works Committee	
– Chairman	150,000
– Other Members	90,000
Risk Committee, Remuneration Committee, Nominations Committee, and Corporate Responsibility Committee	
– Chairman	110,000
– Other Members	60,000

REMUNERATION FOR EMPLOYEES

The Company's remuneration structure for its employees, including the Chief Executive Officer and other Members of the Executive Directorate, comprises:

- fixed compensation – base salary, allowances and benefits-in-kind (e.g. medical);
- variable incentives – discretionary or performance-based payment and other business-specific cash incentive plans;
- long-term incentives – e.g. restricted shares and performance shares; and
- retirement schemes.

The specifics of these components are described below.

Fixed Compensation

Base salary and allowances are set and reviewed annually. The annual review process takes into consideration the Company's remuneration policy, competitive market positioning, market practice, as well as the Company's and the individuals' performance. Benefits-in-kind are reviewed as and when appropriate taking into consideration market practices.

Variable Incentives

The Chief Executive Officer, other Members of the Executive Directorate and management of the Company are eligible to receive an annual performance-based cash incentive under the Company's Core Incentive Scheme ("CIS"), the terms and rules of which are regularly reviewed by the Remuneration Committee.

Under the current scheme rules, the payouts are based on the performance of the Company and the individuals. The Company's performance is measured by both financial and non-financial factors including:

Financial Factors

- Operating profit;
- EBITDA margin; and
- Hong Kong property development profits.

Non-financial Factors

- Results from Customer feedback surveys;
- Fulfillment of the Customer Service Pledges; and
- Fulfillment of Performance Requirements in relation to "Train Service Delivery", "Passenger Journeys on Time" and "Train Punctuality" as defined in Schedule 2, Part 1 of the Operating Agreement.

Payouts will be automatically reduced if the Company does not achieve any one or more of the Performance Requirements. They will also be adjusted subject to the Company's achievement of all the Customer Service Pledges.

Following the end of each year, the Company engages an independent expert to conduct a review and audit of its performance versus the Performance Requirements and Customer Service Pledges. The results of this audit are shared with the Remuneration Committee to determine if adjustments to the payouts under the scheme are appropriate.

Individual performance ratings are part of the thorough annual performance assessment process that is applied throughout the Company. The performance ratings and assessments reflect the full range of factors over which the individual has accountability, including operational, other non-financial and financial factors. Performance for the Chief Executive Officer is assessed by the Chairman, and the individual performance ratings for other Members of the Executive Directorate are determined by the Chief Executive Officer.

Target incentive levels for the Chief Executive Officer and other Members of the Executive Directorate represent approximately 25-35% of total cash compensation.

In addition, the Company operates other business-related incentive schemes to motivate the staff concerned to reach specific business targets of the Company.

Discretionary Awards

In 2019, discretionary awards were provided to non-managerial staff with competent or above performance, as a recognition of their contribution to the Company's good performance and achievements in the past year and to motivate staff to strive for continuous business growth.

In addition, a one-off special discretionary award was granted to all staff including managers in 2019 as a token of appreciation for their contribution over the years.

Long-Term Incentives

During 2019, the Company maintained the 2007 Share Option Scheme and the Executive Share Incentive Scheme (formerly the "2014 Share Incentive Scheme").

(i) 2007 Share Option Scheme

The 2007 Share Option Scheme was approved and adopted by shareholders at the Company's Annual General Meeting on 7 June 2007 and terminated on 6 June 2014. Under the terms of the 2007 Scheme, no new grant of options could be made after 5:00 p.m. on 6 June 2014. The Scheme includes a provision which specifies that options cannot be exercised under the Scheme unless the Company has satisfied each of the three Key Performance Requirements included in the Operating Agreement in order for any options to be exercised.

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2019 under the 2007 Scheme are set out under the paragraph "Directors' Interests in Shares and Underlying Shares of the Company" of the Report of the Members of the Board.

Details of the 2007 Scheme and options granted to Members of the Executive Directorate and selected employees of the Company under the Schemes are set out in notes 11 & 42 to the accounts.

(ii) Executive Share Incentive Scheme

On 15 August 2014, the Board approved the adoption of the Executive Share Incentive Scheme, following the expiry of the 2007 Share Option Scheme on 6 June 2014. The Executive Share Incentive Scheme took effect on 1 January 2015 for a term of 10 years (unless terminated earlier by the Company).

The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the Executive Share Incentive Scheme as award holders in accordance with the rules of the Executive Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares. Awards under the Executive Share Incentive Scheme were granted to selected employees of the Company, including Members of the Executive Directorate, in 2019. Award holders are entitled to cash dividends accrued in respect of unvested Restricted Shares that are granted on or after 1 January 2018.

Restricted Shares are awarded on the basis of the individual performance of the relevant eligible employee. Performance Shares are awarded which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period, and any other performance conditions, as determined by the Remuneration Committee from time to time.

In general, the Company will pay to the third party trustee (the "Trustee") monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from shares held as part of the funds of the trust to acquire existing shares from the market. Such shares will be held on trust by the Trustee for the relevant award holder. The Trustee shall not exercise any voting rights in respect of any shares held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested award shares.

As part of the overall governance of the Executive Share Incentive Scheme, the Company reviews scheme features on a regular basis to ensure continued relevance and effectiveness.

Details of the Executive Share Incentive Scheme and shares granted to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme are set out in notes 11 & 42 to the accounts.

Retirement Schemes

In Hong Kong, the Company operates four retirement schemes under trust, the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme", with details as follows:

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted an MPF Exemption Certificate by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and employee representatives, and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted an MPF Exemption Certificate by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

(iii) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

(iv) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPFSO.

The Members of the Executive Directorate who were hired by the Company before 1 April 1999 are eligible to join the MTR Retirement Scheme. Other Members of the Executive Directorate are eligible to join either the MTR Provident Fund Scheme or the MTR MPF Scheme.

Dr. Jacob Kam, the Company's Chief Executive Officer effective from 1 April 2019, participates in the MTR Provident Fund Scheme.

For subsidiary companies in Hong Kong, Macau, the Mainland of China, United Kingdom, Sweden and Australia, the Group operates retirement schemes established in accordance with, in the case of subsidiaries in Hong Kong, the MPFSO and, in the case of subsidiaries in Macau, the Mainland of China and overseas, their respective local laws and regulations.

WORK PERFORMED BY THE REMUNERATION COMMITTEE DURING THE YEAR

- Approved the 2018 Remuneration Committee Report as incorporated in the 2018 Annual Report;
- reviewed and approved payouts under the Company's performance-based CIS for the 2018 performance period;
- reviewed and approved restricted share and/or performance share awards for eligible employees under the Executive Share Incentive Scheme;
- conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2019; and
- reviewed and approved the appointment, contract renewal and contract expiry arrangement for Members of the Executive Directorate

REMUNERATION OF NON-EXECUTIVE AND EXECUTIVE DIRECTORS

The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 11 to the accounts.

in HK$ million	2019	2018
Fees	**10.0**	10.0
Base salaries, allowances and other benefits-in-kind	**55.1**	61.4
Variable remuneration related to performance	**8.1**	23.1
Retirement scheme contributions	**6.2**	7.7
Total	**79.4**	102.2

Please refer to note 11 to the accounts for information relating to the five highest paid employees of the Company for the year ended 31 December 2019.

Dr Dorothy Chan Yuen Tak-fai
Remuneration Committee Chairperson
Hong Kong, 26 February 2020

BOARD AND EXECUTIVE DIRECTORATE

Full biographical details of Members of the Board and the Executive Directorate are available on the Company's website (www.mtr.com.hk).

MEMBERS OF THE BOARD

Rex Auyeung Pak-kuen*

Age 67

Chairman since 1 July 2019
NED since 7 March 2019

Corporate Responsibility Committee *(Chairman)*
Nominations Committee *(Member)*
Remuneration Committee *(Member)*

Mr Auyeung is an independent non-executive director of HSBC Provident Fund Trustee (Hong Kong) Limited and China Construction Bank (Asia) Corporation Limited.

Mr Auyeung has over 40 years of experience in the insurance industry in Canada and Hong Kong. Before his retirement in June 2017, Mr Auyeung was Chairman – Asia of the Principal Financial Group Inc. ('PFG'), a Fortune 500 company, responsible for PFG's overall businesses in Asia.

Mr Auyeung also actively serves the public sector and is currently an observer of the Independent Police Complaints Council Observers Scheme, and a member of the Board of Directors of the Investor and Financial Education Council under the Securities and Futures Commission. In addition, he is a member of the Investment Sub-committee of The Community Chest of Hong Kong, a board member of Bo Charity Foundation (Food Angel) and a convenor of the Jockey Club Community eHealth Care Project.

Mr Auyeung was previously an independent non-executive director of Standard Life (Asia) Limited and Sompo Insurance China Co., Ltd., the chairman of Hong Kong Strategy for Financial Literacy Sub-committee on Stakeholder Coordination and Collaboration, a member of the Independent Review Committee on Hong Kong's Franchised Bus Service, the chairman of the Council of Lingnan University and the Senior Strategy and Business Advisor at Athenex Inc., a company listed on NASDAQ in the United States of America.

Dr Jacob Kam Chak-pui*

Age 58

Chief Executive Officer
since 1 April 2019

Corporate Responsibility Committee *(Member)*

Dr Kam joined the Company in 1995 and had held various management positions in Operations, Projects and Mainland China and International Business Divisions.

As the CEO, Dr Kam is responsible for all performances of the Company and its group companies both in and outside Hong Kong.

Dr Kam is the chairman of the Regional and Suburban Railways Division of the International Association of Public Transport (UITP), a council member of Vocational Training Council in Hong Kong, a member of Hong Kong Quality Assurance Agency Governing Council, a member of the board of directors of The Community Chest of Hong Kong, and a member of the General Committee of The Hong Kong General Chamber of Commerce.

Dr Kam qualified as a Chartered Engineer in the United Kingdom in 1989.

Andrew Clifford Winawer Brandler^

Age 63

INED since 17 May 2017
Risk Committee *(Chairman)*
Audit Committee *(Member)*

Mr Brandler is the chairman of Sir Elly Kadoorie & Sons Limited. He was formerly the group managing director and chief executive officer of CLP Holdings Limited from 2000 to 2013, an executive director between October 2013 and

April 2014, and currently is a non-executive director of that company. Mr Brandler is also the non-executive deputy chairman of The Hongkong and Shanghai Hotels, Limited, and a non-executive director of Tai Ping Carpets International Limited. He is also currently the Chairman of the Board of Governors of the Chinese International School.

Prior to joining CLP Holdings Limited in 2000, Mr Brandler was an investment banker, his last position being Head of Asia Pacific Corporate Finance at Schroders based in Hong Kong. He is the former chairman of The Hong Kong General Chamber of Commerce and a member of the Operations Review Committee of the Independent Commission Against Corruption.

Mr Brandler is a member of The Institute of Chartered Accountants in England and Wales.

Walter Chan Kar-lok

Age 66

INED since 22 May 2019

Nominations Committee *(Member)*
Corporate Responsibility Committee *(Member)*

Mr Chan has been a practising lawyer for over 37 years and is currently a consultant of Messrs. So, Lung & Associates, Solicitors and Messrs. Rowland Chow, Chan & Co., Solicitors. He is also a China Appointed Attesting Officer. Mr Chan currently is the chairman of The Hong Kong Housing Society, a convenor-cum-member of the Pensions Appeal Panel under Civil Service Bureau, and a member of the Board of Advisors of Radio Television Hong Kong and the Advisory Committee on Post-service Employment of Civil Servants.

Mr Chan was formerly the chairman of Appeal Tribunal (Buildings), a non-executive director of the Urban Renewal Authority, and a member of the Housing Authority, the Town Planning Board and the Harbourfront Commission.

Dr Pamela Chan Wong Shui ^

Age 73

INED since 4 July 2013

Nominations Committee *(Chairman)*
Corporate Responsibility Committee *(Member)*

Dr Chan is chairman of The Insurance Complaints Bureau, vice-chairman of The Boys' and Girls' Clubs Association of Hong Kong, an independent director of the Travel Industry Council of Hong Kong, a member of the Judicial Officers Recommendation Commission and the Private Columbaria Appeal Board, chairman of the Advisory Committee of the Department of Social Behavioural Sciences of City University of Hong Kong and a member of the board of The Community Chest of Hong Kong. She is also currently patron of Consumers International.

Dr Chan was chief executive of the Consumer Council, chairman of Hong Kong Deposit Protection Board, deputy chairman of the Hong Kong Baptist University Council and the Court, chairman of the governing committee of Princess Margaret Hospital, and a member of the Law Reform Commission of Hong Kong, Hospital Authority, The Hong Kong Housing Authority and Estate Agents Authority.

Dr Dorothy Chan Yuen Tak-fai ^*

Age 70

INED since 4 July 2013

Remuneration Committee *(Chairman)*
Capital Works Committee *(Member)*

Dr Chan is currently the Deputy Director (Administration and Resources), Head of Centre for Logistics & Transport and advisor of International College of HKU School of Professional and Continuing Education, and a council member of HKU SPACE Po Leung Kuk Stanley Ho Community College. She is an independent non-executive director of AMS Public Transport Holdings Limited, the chairperson of the Sustainable Agricultural Development Fund Advisory Committee, a director of TWGHs E-Co Village Limited, a Strategy Advisor to the Serco Group (HK) Limited, a member of the Board of Governors of the Hong Kong Institute for Public Administration, and the Global Chairperson and a Global Advisor for Women in Logistics and Transport of the Chartered Institute of Logistics and Transport ('CILT').

Dr Chan was a board member of the Logistics and Supply Chain MultiTech R&D Centre Limited, a member of the Social Welfare Advisory Committee and the Advisory Council on Environment of the HKSAR Government, and the International President of CILT. She was previously the Deputy Commissioner for Transport of Government from 1995 to 2002. From 2000 to 2002, Dr Chan was the Alternate Director to the office of the Commissioner for Transport, a Non-executive Director of the Company.

Cheng Yan-kee

Age 65

INED since 22 May 2019

Remuneration Committee *(Member)*
Capital Works Committee *(Member)*

Mr Cheng is a practising civil and structural engineer, and an Authorised Person and a Registered Structural Engineer under the Buildings Ordinance. He is also a Class 1 Registered Structural Engineer in the People's Republic of China.

Mr Cheng currently is a director of H. K. Cheng & Partners Limited and is a member of the Advisory Committee on Post-service Employment of Civil Servants.

Mr Cheng formerly was an independent non-executive director of K. H. Group Holdings Limited, President of the Institution of Structural Engineers, and Chairman of both the Council of the Hong Kong Baptist University and the Corruption Prevention Advisory Committee under the Independent Commission Against Corruption. He was also a member of the Hospital Authority, Town Planning Board and the Hong Kong Housing Authority.

Dr Anthony Chow Wing-kin

Age 69

INED since 18 May 2016

Capital Works Committee *(Member)*
Remuneration Committee *(Member)*

Dr Chow is a solicitor admitted to practise in Hong Kong and England and Wales. He has been a practising solicitor in Hong Kong for over 34 years and is currently the Senior Consultant and Global Chairman of the law firm Messrs. Guantao & Chow Solicitors and Notaries. Dr Chow is a China Appointed Attesting Officer and an arbitrator of the South China International Economic and Trade Arbitration Commission/ Shenzhen Court of International Arbitration. He is currently the chairman of the board of stewards of The Hong Kong Jockey Club, the deputy chairman of the Council of The Hong Kong Academy for Performing Arts, a non-executive director of Kingmaker Footwear Holdings Limited, and an independent non-executive director of S. F. Holding Co., Ltd. and Ping An Healthcare and Technology Company Limited.

Dr Chow was previously a non-executive director of China City Construction Group Holdings Limited, an independent non-executive director of Fountain Set (Holdings) Limited and the president of The Law Society of Hong Kong and is the former chairman of the Process Review Panel for the Securities and Futures Commission of Hong Kong.

Dr Eddy Fong Ching*

Age 73

INED since 13 January 2015

Audit Committee *(Chairman)*
Nominations Committee *(Member)*

Dr Fong is currently an independent non-executive director of Standard Chartered Bank (Hong Kong) Limited, Standard Chartered Bank (China) Limited and SC Digital Solutions Limited.

Dr Fong was the non-executive chairman of the Securities and Futures Commission from 2006 to 2012 and the past chairman of both the Council of The Open University of Hong Kong and the Process Review Panel in relation to the Regulation of Mandatory Provident Fund Intermediaries. His other past public duties include director of The Hong Kong Mortgage Corporation Limited, the Mandatory Provident Fund Schemes Authority and the Exchange Fund Investment Limited, a member of The Hong Kong Housing Authority and the Greater Pearl River Delta Business Council, and a council member of The Hong Kong Academy for Performing Arts. Dr Fong was also a senior audit partner with PricewaterhouseCoopers specializing in capital markets work in Hong Kong and the Mainland of China until his retirement in 2003.

Dr Fong is a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

James Kwan Yuk-choi

Age 68

INED since 14 October 2014

Capital Works Committee *(Member)*
Risk Committee *(Member)*

Mr Kwan is currently an independent non-executive director of Towngas China Company Limited.

Mr Kwan was previously a senior adviser, an executive director and the chief operating officer of The Hong Kong and China Gas Company Limited, and a director of Shenzhen Gas Corporation Limited. He was also the President of The Institution of Gas Engineers (currently known as The Institution of Gas Engineers & Managers) ('IGEM') in the United Kingdom in 2000/2001 and The Hong Kong Institution of Engineers ('HKIE') in 2004/2005. Mr Kwan is a former member of the Construction Industry Council, the Transport Advisory Committee, the Vocational Training Council, and the Standing Committee on Disciplined Services Salaries and Conditions of Service of the HKSAR Government.

Mr Kwan is a Chartered Engineer.

Rose
Lee Wai-mun

Age 67

INED since 16 May 2018

Audit Committee *(Member)*
Risk Committee *(Member)*

Ms Lee is an Independent Non-Executive Director of CK Hutchison Holdings Limited and Swire Pacific Limited. Ms Lee is also a member of the Election Committee of the 13th National People's Representative Meeting, a Board Member of the West Kowloon Cultural District Authority, and Vice Patron of the Community Chest of Hong Kong. Ms Lee is a Fellow of The Hong Kong Institute of Bankers.

She was previously Vice-Chairman and Chief Executive of Hang Seng Bank Limited, Group General Manager of HSBC Holdings plc, Director of The Hongkong and Shanghai Banking Corporation Limited and Chairman of the Board of Governors of Hang Seng University. In addition, she was previously Vice President of The Hong Kong Institute of Bankers, Board Member, Deputy Chairman of the Executive Committee of The Community Chest of Hong Kong, and a member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council.

Lucia
Li Li Ka-lai

Age 65

INED since 14 October 2014

Audit Committee *(Member)*
Corporate Responsibility Committee *(Member)*

Mrs Li is a retired civil servant. She was Director of Accounting Services of the HKSAR Government from October 2003 to January 2009. Mrs Li was formerly a member of the Public Service Commission, a member of the Communications Authority, a board member and treasurer of Chung Ying Theatre Company (HK) Limited and a member of a task force formed by the Commissioner for Innovation and Technology to follow up the Director of Audit's Report No. 61 with regard to the Small Entrepreneur Research Assistance Programme.

Mrs Li is a Fellow member of the Hong Kong Institute of Certified Public Accountants.

Jimmy
Ng Wing-ka

Age 50

INED since 22 May 2019

Capital Works Committee *(Member)*
Corporate Responsibility Committee *(Member)*

Mr Ng is a solicitor admitted to practise in Hong Kong and currently is a partner of Messrs. Tung, Ng, Tse & Lam, Solicitors. He is a Legislative Council member representing the Industrial (Second) Functional Constituency. Mr Ng is an independent non-executive director of Yanchang Petroleum International Limited and Glorious Sun Enterprises Limited. He is the chairman of Hong Kong – Taiwan Business Co-operation Committee and the HKSAR Passports Appeal Board, a director of Hong Kong Science and Technology Parks Corporation, and a member of the Council of The Hong Kong Polytechnic University, the Small and Medium Enterprises Committee of Trade and Industry Department and the Chinese People's Political Consultative Conference of Chongqing City, the People's Republic of China.

Mr Ng was formerly an independent non-executive director of China Weaving Materials Holdings Limited.

Benjamin Tang Kwok-bun

Age 68

INED since 14 October 2014

Remuneration Committee *(Member)*
Risk Committee *(Member)*

Mr Tang is Chairman of the Operations Review Committee and a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption, a member of the Communications Authority and an independent non-executive director of BE Reinsurance Limited.

Mr Tang joined the Hong Kong Civil Service in 1974. From the late 1990s to early 2000s, he served as the Government Printer and the Commissioner of Insurance. Mr Tang was appointed by the Central Government of the People's Republic of China as the Director of Audit of the HKSAR in December 2003 until he retired in July 2012. He was appointed a Commissioner of the Commission of Inquiry Into the Collision of Vessels Near Lamma Island in 2012 and the Commission's report was presented to the Chief Executive in April 2013.

Dr Allan Wong Chi-yun #*

Age 69

INED since 11 August 2015

Capital Works Committee *(Chairman)*
Nominations Committee *(Member)*

Dr Wong is the chairman and group chief executive officer of VTech Holdings Limited, the deputy chairman and an independent non-executive director of The Bank of East Asia, Limited, and an independent non-executive director of both China-Hongkong Photo Products Holdings Limited and Li & Fung Limited.

Johannes Zhou Yuan ^

Age 64

INED since 17 May 2017

Audit Committee *(Member)*
Risk Committee *(Member)*

Mr Zhou is an independent director of Citibank (China) Co., Ltd.

Mr Zhou retired in June 2016 as Chief Strategic Officer of China Investment Corporation ('CIC'). He joined CIC in 2008 and held a variety of portfolios of responsibilities including alternative assets, direct investments, asset allocation, and finance/treasury. Prior to that, Mr Zhou led Asia business development at Chicago Mercantile Exchange. From 2001 to 2005, he worked as a financial researcher and consultant, working on assignments ranging in asset management, private equity, hedge funds, risk models, financial software architecture, and financial market reform, with consulting work done for China Securities Regulatory Commission, Shanghai Futures Exchange, as well as a number of western firms. From 1998 to 2001, Mr Zhou was chief executive officer of HKFE Clearing Corporation Limited and concurrently chief financial officer of Hong Kong Futures Exchange Limited, responsible for the Exchanges's finance, treasury, risk and clearing functions. He was UBS AG's China country head from 1994 to 1998, responsible for the bank's investment banking, commercial banking, asset management and private banking businesses in China. From 1988 to 1994, Mr Zhou worked at State Street Bank in Boston where he founded and managed the research department. Prior to that, he taught at Brandeis University, United States of America.

James Henry Lau Jr (Secretary for Financial Services and the Treasury)

Age 69

NED since 4 July 2017

Nominations Committee *(Member)*

Remuneration Committee *(Member)*

Mr Lau sits on the boards of several public bodies including the Airport Authority Hong Kong, Mandatory Provident Fund Schemes Authority, The Hong Kong Mortgage Corporation Limited and West Kowloon Cultural District Authority, and is the Chairman of the Kowloon-Canton Railway Corporation, and an ex-officio member of the Financial Services Development Council, Hong Kong in his official capacity. He is also, in his official capacity, a director of Hongkong International Theme Parks Limited.

Mr Lau joined the Hong Kong Government as an Administrative Officer ('AO') in 1979 and was promoted through the ranks to AO Staff Grade C in April 1988. He joined the Hong Kong Monetary Authority ('HKMA') in April 1993 and was the Head and Executive Director of various divisions of the HKMA until 2004. In July 2004, Mr Lau was seconded to The Hong Kong Mortgage Corporation Limited as Chief Executive Officer until he retired in December 2012. He was the Under Secretary for Financial Services and the Treasury from January 2014 to June 2017.

Alternate Directors

(i) Andrew Lai Chi-wah *(since 10 July 2017)*
(ii) Joseph Chan Ho-lim *(since 2 May 2019)*
(iii) Alice Lau Yim *(since 2 May 2019)*

Secretary for Transport and Housing @ (Frank Chan Fan)

Age 62

NED since 1 July 2017

Nominations Committee *(Member)*

Remuneration Committee *(Member)*

Mr Chan, in his official capacity, acts as the chairman of The Hong Kong Housing Authority and a board member of Airport Authority Hong Kong. He is also a non-executive director of The Hong Kong Mortgage Corporation Limited.

Mr Chan joined the Electrical and Mechanical Services Department as an Assistant Electronics Engineer in August 1982. He was promoted to Chief Electronics Engineer in February 2001 and to Government Electrical and Mechanical Engineer in May 2005. Mr Chan was appointed as the Deputy Director of Electrical and Mechanical Services in January 2009 and was the Director of Electrical and Mechanical Services and the General Manager of the Electrical and Mechanical Services Trading Fund from December 2011 to June 2017.

Mr Chan is an Honorary Fellow of the Institution of Mechanical Engineers, United Kingdom, and a Fellow of The Hong Kong Institution of Engineers.

Alternate Directors

(i) Under Secretary for Transport and Housing *(Dr Raymond So Wai-man since 25 September 2017)*
(ii) Permanent Secretary for Transport and Housing (Transport) *(Joseph Lai Yee-tak since 28 May 2012)*
(iii) Deputy Secretaries for Transport and Housing (Transport) *(Kevin Choi since 11 September 2017 and Sharon Yip Lee Hang-yee since 15 July 2019)*

Permanent Secretary for Development (Works) @ (Lam Sai-hung)

Age 58

NED since 13 October 2018

Capital Works Committee *(Member)*
Risk Committee *(Member)*

Mr Lam joined the Hong Kong Government in August 1986 and was the Director of Civil Engineering and Development from September 2016 to October 2018.

Mr Lam is a Fellow of The Hong Kong Institution of Engineers, the Institution of Civil Engineers, United Kingdom, and the China Hong Kong Railway Institution.

Alternate Director

Deputy Secretary for Development (Works)2
(Mak Shing-cheung since 5 October 2016)

Commissioner for Transport @ (Mable Chan)

Age 54

NED since 11 October 2017

Audit Committee *(Member)*
Risk Committee *(Member)*

Ms Chan joined the Administrative Service of the Hong Kong Government in 1989 and has served in various policy bureaux and departments. She is also, in her official capacity, a director of several transport-related companies including The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, New World First Bus Services Limited, New Lantao Bus Company (1973) Limited, Citybus Limited, The "Star" Ferry Company, Limited, New Hong Kong Tunnel Company Limited, Western Harbour Tunnel Company Limited and Route 3 (CPS) Company Limited.

Alternate Director

Deputy Commissioner for Transport/Transport Services and Management *(Macella Lee Sui-chun since 1 September 2016)*

Notes:
- * *Also a director of the Company's subsidiary(ies).*
- ^ *Up for retirement by rotation and eligible for re-election at the Company's forthcoming Annual General Meeting ("AGM").*
- # *Director who will retire after the conclusion of the Company's forthcoming AGM.*
- @ *Director appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance, who is not required to retire by rotation under the Articles of Association.*

INED : independent non-executive director
NED : non-executive director

MEMBERS OF THE EXECUTIVE DIRECTORATE

Dr Jacob Kam Chak-pui*

Age 58

Chief Executive Officer (since 1 April 2019)
Corporate Responsibility Committee *(Member)*

His biographical details are set out on page 130.

Adi Lau Tin-shing*

Age 60

Managing Director – Operations and Mainland Business (since 1 January 2020)

Mr Lau joined the Company in 1982 and has held various management positions related to the design, construction, operations and maintenance of the Company's railway system in Hong Kong and the Company's rail business in the Mainland of China.

Members of the Executive Directorate
From left to right:
Linda Choy Siu-min, Jeny Yeung Mei-chun, Herbert Hui Leung-wah, David Tang Chi-fai, Dr Jacob Kam Chak-pui, Dr Peter Ronald Ewen, Gillian Elizabeth Meller, Adi Lau Tin-shing, Margaret Cheng Wai-ching, Roger Francis Bayliss, Dr Tony Lee Kar-yun

A composite photograph at the Hin Keng Station.

Mr Lau is responsible for managing and overseeing the Company's railway related operations in Hong Kong and its rail and property businesses in the Mainland of China. He is also responsible for overseeing railway operations standards and ensuring mutual sharing and learning of best practices among all the Company's railway operations globally.

Mr Lau is the president of the China Hong Kong Railway Institution, vice president of the International Association of Public Transport (UITP) Asia-Pacific Committee and the former chairman of the UITP Asia-Pacific Urban Rail Platform.

Mr Lau is a Chartered Engineer, a Corporate Member of the Institution of Civil Engineers in the United Kingdom and a Fellow of The Hong Kong Institution of Engineers.

Roger Francis Bayliss

Age 62

Projects Director (since 18 March 2019)

Mr Bayliss is responsible for overseeing the Company's railway network expansion projects in Hong Kong.

Mr Bayliss has 40 years of experience in project management, implementation and delivery of large scale infrastructure and railway projects in Hong Kong, the Mainland of China and the United Kingdom. Between 1992 and 2004, he worked for the Company and managed the completion of several construction contracts leading to the delivery of the Lantau Airport Railway, the Tseung Kwan O Extension and Ngong Ping 360. In 2004, Mr Bayliss joined BAA plc. (now known as LHR Airports Limited), prior to joining Skanska UK in 2007. Before joining the Company, he was the Senior Vice President Operational Efficiency (responsible for driving operational efficiency and the development of a digital business strategy) at Skanska AB, a company listed in Sweden.

Mr Bayliss is a Fellow of The Hong Kong Institution of Engineers and the Institution of Civil Engineers in the United Kingdom.

Margaret Cheng Wai-ching*

Age 54

Human Resources Director (since 1 June 2016)
Corporate Responsibility Committee *(Member)*

Ms Cheng is responsible for all of the Company's human resources and administration affairs.

Ms Cheng is a seasoned human resources practitioner with rich senior management experience. She took up different human resources roles in Citibank, N.A. between 1993 and 1997, and was with JP Morgan as Vice President, Human Resources between 1997 and 2001. From 2001 to 2013, Ms Cheng was with The Hongkong and Shanghai Banking Corporation Limited ('HSBC') and was Head of Human Resources, Hong Kong and Global Business, Asia Pacific when she left HSBC. Before joining the Company, she was Group Head of Human Resources of the Hong Kong Exchanges and Clearing Limited.

Ms Cheng is serving as the vice chairman of the Cross-Industry Training Advisory Committee for the Human Resource Management Sector under the Qualifications Framework of Education Bureau of the HKSAR Government, a member of The Standing Committee on Disciplined Services Salaries and Conditions of Service of the HKSAR Government and the chairman of its Police Sub-Committee, and a member of the Labour Advisory Board Committee on Employment Services of Labour Department of the HKSAR Government. She is also a council member of The Hong Kong Management Association and the Hong Kong Council for Accreditation of Academic and Vocational Qualifications, and an honorary advisor of the ERB Manpower Developer Award Scheme of the Employees Retraining Board.

Ms Cheng is currently the President and a Fellow Member of the Hong Kong Institute of Human Resource Management.

Linda Choy Siu-min

Age 49

Corporate Affairs Director (since 2 March 2020)
Corporate Responsibility Committee *(Member)*

Ms Choy is responsible for overseeing the Company's stakeholder engagement activities, external communications and its corporate responsibility function.

Ms Choy has extensive experience in public affairs and communications, public engagement and journalism. She started her career in 1992 as a reporter for the South China Morning Post ('SCMP') and later joined the HKSAR Government as an Administrative Officer, holding a number of positions in various policy bureaux between 1998 and 2004. Ms Choy rejoined SCMP as its China News Editor in 2004 and was later promoted to News Editor before she took on the position of Director, Government Relations of Hong Kong Disneyland Management Limited ('HKDML') in 2007. In 2008, she left this role and was appointed by the HKSAR Government as the Political Assistant to the Secretary for the Environment until 2012, after which she rejoined HKDML as its Vice President, Communications & Public Affairs, a position which she held from 2013 to January 2020.

Ms Choy is currently the Chairperson of Make-A-Wish Foundation of Hong Kong Limited and was formerly the President of Hong Kong Association of Amusement Parks and Attractions Limited and the Vice-chairwoman of Lantau Development Alliance Limited.

Dr Peter Ronald Ewen*

Age 60

Engineering Director (since 22 February 2016)

Dr Ewen is responsible for driving excellence in the Company's engineering functions and strengthening its control and check and balance processes, and overseeing the procurement and contract administration function.

Dr Ewen started his career in the Royal Air Force of the United Kingdom in 1976 and attained the rank of Air Vice-Marshal. He served in different capacities, including Chief of Staff Support, Executive Officer and Chief Engineer (Air). In his last role as Director Air Support, Dr Ewen was responsible for the procurement, in-service support and airworthiness of the fleets of large aircraft of the Royal Air Force, including Strategic and Tactical Airlift, Air-to-Air Refuelling, Maritime Patrol, and Air Intelligence Surveillance Target Acquisition and Reconnaissance capabilities. Before joining the Company, he was a Procurement Advisor for Rail Franchising in the Department for Transport – Rail, United Kingdom and the Head of Air for Airbus Defence and Space, United Kingdom respectively.

Dr Ewen is a Chartered Engineer.

Herbert Hui Leung-wah*

Age 57

Finance Director (since 2 July 2016)

Mr Hui joined the Company in June 2016. He is responsible for the financial management of all of the Company's affairs, including financial planning and control, budgeting, accounting and reporting, corporate finance, and the treasury function. Mr Hui also leads the Company's investor relations as well as materials and stores functions.

Mr Hui has extensive corporate finance and investment banking experience. He began his career at Morgan Stanley Asia Limited in 1988. Mr Hui left in 1990 to pursue a career in corporate finance with Wardley Corporate Finance Limited (later known as Corporate, Investment Banking and Markets Division of The Hongkong and Shanghai Banking Corporation Limited) and was the Chief Operating Officer, Investment Banking, Asia Pacific and Co-Head, Corporate Finance Execution when he left in 2004. He was General Manager – Corporate Finance of the Company from 2004 to 2011, and the Chief Financial Officer of Digital China Holdings Limited from 2011 to 2012. Mr Hui was the Chief Financial Officer of K. Wah International Holdings Limited before re-joining the Company in 2016.

Mr Hui is a Chartered Financial Analyst.

Dr Tony Lee Kar-yun*

Age 59

Operations Director (since 1 January 2020)

Dr Lee joined the Company in 1991 and has held various management positions related to the design, construction, operations and maintenance of the Company's railway system in Hong Kong.

Dr Lee is responsible for managing the Company's railway related operations in Hong Kong.

Dr Lee is a Chartered Engineer and is a Member of both The Hong Kong Institution of Engineers and The Institution of Engineering and Technology. He is also a Member of the Electrical Discipline Advisory Panel of The Hong Kong Institution of Engineers, a Member of the Engineering Discipline Advisory Board of the Hong Kong Institute of Vocational Education and an Honorary Advisory Board Member of the Theme-based Research Scheme Project on "Safety, Reliability, and Disruption Management of High Speed Rail and Metro Systems" of the City University of Hong Kong.

Gillian Elizabeth Meller*

Age 47

Legal and European Business Director (since 1 July 2016)

Ms Meller joined the Company in August 2004 as Legal Adviser. She has been the Legal and European Business Director since 1 July 2016. Prior to her current position, Ms Meller was appointed as Deputy Legal Director in December 2010 and was the Legal Director & Secretary between September 2011 and June 2016.

Ms Meller is responsible for the provision of commercial legal support and advice to all aspects of the Company's business. She is also responsible for managing and overseeing the growth of the Company's European Business, in addition to her responsibility for the strategic management of the Company's insurance programmes and its governance and risk management function.

Before joining the Company, Ms Meller was Director of Legal Services for Metronet Rail SSL Limited in London, the United Kingdom, and a solicitor at CMS Cameron McKenna in London, the United Kingdom.

Ms Meller is a vice chairman of the Legal Committee of The Hong Kong General Chamber of Commerce, and a member of the Standing Committee on Company Law Reform.

Ms Meller is qualified to practise as a solicitor in Hong Kong and England and Wales. She is the President of The Hong Kong Institute of Chartered Secretaries.

David Tang Chi-fai*

Age 55

Property Director (since 1 October 2011)

Mr Tang joined the Company in August 2004 as Contracts & Commercial Manager – China Business. Before his appointment as Property Director, Mr Tang held senior management positions in the Legal and Procurement Division, and the China and International Business Division before he was transferred to Property Division in 2009, and was appointed as Deputy Property Director in July 2011.

Mr Tang is responsible for all of the property development projects of the Company in Hong Kong from layout planning, scheme design through to project construction completion, as well as asset and leasing management of investment properties (including shopping malls and offices) and property management of office buildings and residential units. He is also a Director and an Alternate Director of Octopus Holdings Limited and two members of its group.

Before joining the Company, Mr Tang was Commercial Manager – Hong Kong & China Region, and Deputy General Manager – Hong Kong & China Region for Acciona, S.A. He had almost 20 years' working experience in contract administration, project management and quantity surveying in the United Kingdom and Hong Kong after starting his career as a Group Trainee of George Wimpey Plc.

Mr Tang is a co-opted member of the Public Private Partnership Projects Committee under the Board of the West Kowloon Cultural District Authority and a former non-executive director of the Urban Renewal Authority, of the HKSAR Government.

Mr Tang is a Chartered Surveyor.

Jeny Yeung Mei-chun*

Age 55

Commercial Director (since 1 September 2011)

Ms Yeung joined the Company in November 1999. She is responsible for the marketing of the Company's railway services as well as managing and enhancing the MTR Brand. Ms Yeung is also responsible for customer service development and the management of station shops rental, advertising media and other non-fare businesses. In addition, she oversees the Company's business in Macau and is the Chairlady of Ngong Ping 360 Limited.

Before joining the Company, Ms Yeung held various marketing and business development positions in Standard Chartered Bank (Hong Kong) Limited and Citibank in Hong Kong.

Ms Yeung is a member of the Advisory Committee on Enhancing Self-Reliance Through District Partnership Programme, the Advisory Committee on Enhancing Employment of People with Disabilities, the Marketing Management Committee of The Hong Kong Management Association, the Hong Kong Trade Development Council Infrastructure Development Advisory Committee and the Cyberport Advisory Panel of Hong Kong Cyberport Management Company Limited ('Hong Kong Cyberport'), and a non-official member of the Immigration Department Users' Committee. She is also an independent non-executive director of SC Digital Solutions Limited. Ms Yeung was a director of Hong Kong Cyberport and a member of the Hong Kong Tourism Board.

Ms Yeung is a Fellow of The Chartered Institute of Marketing.

* *Also a director of the Company's subsidiary(ies).*

CHANGES IN INFORMATION

Changes in information of Directors during 2019 and up to the date of this Report which are required to be disclosed pursuant to the Listing Rules are set out below:

(i) Changes in Biographical Details

Name	Changes	Nature and Effective Date of Change
Rex Auyeung Pak-kuen	Investor and Financial Education Council (Hong Kong) • Member of the Board of Directors (formerly Executive Committee)	Change of name of the governance body (29 March 2019)
	Athenex Inc. • Senior Strategy and Business Advisor	Cessation (6 May 2019)
	HSBC Provident Fund Trustee (Hong Kong) Limited • Independent Non-executive Director	Appointment (14 June 2019)
	Standard Life (Asia) Limited • Independent Non-executive Director	Cessation (30 June 2019)
	Sompo Insurance China Co., Ltd. • Independent Non-executive Director	Cessation (31 July 2019)
	Lingnan University • Chairman of the Council	Cessation (8 October 2019)
Walter Chan Kar-lok	Harbourfront Commission (Hong Kong) • Member	Cessation (1 July 2019)
Dr Pamela Chan Wong Shui	The Community Chest of Hong Kong • Member of the Board of Directors	Appointment (27 June 2019)
Dr Dorothy Chan Yuen Tak-fai	The Chartered Institute of Logistics and Transport • Global Chairperson for Women in Logistics and Transport	Appointment (16 June 2019)
Cheng Yan-kee	Advisory Committee on Post-service Employment of Civil Servants (Hong Kong) • Member	Appointment (14 July 2019)
	Hong Kong Baptist University • Honorary Doctor of Business Administration	Conferment (18 November 2019)
Dr Anthony Chow Wing-kin	The Hong Kong Academy for Performing Arts • Deputy Chairman of the Council	Appointment (1 January 2020)
Dr Eddy Fong Ching	SC Digital Solutions Limited • Independent Non-executive Director	Appointment (26 April 2019)
	Mandatory Provident Fund Schemes Authority (Hong Kong) • Chairman of the Process Review Panel in relation to the Regulation of Mandatory Provident Fund Intermediaries	Cessation (1 November 2019)
Rose Lee Wai-mun	The Community Chest of Hong Kong • Vice Patron • Member of the Board of Directors • Deputy Chairman of the Executive Committee	Appointment (27 June 2019) Cessation (27 June 2019) Cessation (27 June 2019)
Lucia Li Li Ka-lai	Innovation and Technology Commission of the Government of the HKSAR • Task Force Member (to follow up the Director of Audit's Report No. 61 with regard to the Small Entrepreneur Research Assistance Programme)	Cessation (30 June 2019)

(i) Changes in Biographical Details *(continued)*

Name	Changes	Nature and Effective Date of Change
Jimmy Ng Wing-ka	Glorious Sun Enterprises Limited • Independent Non-executive Director	Appointment (8 June 2019)
	Security Bureau (Hong Kong) • Chairman of HKSAR Passports Appeal Board	Appointment (1 July 2019)
	China Weaving Materials Holdings Limited • Independent Non-executive Director	Cessation (30 December 2019)
Abraham Shek Lai-him	Chuang's China Investments Limited • Honorary Chairman • Chairman of the Board	Appointment (29 April 2019) Cessation (29 April 2019)
Benjamin Tang Kwok-bun	Croucher Foundation • Member of the Audit Committee	Cessation (31 July 2019)
Dr Jacob Kam Chak-pui	The Hong Kong General Chamber of Commerce • Member of the General Committee	Appointment (1 April 2019)
Adi Lau Tin-shing	International Association of Public Transport (UITP) • Chairman of the Asia-Pacific Urban Rail Platform	Cessation (22 March 2019)
Margaret Cheng Wai-ching	Labour Department (Hong Kong) • Member of the Labour Advisory Board Committee on Employment Services	Appointment (1 January 2019)
	Education Bureau (Hong Kong) • Member of the Standing Committee on Language Education and Research	Cessation (1 July 2019)
Gillian Elizabeth Meller	The Hong Kong Institute of Chartered Secretaries • President • Vice-president	Appointment (1 January 2020) Cessation (1 January 2020)
Linda So Ka-pik	The Community Chest of Hong Kong • Member of the Public Relations Committee	Appointment (4 November 2019)
David Tang Chi-fai	West Kowloon Cultural District Authority (Hong Kong) • Co-opted Member of the Public Private Partnership Projects Committee under the board	Appointment (6 March 2019)
	Urban Renewal Authority (Hong Kong) • Non-executive Director	Cessation (1 May 2019)
Jeny Yeung Mei-chun	Immigration Department (Hong Kong) • Non-official Member of Users' Committee	Appointment (1 January 2019)
	Social Welfare Department (Hong Kong) • Member of the Advisory Committee on Enhancing Employment of People with Disabilities	Appointment (1 January 2019)
	SC Digital Solutions Limited • Independent Non-executive Director	Appointment (2 May 2019)
	Hong Kong Tourism Board • Member	Cessation (1 April 2019)

(ii) Changes in Directors' Remuneration

For details of the changes in Directors' remuneration, please refer to pages 207 to 211 of the Annual Report.

KEY CORPORATE MANAGEMENT

Jacob Kam Chak-pui
Chief Executive Officer

Adi Lau Tin-shing
Managing Director – Operations and Mainland Business (w.e.f. 1 January 2020)

Commercial & Marketing

Jeny Yeung Mei-chun
Commercial Director

Karen Woo Kit-sum
General Manager – Branding and Marketing

Annie Leung Ching-man
General Manager – Customer Experience Development

Raymond Yuen Lap-hang
General Manager – Marketing & Planning

Margaret Chu Fung-kuen
General Manager – Station Retail

Andy Lau Wai-ming
Managing Director of Ngong Ping 360

Corporate Affairs

Linda So Ka-pik
Corporate Affairs Director (up to 15 January 2020)

Linda Choy Siu-min
Corporate Affairs Director (w.e.f. 2 March 2020)

Osbert Kwan Wing-cheung
Deputy General Manager – Media & Corporate Communications

Lam Chan Lam-sang
Deputy General Manager – Projects & Property Communications

Eric Lee Ka-chun
General Manager – Public Affairs

Engineering

Peter Ewen
Engineering Director

Andrew Mead
Chief Architect (ARBUK)

Lawrence Chung Kwok-leung
General Manager – Planning & Civil Engineering

Scott Mackenzie
General Manager – Procurement & Contracts

Vincent Simon Ho
Head of Corporate Safety

Wong Sha
Head of E&M Engineering

Stephen Hamill
Head of Technical Strategy & Assurance

Timothy Edmonds
Principal Contracts Administration Manager – HSR

Raymond Au Koon-shan
Principal Contracts Administration Manager – SCL

Nicholas Zhang Xiaolong
Procurement & Contracts Manager – Operations & General

Finance

Herbert Hui Leung-wah
Finance Director

Sammy Jim Kwok-wah
General Manager – Corporate Finance

Dennis Tam Lup-kwan
General Manager – Financial Control

Candy Ng Chui-lok
Head of Investor Relations and Retirement Benefits

David Pang Hoi-hing
Treasurer

Human Resources & Administration

Margaret Cheng Wai-ching
Human Resources Director

Ray Ng Shan-ho
General Manager – Corporate Security

Alison Wong Yuen-fan
General Manager – Human Resources

Vinnie Chi Man-yan
General Manager – Human Resources (International & Talent Management)

Denise Ng Kee Wing-man
General Manager – Learning & Organisation Development

Doreen Siu Wai-man
General Manager – Reward Management

Internal Audit

Paul Chow Yuen-ming
Head of Internal Audit

Legal & Secretarial

Gillian Meller
Legal and European Business Director

Cecilia Cheng Yuet-fong
General Manager – Governance & Risk Management

Brian Downie
General Manager – Legal (Operations & Growth Business)

Linda Li Sau-lin
General Manager – Legal (Property)

Mainland China & International Business

Australia

Terry Wong Ping-sau
Deputy Director – Australian Business

Leah Waymark
Chief Executive Officer – Metro Trains Australia

Raymond O'Flaherty
Chief Executive Officer – Metro Trains Melbourne

Nigel Holness
Chief Executive Officer – Metro Trains Sydney

Tommy Lam Choi-fung
Design & Delivery Director – SMC&SW

David Yam Pak-nin
General Manager – Business Development

Ivan Lai Ching-kai
Head of Operations – Mainland China & International Business

Europe

Jeremy Long
Chief Executive Officer – European Business

Mats Johannesson
Chief Executive Officer – MTR Express

Mark Jensen
Chief Executive Officer – MTR Nordic

Henrik Dahlin
Chief Executive Officer – MTR Pendeltågen

Erika Enestad
Chief Executive Officer – MTR Tech / Emtrain

Johan Oscarsson
Chief Executive Officer – MTR Tunnelbanan (up to 31 January 2020)

Steve Murphy
Managing Director – MTR Elizabeth Line

Headquarters

Choi Tak-tsan
General Manager – Global Operations Standards (up to 31 December 2019)

Edmund Wong Wai-ming
General Manager – Special Duties

Macau

Jeff Chan Yue-chiu
General Manager – Macau Light Rapid Transit (w.e.f. 1 February 2020)

Mainland China

Jeremy Xu Muhan
Deputy Director – Mainland China Business

Yi Min
Chief Advisor – Mainland China Business

Paul Wong Kah-ming
Chief of Engineering (Beijing)

Ronnie Tong Chai-ming
Deputy General Manager – Operations (Beijing)

Ben Lui Gon-yee
Deputy General Manager – Operations (Hangzhou)

Charles Lau Kam-keung
Deputy General Manager – Projects (Beijing)

Charles Fok Chi-cheong
Deputy General Manager – Projects (Hangzhou Line 5)

Wilson Shao Shing-ming
General Manager – Jing-Jin-Ji

Jia Jun
General Manager – Business Development (Mainland China)

Frank Liu Zhui-ming
General Manager – Hangzhou

Nelson Ng Wai-hung
General Manager – Hangzhou Line 5

Oscar Ho Ka-wa
General Manager – Mainland China Property

Terry Wong Wing-kin
General Manager – Shenzhen Line 4

Tse Che-ming
Head of Engineering (Hangzhou)

MTR Academy

Margaret Cheng Wai-ching
President of MTR Academy (Acting)

Operations

Tony Lee Kar-yun
Operations Director (w.e.f. 1 January 2020)

Cheris Lee Yuen-ling
Chief of HSR & Intercity (w.e.f. 1 January 2020)

Sammy Wong Kwan-wai
Chief of Operating (w.e.f. 1 January 2020)

Richard Keefe
Chief of Operations Engineering (Acting)

Gordon Lam Bik-shun
Chief Signal Engineer (Operations)

Joseph Sin Chi-man
Chief Signalling Design Manager

Lu Wong Ho-leung
Deputy Chief of Operations Engineering

Michael Leung Yu-hing
Deputy General Manager – Technical & Asset Engineering

Chan Hing-keung
Deputy General Manager – Train Services & Systems Engineering

Carmen Li Wai-ching
General Manager – HSR & Intercity

Manho John-william
General Manager – Infrastructure Maintenance

Ronald Cheng Kin-wai
General Manager – Planning & Development

Alex Lau Hing-hon
General Manager – Safety & Quality (w.e.f. 1 January 2020)

Alan Cheng Kwan-hing
General Manager – Special Duties

John Woo Shui-wah
General Manager – Special Duties

Weller Chan Kwok-wai
General Manager – Works Management

Rick Wong Hoi-wah
Head of Infrastructure Works

Allen Ding Ka-chun
Head of Operating – South Region

Cheung Chi-keung
Head of Operating – West Region

Siman Tang
Head of Operations Strategic Business Management

Lee Kim-hung
Head of Workshops

Projects

Roger Bayliss
Projects Director

Thomas Lau Ming-yu
Chief Design Manager

Barry Sum Pang-tuen
Divisional General Manager – Projects

James Chow So-hung
Divisional General Manager – Projects Construction

Peter Leung Man-fat
General Manager – Operations Projects

Ken Wong Kin-wai
General Manager – Projects

Henry Young
General Manager – Projects Management Office

Leung Chi-lap
Head of E&M Construction

Clement Ngai Yum-keung
Head of Project Engineering

Neil Ng Wai-hang
Lead Project Manager – SCL Civil – NSL

Chan Chun-sing
Project Manager – Rolling Stock

Lesly Leung Po-po
Project Manager – SCL Civil - EWL

Walter Lam Wai-tak
Project Manager – SCL Civil – Exhibition Station

Nelson Yeung Kin-wa
Project Manager – SCL Civil – HUH

Tim Leung Chi-tim
Project Manager – SCL E&M

Terence Law Che-chung
Project Manager – Signalling

Property

David Tang Chi-fai
Property Director

Angus Lee Chun-ming#
Chief Growth Officer (w.e.f. 1 January 2020)

Edward Wong Koon-pong
Deputy General Manager – Property Project (w.e.f. 1 March 2020)

Debbie Chan Yuen-ping
General Manager – Investment Property

Kenneth Lung Tze-ho
General Manager – Investment Property

Melissa Pang Mee-yuk
General Manager – Property Development

Kenny Chow Chun-ling
General Manager – Property Management

Wilfred Yeung Sze-wai
General Manager – Property Project

Strategy, Innovation & Technology

Jerry Li Zhe
Deputy Director – Strategy, Innovation and Technology

Ted Suen Yiu-tat
Chief Information Officer

Daniel Wong
General Manager – Global Innovation

Overview
Business Review and Analysis
Corporate Governance
Financials and Other Information

With effect from 1 January 2020, Mr. Angus Lee was seconded to Octopus Holdings Limited and Octopus Cards Limited to take up the role of Chief Growth Officer.

REPORT OF THE MEMBERS OF THE BOARD

The Members of the Board have pleasure in submitting their Report and the audited statement of Consolidated Accounts for the financial year ended 31 December 2019.

PRINCIPAL ACTIVITIES OF THE GROUP

The Group is principally engaged in the following core businesses – railway design, construction, operation, maintenance and investment in Hong Kong, Macau, the Mainland of China and a number of overseas cities; project management in relation to railway and property development businesses in Hong Kong and the Mainland of China; station commercial business including leasing of station retail space, leasing of advertising space inside trains and stations and enabling of telecommunication services on the railway system in Hong Kong; property business including property development and investment, management and leasing management of investment properties (including shopping malls and offices) in Hong Kong and the Mainland of China; investment in Octopus Holdings Limited; and provision of railway management, engineering and technology training.

The principal businesses of the Company's principal subsidiaries and associates as at 31 December 2019 are set out in notes 24 and 25 to the Consolidated Accounts.

BUSINESS REVIEW

The Company has always been committed to providing comprehensive reviews of the Group's business and performance in different sections of its Annual Reports. A summary of the relevant sections in the Company's Annual Report 2019 covering the required disclosures under the Companies Ordinance is set out below for ease of reference.

Required Disclosures	Relevant Sections
(1) A fair review of the Group's business and a discussion and an analysis of the Group's performance during the year ended 31 December 2019	• Chairman's Letter (pages 10 to 13) • CEO's Review of Operations and Outlook (pages 14 to 33) • Business Review (pages 34 to 69) • Financial Review (pages 70 to 79)
(2) Particulars of important events affecting the Group that have occurred since the end of the financial year 2019	• Chairman's Letter (pages 10 to 13) • CEO's Review of Operations and Outlook (pages 14 to 33) • Business Review (pages 34 to 69)
(3) Description of the significant risks and uncertainties facing the Group	• CEO's Review of Operations and Outlook (pages 14 to 33) • Business Review (pages 34 to 69) • Risk Management (pages 118 to 121) • Financial Risks – note 28B to the Consolidated Accounts (pages 231 to 232)
(4) Outlook for the Group's business	• Chairman's Letter (pages 10 to 13) • CEO's Review of Operations and Outlook (pages 14 to 33) • Business Review (pages 34 to 69)
(5) Details regarding the Group's compliance with relevant laws and regulations which have a significant impact on the Group	• Corporate Governance Report (pages 94 to 114)
(6) Description of the Group's relationships with its key stakeholders	• Chairman's Letter (pages 10 to 13) • CEO's Review of Operations and Outlook (pages 14 to 33) • Business Review (pages 34 to 69) • Investor Relations (pages 82 to 83) • Corporate Responsibility (pages 84 to 89) • Human Resources (pages 90 to 92) • Corporate Governance Report (pages 94 to 114) • Company's 2019 Sustainability Report to be published at the same time as this Report in April 2020
(7) Description of the Group's environmental policies and performance	• Chairman's Letter (pages 10 to 13) • CEO's Review of Operations and Outlook (pages 14 to 33) • Corporate Responsibility (pages 84 to 89) • Company's 2019 Sustainability Report to be published at the same time as this Report in April 2020

DIVIDENDS

The Board has recommended to pay a final dividend of HK$0.98 per share (2018: HK$0.95 per share) and proposes that a scrip dividend option will be offered to all shareholders of the Company (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions). Subject to the approval of the shareholders at the Company's forthcoming annual general meeting ("AGM"), the proposed 2019 final dividend, with a scrip dividend option, is expected to be distributed on 16 July 2020 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 29 May 2020.

ACCOUNTS

The financial position of the Group as at 31 December 2019 and the Group's financial performance and cash flows for the year are set out in the Consolidated Accounts on pages 182 to 262.

TEN-YEAR STATISTICS

A summary of the results and of the assets and liabilities of the Group together with some major operational statistics for the last ten years are set out on pages 80 to 81.

DIRECTORS

Members of the Board (including Alternate Directors) and the Executive Directorate as at the date of this Report are stated below:

Members of the Board

- Rex Auyeung Pak-kuen (Chairman)
- Dr Jacob Kam Chak-pui (Chief Executive Officer)
- Andrew Clifford Winawer Brandler
- Walter Chan Kar-lok
- Dr Pamela Chan Wong Shui
- Dr Dorothy Chan Yuen Tak-fai
- Cheng Yan-kee
- Dr Anthony Chow Wing-kin
- Dr Eddy Fong Ching
- James Kwan Yuk-choi
- Rose Lee Wai-mun
- Lucia Li Li Ka-lai
- Jimmy Ng Wing-ka
- Benjamin Tang Kwok-bun
- Dr Allan Wong Chi-yun
- Johannes Zhou Yuan
- James Henry Lau Jr
  (Secretary for Financial Services and the Treasury)
  Alternate Directors:
  - Andrew Lai Chi-wah
  - Joseph Chan Ho-lim
  - Alice Lau Yim
- Secretary for Transport and Housing
  (Frank Chan Fan)
  Alternate Directors:
  - Under Secretary for Transport and Housing
    (Dr Raymond So Wai-man)
  - Permanent Secretary for Transport and Housing (Transport)
    (Joseph Lai Yee-tak)
  - Deputy Secretaries for Transport and Housing (Transport)
    (Kevin Choi and Sharon Yip Lee Hang-yee*)
- Permanent Secretary for Development (Works)
  (Lam Sai-hung)
  Alternate Director:
  - Deputy Secretary for Development (Works)2
    (Mak Shing-cheung)
- Commissioner for Transport
  (Mable Chan)
  Alternate Director:
  - Deputy Commissioner for Transport / Transport Services and Management
    (Macella Lee Sui-chun)

* *Change of holder of the post from Rebecca Pun Ting-ting to Sharon Yip Lee Hang-yee with effect from 15 July 2019.*

Members of the Executive Directorate

- Dr Jacob Kam Chak-pui (Chief Executive Officer)
- Adi Lau Tin-shing (Managing Director – Operations and Mainland Business)
- Roger Francis Bayliss (Projects Director)
- Margaret Cheng Wai-ching (Human Resources Director)
- Linda Choy Siu-min (Corporate Affairs Director)
- Dr Peter Ronald Ewen (Engineering Director)
- Herbert Hui Leung-wah (Finance Director)
- Dr Tony Lee Kar-yun (Operations Director)
- Gillian Elizabeth Meller (Legal and European Business Director)
- David Tang Chi-fai (Property Director)
- Jeny Yeung Mei-chun (Commercial Director)

Biographical details of each Member of the Board and the Executive Directorate as at the date of this Report are set out on pages 130 to 142.

In addition, a resolution for electing Dr Bunny Chan Chung-bun as a new Director will be proposed at the 2020 AGM. Please refer to the Company's circular containing the Notice of the 2020 AGM sent together with this Report.

Members of the Board and the Executive Directorate who were directors during the course of 2019 but have since retired / resigned from the Company are stated below:

- Professor Frederick Ma Si-hang (retired on 1 July 2019)
- Lincoln Leong Kwok-kuen (retired on 1 April 2019)
- Vincent Cheng Hoi-chuen (retired on 22 May 2019)
- Lau Ping-cheung, Kaizer (retired on 22 May 2019)
- Abraham Shek Lai-him (retired on 22 May 2019)
- Linda So Ka-pik (resigned on 16 January 2020)

DIRECTORS OF SUBSIDIARY UNDERTAKINGS

The directors of the subsidiary undertakings of the Company during the year and up to the date of this Report (unless otherwise stated) are listed on page 176.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for election or re-election at the forthcoming AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for, in respect of Mr James Henry Lau Jr (Secretary for Financial Services and the Treasury), Secretary for Transport and Housing (Mr Frank Chan Fan), Permanent Secretary for Development (Works) (Mr Lam Sai-hung), and Commissioner for Transport (Ms Mable Chan), all of whom were officials of Government, those connected transactions and continuing connected transactions between the Company and Government (and/or its associates) which are described on pages 154 to 174, there was no transaction, arrangement or contract of significance in relation to the Group's business, to which the Company or any of its subsidiary undertakings was a party and in which a Member of the Board or a Member of the Executive Directorate or an entity connected with him/her had a material interest (whether direct or indirect), which was entered into during the year or subsisted at any time during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2019, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

Members of the Board/ Alternate Directors/ Members of the Executive Directorate	No. of Ordinary Shares held			No. of share options#	No. of award shares#		Percentage of aggregate interests to total no. of voting shares in issue^Δ
	Personal interests*	Family interests†	Other interests	Personal interests*	Personal interests*	Total interests	
Dr Jacob Kam Chak-pui	281,171	–	–	–	333,984	615,155	0.00999
Dr Pamela Chan Wong Shui	9,072	1,675 (Note 1)	–	–	–	10,747	0.00017
Cheng Yan-kee	–	2,000 (Note 2)	–	–	–	2,000	0.00003
Rose Lee Wai-mun	3,350	–	–	–	–	3,350	0.00005

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Members of the Board/ Alternate Directors/ Members of the Executive Directorate	No. of Ordinary Shares held			No. of share options#	No. of award shares#		Percentage of aggregate interests to total no. of voting shares in issue∆
	Personal interests*	Family interests†	Other interests	Personal interests*	Personal interests*	Total interests	
Lucia Li Li Ka-lai	–	1,614 (Note 3)	2,215 (Note 3)	–	–	3,829	0.00006
Alice Lau Yim	1,116	–	–	–	–	1,116	0.00002
Mak Shing-cheung	558	8,058 (Note 4)	–	–	–	8,616	0.00014
Dr Raymond So Wai-man	–	1,675 (Note 5)	–	–	–	1,675	0.00003
Adi Lau Tin-shing	91,495	–	–	26,000	83,567	201,062	0.00327
Roger Francis Bayliss	–	–	–	–	30,150	30,150	0.00049
Margaret Cheng Wai-ching	116,339	–	–	–	84,384	200,723	0.00326
Dr Peter Ronald Ewen	46,698	–	–	–	76,135	122,833	0.00199
Herbert Hui Leung-wah	42,707	2,233 (Note 6)	–	–	78,785	123,725	0.00201
Gillian Elizabeth Meller	108,141	–	–	–	79,950	188,091	0.00305
Linda So Ka-pik	71,536	–	–	–	79,817	151,353	0.00246
David Tang Chi-fai	193,985	–	–	–	84,634	278,619	0.00452
Jeny Yeung Mei-chun	664,753	–	–	–	84,267	749,020	0.01216

Notes

As at 31 December 2019,

1 *The 1,675 shares were held by Dr Pamela Chan Wong Shui's spouse.*

2 *The 2,000 shares were held by Mr Cheng Yan-kee's spouse.*

3 *The 1,614 shares were held by Mrs Lucia Li Li Ka-lai's spouse and the 2,215 shares were jointly held by Mrs Li and her spouse.*

4 *The 8,058 shares were held by Mr Mak Shing-cheung's spouse.*

5 *The 1,675 shares were held by Dr Raymond So Wai-man's spouse.*

6 *The 2,233 shares were held by Mr Herbert Hui Leung-wah's spouse.*

Details of the share options and award shares are set out in the sections headed "2007 Share Option Scheme" and "Executive Share Incentive Scheme" respectively on pages 150 to 152

* *Interests as beneficial owner*

† *Interests of spouse or child under 18 as beneficial owner*

∆ *The Company's total number of voting shares in issue as at 31 December 2019 was 6,157,948,911*

Save as disclosed above and in the sections headed "2007 Share Option Scheme" and "Executive Share Incentive Scheme":

A as at 31 December 2019, no Member of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the year ended 31 December 2019, no Member of the Board or the Executive Directorate of the Company nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Set out below is the name of the party which was interested in 5% or more of all the Company's voting shares in issue and the number of shares in which it was interested as at 31 December 2019 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares held	Percentage of Ordinary Shares to all the voting shares in issue[Δ]
The Financial Secretary Incorporated ("FSI") (in trust on behalf of Government)	4,634,173,932	75.26%

Δ *The Company's total number of voting shares in issue as at 31 December 2019 was 6,157,948,911*

The Company has been informed by the Hong Kong Monetary Authority that, as at 31 December 2019, approximately 0.33% of the Ordinary Shares in issue (not included in the FSI shareholding set out in the above table) were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

OTHER PERSONS' INTERESTS

Pursuant to section 337 of the SFO, the Company has maintained a register recording the shareholding information provided by persons in response to the Company's requests pursuant to section 329 of the SFO.

Save as disclosed above and in the sections headed "Directors' Interests in Shares and Underlying Shares of the Company" and "Substantial Shareholders' Interests", as at 31 December 2019, the Company has not been notified of any other persons who had any interests or short positions in the shares or underlying shares of the Company which would be required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

2007 SHARE OPTION SCHEME

Movements in the outstanding share options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme during the year ended 31 December 2019 are set out below:

Member of the Executive Directorate and eligible employees	Date granted	Options granted (Notes 1 to 3)	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2019	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2019	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Adi Lau Tin-shing	30/5/2014	80,000	23/5/2015 – 23/5/2021	26,000	–	–	–	28.65	26,000	–
Other eligible employees	30/3/2012	15,868,500	23/3/2013 – 23/3/2019	840,000	–	–	840,000	27.48	–	46.40
	6/5/2013	20,331,500	26/4/2014 – 26/4/2020	2,709,000	–	–	1,323,500	31.40	1,385,500	47.67
	30/5/2014	19,812,500	23/5/2015 – 23/5/2021	4,595,500	–	–	1,098,000	28.65	3,497,500	48.26

Notes

1 *No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme on 7 June 2007. The 2007 Share Option Scheme expired at 5.00 p.m. on 6 June 2014, with no further option granted since then.*

2 *Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the 2007 Share Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 0.2% of the shares of the Company in issue at the date of offer in respect of such option under the 2007 Share Option Scheme.*

3 *The share options granted were subject to a vesting schedule in tranches of one-third each per annum starting from the first anniversary of the date of offer of the options (the "Offer Anniversary") and became fully vested on the third Offer Anniversary.*

4 *Pursuant to the terms of the 2007 Share Option Scheme, each grantee undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the options.*

5 *Other details of the 2007 Share Option Scheme are set out in notes 11B and 42(i) to the Consolidated Accounts.*

EQUITY-LINKED AGREEMENT

Save as disclosed in the section headed "2007 Share Option Scheme" above, no equity-linked agreements were entered into during the year ended 31 December 2019 or subsisted at the end of the year.

EXECUTIVE SHARE INCENTIVE SCHEME

The Company adopted the Executive Share Incentive Scheme (formerly the "2014 Share Incentive Scheme") on 15 August 2014. The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interests with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the Executive Share Incentive Scheme as award holders in accordance with the rules of the Executive Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares (together, the "Award Shares").

Restricted Shares are awarded to selective eligible employees and vested ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). Performance Shares are awarded to eligible employees generally on a three-year performance cycle ("Performance Period"), subject to review and approval by the Remuneration Committee from time to time. The vesting of the Performance Shares is subject to the performance of the Company, assessed by reference to certain pre-determined performance metrics approved by the Board for the relevant Performance Period and such other performance conditions as determined by the Remuneration Committee from time to time.

The Award Shares to be granted under the Executive Share Incentive Scheme are issued Ordinary Shares. In general, the Company will pay to the third party trustee (the "Trustee") monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from Ordinary Shares held as part of the funds of the trust to acquire existing Ordinary Shares from the market. Such Ordinary Shares will be held on trust by the Trustee for the relevant award holders. The Trustee shall not exercise any voting rights in respect of any Ordinary Shares held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested Award Shares.

As part of the overall governance of the Executive Share Incentive Scheme, the Company reviews scheme features on a regular basis to ensure continued relevance and effectiveness.

The maximum number of Award Shares that may at any time be the subject of an outstanding award granted under the Executive Share Incentive Scheme shall not exceed 2.5% of the number of issued Ordinary Shares as at 1 January 2015, the effective date of the Executive Share Incentive Scheme (the "Effective Date").

For the year ended 31 December 2019, a total of 2,306,800 Award Shares (2018: 4,061,850 Award Shares, including a new cycle of Performance Shares) were awarded under the Executive Share Incentive Scheme. As at 31 December 2019, a total of 5,659,978 Award Shares (2018: 5,758,295 Award Shares) were neither vested, lapsed nor had been forfeited, representing 0.10% of the issued Ordinary Shares (2018: 0.10%) as at the Effective Date.

Further details of the Executive Share Incentive Scheme are set out in the section headed "Long-Term Incentives" under the Remuneration Committee Report (pages 127 to 128) and notes 11C and 42(ii) to the Consolidated Accounts.

The particulars of the Award Shares granted are as follows:

Members of the Executive Directorate and eligible employees	Date of award	Types of Award Shares granted: Restricted Shares	Types of Award Shares granted: Performance Shares	Award Shares outstanding as at 1 January 2019	Award Shares vested during the year	Award Shares lapsed and/or forfeited during the year	Award Shares outstanding as at 31 December 2019
Dr Jacob Kam Chak-pui	8/4/2016	21,550	–	7,184	7,184	–	–
	10/4/2017	22,050	–	14,700	7,350	–	7,350
	10/4/2018	25,550	50,450	76,000	8,516	–	67,484
	1/4/2019	120,000	–	–	–	–	120,000
	8/4/2019	47,400	91,750	–	–	–	139,150
Lincoln Leong Kwok-kuen	8/4/2016	64,850	–	21,618	21,618	–	–
(Note 1)	10/4/2017	63,900	–	42,600	42,600	–	–
	16/3/2018	80,000	–	80,000	80,000	–	–
	10/4/2018	73,300	239,950	313,250	73,300	–	239,950
Adi Lau Tin–shing	8/4/2016	8,400	–	2,800	2,800	–	–
	10/4/2017	17,700	25,050	11,800	5,900	–	5,900
	10/4/2018	16,450	50,450	66,900	5,483	–	61,417
	8/4/2019	16,250	–	–	–	–	16,250
Roger Francis Bayliss (Note 2)	8/4/2019	–	30,150	–	–	–	30,150
Margaret Cheng Wai-ching	19/8/2016	71,428	–	23,810	23,810	–	–
	10/4/2017	16,950	30,400	11,300	5,650	–	5,650
	10/4/2018	17,600	50,450	68,050	5,866	–	62,184
	8/4/2019	16,550	–	–	–	–	16,550
Dr Peter Ronald Ewen	8/4/2016	–	35,700	–	–	–	–
	10/4/2017	15,050	–	10,034	5,016	–	5,018
	10/4/2018	12,250	50,450	62,700	4,083	–	58,617
	8/4/2019	12,500	–	–	–	–	12,500
Herbert Hui Leung-wah	10/4/2017	15,200	30,400	10,134	5,066	–	5,068
	10/4/2018	14,200	50,450	64,650	4,733	–	59,917
	8/4/2019	13,800	–	–	–	–	13,800
Gillian Elizabeth Meller	8/4/2016	17,300	–	5,768	5,768	–	–
	10/4/2017	16,200	–	10,800	5,400	–	5,400
	10/4/2018	16,050	50,450	66,500	5,350	–	61,150
	8/4/2019	13,400	–	–	–	–	13,400
Linda So Ka-pik	8/4/2016	16,400	44,050	5,468	5,468	–	–
	10/4/2017	15,300	–	10,200	5,100	–	5,100
	10/4/2018	14,200	50,450	64,650	4,733	–	59,917
	8/4/2019	14,800	–	–	–	–	14,800
David Tang Chi-fai	8/4/2016	17,950	–	5,984	5,984	–	–
	10/4/2017	17,250	–	11,500	5,750	–	5,750
	10/4/2018	16,850	50,450	67,300	5,616	–	61,684
	8/4/2019	17,200	–	–	–	–	17,200
Jeny Yeung Mei-chun	8/4/2016	18,850	–	6,284	6,284	–	–
	10/4/2017	17,700	–	11,800	5,900	–	5,900
	10/4/2018	17,350	50,450	67,800	5,783	–	62,017
	8/4/2019	16,350	–	–	–	–	16,350
Other eligible employees	8/4/2016	2,235,850	107,450	589,668	585,532	4,136	–
	10/4/2017	2,027,900	26,350	1,162,593	598,320	19,423	544,850
	10/4/2018	1,985,150	1,078,900	2,784,450	641,457	112,288	2,030,705
	8/4/2019	1,773,900	122,750	–	29,000	38,850	1,828,800

Notes

1 *Mr Lincoln Leong Kwok-kuen retired as the Chief Executive Officer, and as a Member of the Board, the Corporate Responsibility Committee and the Executive Directorate of the Company, all with effect from 1 April 2019.*

2 *Mr Roger Francis Bayliss was appointed as the Projects Director and became a Member of the Executive Directorate of the Company, with effect from 18 March 2019.*

SHARES ISSUED

	No. of Ordinary Shares issued	Consideration/Value (HK$)
As at 31 December 2018	6,139,485,589	N/A
Shares issued under the 2007 Share Option Scheme (Further details can be found in note 42(i) to the Consolidated Accounts)	3,261,500	96 million (received by the Company)
Scrip shares issued in respect of 2018 final dividend	13,707,539	654 million
Scrip shares issued in respect of 2019 interim dividend	1,494,283	71 million
As at 31 December 2019	6,157,948,911	N/A

Details of the movements in share capital of the Company during the year are set out in note 39 to the Consolidated Accounts.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, sell or redeem any of the Group's listed securities during the year ended 31 December 2019. However, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the HKSE a total of 1,870,000 Ordinary Shares for a total consideration of approximately HK$88 million during the year ended 31 December 2019 (2018: HK$239 million).

PUBLIC FLOAT

The HKSE granted to the Company, at the time of its listing on the Main Board of the HKSE in 2000, a waiver from strict compliance with Rule 8.08(1) of the Listing Rules ("Public Float Waiver"). Pursuant to the Public Float Waiver, the Company's prescribed minimum percentage of shares which must be in the hands of the public must not be less than 10% of the total number of issued shares of the Company. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this Report as required by the Public Float Waiver.

MAJOR SUPPLIERS AND CUSTOMERS

Information in respect of the Group's major suppliers and major customers for the year ended 31 December 2019 is as follows:

	As a percentage of the Group's total supplies
Total value of supplies (not of a capital nature) attributable to the Group's five largest suppliers	17.60%

	As a percentage of the Group's total revenue
Total revenue attributable to the Group's five largest customers	34.85%
Total revenue attributable to the Group's largest customer	14.47%

As at 31 December 2019, no Members of the Board or the Executive Directorate or any of their respective close associates or any Shareholder including the FSI, the substantial shareholder of the Company, (which to the knowledge of the Members of the Board or the Executive Directorate, owned more than 5% of all the Company's voting shares in issue) had any beneficial interests in the Group's five largest customers.

DONATIONS

During the year, the Group donated and sponsored approximately HK$12.7 million (2018: approximately HK$12.2 million) to charitable and other organisations.

BANK OVERDRAFTS, BANK LOANS AND OTHER BORROWINGS

The total borrowings of the Group as at 31 December 2019 amounted to HK$39,456 million (2018: HK$40,205 million). Particulars of the borrowings are set out in note 33 to the Consolidated Accounts.

BONDS AND NOTES ISSUED

The Group issued notes with total face value amounting to HK$1,183 million equivalent during the year ended 31 December 2019 (2018: HK$1,491 million equivalent), details of which are set out in note 33C to the Consolidated Accounts. Such notes were issued in order to meet the Group's general corporate funding requirements, including financing of capital expenditure and refinancing of debts.

LOAN AGREEMENTS WITH COVENANT RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

As at 31 December 2019, the Group had borrowings of HK$32,183 million (2018: HK$32,446 million) with maturities ranging from 2020 to 2055 and undrawn committed banking facilities of HK$5,568 million (2018: HK$9,775 million), which were subject to the condition that Government, being the Company's controlling shareholder, owns more than half of all the Company's voting shares in issue. Failure to satisfy such condition may result in immediate repayment of the borrowings being demanded and cancellation of the undrawn committed banking facilities.

PROPERTIES

Particulars of the principal investment properties and properties held for sale of the Company are shown on pages 51 to 52.

CONNECTED TRANSACTIONS

During the year under review, the transactions described below were entered into with Government (which is a substantial shareholder of the Company as defined in the Listing Rules). Government is therefore a "connected person" of the Company for the purposes of the Listing Rules, and each transaction described below is a connected transaction for the Company under the Listing Rules.

As disclosed in the announcement of the Company dated 13 January 2005, the Stock Exchange has granted a waiver to the Company from strict compliance with the requirements of Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and Government, subject to certain conditions (the "Waiver").

Consequently, the Company makes the disclosures below in accordance with Rule 14A.71 of the Listing Rules and in accordance with the conditions of the Waiver.

Land Agreements

A On 7 May 2019, the Company accepted an offer dated 27 March 2019 from Government to proceed with the proposed LOHAS Park Package Eleven Property Development at Site C2 of The Remaining Portion of Tseung Kwan O Town Lot No. 70 subject to payment of a land premium of HK$3,054,900,000 and on the terms and conditions of the relevant modification to New Grant No. 9689.

B On 5 November 2019, the Company accepted an offer dated 25 September 2019 from Government to proceed with the proposed Wong Chuk Hang Station Package Four Property Development at Site D of Aberdeen Inland Lot No. 467 subject to payment of a land premium of HK$6,757,740,000 and on the terms and conditions of the relevant Conditions of Exchange No. 20304.

C On 14 February 2020, the Company accepted an offer dated 30 December 2019 from Government to proceed with the proposed LOHAS Park Package Twelve Property Development at Site D of The Remaining Portion of Tseung Kwan O Town Lot No. 70 subject to payment of a land premium of HK$2,725,000,000 and on the terms and conditions of the relevant modification to New Grant No. 9689.

CONTINUING CONNECTED TRANSACTIONS

During the year under review, the following transactions and arrangements described below involved the provision of goods or services carried out on an ongoing or recurring basis and are expected to extend over a period of time with Government and/or KCRC, the Airport Authority (the "AA"), UGL Rail Services Pty Limited ("UGL") and Leighton Contractors (Asia) Limited ("LCAL").

As noted above under the section headed "Connected Transactions", Government is a substantial shareholder of the Company for the purposes of the Listing Rules. KCRC and the AA are both associates of Government and they are also connected persons of the Company as defined in the Listing Rules.

Metro Trains Melbourne Pty. Ltd. is a company incorporated in Australia, which is wholly-owned by Metro Trains Australia Pty Ltd ("MTA"). The Company, UGL and John Holland MTA Pty Ltd ("JHMTA") own 60%, 20% and 20% respectively of MTA and are, therefore, substantial shareholders of MTA. Accordingly, UGL and JHMTA are connected persons of the Company.

Since both UGL and LCAL are indirect wholly-owned subsidiaries of CIMIC Group Limited, LCAL is an associate of UGL and is also a connected person of the Company.

Therefore, each of Government, KCRC, the AA, UGL and LCAL is a "connected person" of the Company for the purposes of the Listing Rules and, during 2019, each transaction set out at paragraphs I, II III, IV and V below constituted a continuing connected transaction for the Company under the Listing Rules.

In accordance with the Guidance Letter GL 73-14 issued by the Stock Exchange and taking into account the Stock Exchange's recommendation, the Company's Internal Audit Department ("IAD") has reviewed the Company's continuing connected transactions set out below and the related internal control procedures. IAD found that the internal control procedures put in place by the Company were adequate and effective and reported the same to the Audit Committee of the Company to assist the Company's Independent Non-executive Directors in their annual review and confirmation required to be given pursuant to the Merger-related Waiver (as defined below), the Waiver and the Listing Rules (as appropriate).

I Merger-related Continuing Connected Transactions

Each of the transactions listed in paragraphs A to C below (together, the "Merger-related Continuing Connected Transactions") and which formed part of the Rail Merger, was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. These paragraphs should be read in conjunction with the paragraphs contained in the section below headed "Additional Information in respect of the Rail Merger".

As disclosed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to continuing connected transactions between the Company, Government and/or KCRC arising as a result of the Rail Merger, subject to certain conditions (the "Merger-related Waiver").

A Merger Framework Agreement

The Merger Framework Agreement was entered into on 9 August 2007 between the Company, KCRC and the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury for and on behalf of Government.

The Merger Framework Agreement contains provisions for the overall structure and certain specific aspects of the Rail Merger, including in relation to:

- a seamless interchange programme;
- corporate governance of the Company Post-Rail Merger;
- payments relating to property enabling works;
- arrangements relating to the establishment of a rolling programme on the level of flat production arising from tenders for railway property development;
- arrangements in relation to the assessment of land premium amounts;
- arrangements in relation to the employees of the Company and KCRC, including provisions preventing the Company from terminating the employment of relevant frontline staff for any reason that relates to the process of integrating the operations of the Company and KCRC;

- the implementation of certain fare reductions;
- arrangements in relation to the proposed Shatin to Central Link;
- KCRC's continuing responsibility for its existing financial arrangements;
- treatment of KCRC's cross border leases;
- the payment of HK$7.79 billion in respect of the Property Package (as described on pages 156 to 157 and in paragraph C below);
- the allocation of liability for any Pre-Rail Merger and Post-Rail Merger claims by third parties; and
- the Company's retention of its English name and (pursuant to the Rail Merger Ordinance) the change of its Chinese name to "香港鐵路有限公司".

B West Rail Agency Agreement

The West Rail Agency Agreement and related agreements were entered into on 9 August 2007 between the Company, KCRC and certain KCRC subsidiary companies (the "West Rail Subsidiaries"). Pursuant to the terms of the West Rail Agency Agreement, the Company was appointed:

- to act as KCRC's agent, and donee under powers of attorney, to exercise certain rights and perform certain obligations relating to specified development sites along West Rail; and
- to act as agent for, and donee under powers of attorney from, each of the West Rail Subsidiaries to exercise certain rights and perform certain obligations relating to specified development sites along West Rail.

The Company will receive an agency fee of 0.75% of the gross sale proceeds in respect of the unawarded West Rail development sites and 10% of the net profits accrued to the West Rail Subsidiaries under the development agreements in respect of the awarded West Rail development sites. The Company will also recover from the West Rail Subsidiaries its costs (including internal costs) incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon.

C Property Package Agreements

Category 2A Properties

On 9 August 2007, Government entered into an undertaking that it would issue to KCRC an offer for the grant at nil premium of Government leases in respect of the land upon which certain properties (the "Category 2A Properties") are situated (the "said Government Leases"). The Category 2A Properties were held by KCRC as vested land under the Kowloon-Canton Railway Corporation Ordinance (Cap. 372 of the Laws of Hong Kong). On 9 August 2007, KCRC entered into an undertaking that it would, immediately after the grant of the said Government Leases referred to in the preceding sentence, enter into agreements for sale and purchase to sell the Category 2A Properties to the Company (the "said Agreements for Sale and Purchase"). Assignments of the Category 2A Properties to the Company shall then take place pursuant to the said Agreements for Sale and Purchase (the "said Assignments").

The said Government Leases were issued to KCRC respectively on 27 March 2009 and 31 March 2009. The said Agreements for Sale and Purchase were entered into between KCRC and the Company on 27 March 2009 and 31 March 2009 respectively and the said Assignments to the Company were executed on 27 March 2009 and 31 March 2009 respectively. Deeds of Mutual Grant were also entered into between the Company and KCRC on 27 March 2009 and 31 March 2009 respectively setting out the easements, rights, entitlements, privileges and liberties of the Company and KCRC in the land on which the Category 2A Properties are situated.

Category 2B Property

On 9 August 2007, Government entered into an undertaking that it would issue to the Company an offer for the grant of a Government Lease of a certain property (the "Category 2B Property") on terms to be agreed.

The basic terms offer for the Category 2B Property (i.e. Trackside Villas) was issued and accepted by the Company on 31 December 2009 and Government Lease in respect of Tai Po Town Lot No. 199 dated 29 March 2010 was issued for a term of 50 years from 2 December 2007.

Category 3 Properties

On 9 August 2007, the Company entered into three agreements (the "Category 3 Agreements") and related powers of attorney with KCRC. Each Category 3 Agreement relates to a certain property (each a "Category 3 Property"). KCRC has previously entered into a development agreement in respect of each Category 3 Property. None of the rights and obligations granted to or undertaken by the Company under the Category 3 Agreements may be exercised or performed by the Company if they relate exclusively to concession property situate on any Category 3 Property. Matters affecting the concession property situate on any Category 3 Property are dealt with under the terms of the Service Concession Agreement (as defined and summarised on pages 172 to 173).

Pursuant to the terms of each Category 3 Agreement, the Company has been appointed to act as KCRC's agent, and donee under powers of attorney, to exercise rights and to perform obligations of KCRC which relate to the Category 3 Property (but excluding the right or obligation to dispose of the relevant Category 3 Property).

The Company is required at all times to comply with statutory restrictions and obligations binding on KCRC which relate to the Category 3 Properties, and shall pay all amounts due and payable from KCRC which have been incurred by KCRC as a result of the Company's actions.

In acting as KCRC's agent, the Company is required to act according to prudent commercial principles, and aim to maximise gross profits under the Category 3 Properties and to run a safe and efficient railway. In order to assist the Company in performing its agency functions, KCRC has granted powers of attorney to the Company. The Company may only use the powers of attorney to exercise rights and perform obligations conferred or undertaken by it under the relevant Category 3 Agreement. As well as acting as KCRC's agent, the Company has the right to give KCRC instructions in respect of any action or matter relating to each Category 3 Property (including its related development agreement) which the Company is unable to take by reason of the limitation of the scope of its agency powers. KCRC is required to comply promptly with those instructions provided that it is permitted under law, and under the relevant Government grant, to carry out those instructions.

KCRC is required to account for revenue received in respect of a Category 3 Property by way of balance sheet movement (rather under its profit and loss account), provided that such treatment is permitted under law and accounting principles and practices.

KCRC shall not take any action in respect of a Category 3 Property which is not carried out by the Company (acting as KCRC's agent), or according to the Company's instructions, or otherwise in accordance with the terms of the Category 3 Agreement.

As consideration for acting as KCRC's agent, the Company shall be paid a fee which is expected to be similar in quantum to the profits made by KCRC in respect of the relevant Category 3 Property (after deducting certain initial and upfront payments and consultant contribution costs, in each case paid or to be paid by the relevant developer to KCRC). Generally, the Company's fee shall be payable in instalments promptly following receipt of relevant funds by KCRC (but subject to specified deductions of amounts due from KCRC to the relevant Category 3 Property developer).

The Company has agreed to give certain indemnities to KCRC in respect of each Category 3 Property.

The Company shall be the first manager, or shall ensure that a manager is appointed in respect of, each Category 3 Property (once developed).

The Company's appointment as agent shall terminate when KCRC ceases to have any undivided share in the relevant Category 3 Property, other than concession property, and neither KCRC nor the developer nor the guarantors have any further rights to exercise, or obligations to perform, under the development agreement relating to the relevant Category 3 Property.

II Non Merger-related Continuing Connected Transactions

The following disclosures, in paragraphs A1 to D below together with the Third XRL Agreement (as defined below) (together, the "Non Merger-related Continuing Connected Transactions"), are made in accordance with the conditions of the Waiver and Rule 14A.71 of the Listing Rules.

A1 Entrustment Agreement for Design and Site Investigation in relation to the Shatin to Central Link

The Entrustment Agreement for Design and Site Investigation in relation to the Shatin to Central Link (the "First SCL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First SCL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Shatin to Central Link, including in relation to:

- Government's obligation to pay the Company up to a maximum aggregate amount of HK$1,500 million in respect of certain costs incurred by the Company pursuant to the First SCL Agreement, including the Company's in-house design costs and certain on-costs and preliminary costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First SCL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Shatin to Central Link;
- the limitation of the Company's liability to Government under the First SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$600 million; and
- should the railway scheme for the Shatin to Central Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Shatin to Central Link.

A2 Entrustment Agreement for Advance Works relating to the Shatin to Central Link

The Entrustment Agreement for Advance Works relating to the Shatin to Central Link (the "Second SCL Agreement") was entered into on 17 May 2011 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Second SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second SCL Agreement and carrying out its other obligations under the Second SCL Agreement, Government shall pay to the Company the Company's project management cost. The amount of such project management cost is to be agreed between the Company and Government and prior to such agreement, the project management cost shall be paid by Government to the Company on a provisional basis calculated in accordance with the Second SCL Agreement;
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Second SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear all of the "Works Cost" (as defined in the Second SCL Agreement). In this connection, Government will make payments to the Company in respect of the Works Cost on a provisional basis, subject to adjustments when the final outturn cost of the Works Cost is determined;

- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Second SCL Agreement is limited to approximately HK$3,000 million per annum and a total in aggregate of approximately HK$15,000 million;
- the Company shall carry out or procure the carrying out of certain enabling works on the expanded Admiralty Station and the to be constructed Ho Man Tin Station, the reprovisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other works as described under the Second SCL Agreement;
- the Company's total liability to Government under the First SCL Agreement and the Second SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement and the Second SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the completion of the relevant works, a final report on the activities required to be carried out under the Second SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

A3 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link

The Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link (the "Third SCL Agreement") was entered into on 29 May 2012 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Third SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Third SCL Agreement and carrying out its other obligations under the First SCL Agreement and the Second SCL Agreement, Government shall pay to the Company the Company's project management cost. The amount of the project management cost is HK$7,893 million and will be paid by Government to the Company on a quarterly basis;

- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Third SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Third SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear certain "Third Party Costs", any "Interface Works Costs" and any "Direct Costs" (each as defined in the Third SCL Agreement);
- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Third SCL Agreement is limited to HK$3,000 million per annum and a total in aggregate of HK$15,000 million;
- the maximum aggregate amount payable by the Company to Government under the Third SCL Agreement in relation to its contribution to certain railway works under the Third SCL Agreement is limited to HK$4,000 million per annum and a total in aggregate of HK$15,000 million;
- the Company's total liability to Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Third SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the handover of the Shatin to Central Link project to Government, a final report on the activities required to be carried out under the Third SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Third SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Third SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Third SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

B1 Entrustment Agreement for Design and Site Investigation in relation to the Express Rail Link

The Entrustment Agreement for Design and Site Investigation in relation to the Express Rail Link (the "First XRL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First XRL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Express Rail Link, including in relation to:

- Government's obligation to pay the Company, up to a maximum aggregate amount of HK$1,500 million, in respect of certain costs incurred by the Company pursuant to the First XRL Agreement, including the Company's in-house design costs and certain on-costs, preliminary costs and recruited staff costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First XRL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Express Rail Link;
- the limitation of the Company's liability to Government under the First XRL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$700 million; and
- should the railway scheme for the Express Rail Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Express Rail Link.

B2 Entrustment Agreement for Construction, Testing and Commissioning of the Express Rail Link

The Entrustment Agreement for the Construction and Commissioning of the Express Rail Link was entered into on 26 January 2010 between the Company and the Secretary for Transport and Housing for and on behalf of Government (the "Second XRL Agreement").

The scheme in respect of the Express Rail Link was first gazetted under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong) on 28 November 2008, with amendments and corrections gazetted on 30 April 2009. The scheme, as amended with such minor modifications as deemed necessary, was authorised by the Chief Executive in Council on 20 October 2009 and funding support approved by the Finance Committee on 16 January 2010.

The Second XRL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second XRL Agreement and carrying out its other obligations under the Second XRL Agreement and the First XRL Agreement, Government shall pay to the Company HK$4,590 million (further details relating to the amendments to this provision are set out in the section below headed "The Third Agreement in Relation to the Express Rail Link"), to be paid in cash quarterly in advance on a scheduled basis as such sum may be varied in accordance with the Second XRL Agreement, subject to the maximum payment limits stated in the Second XRL Agreement (being HK$2,000 million annually and HK$10,000 million in total) (the "Maximum Payment Limits");
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second XRL Agreement and in consideration of the Company executing or procuring the execution of the miscellaneous works (if any) and carrying out its other obligations under the Second XRL Agreement in relation

to the miscellaneous works (if any), Government shall pay to the Company an amount equal to an agreed fixed percentage of third party costs attributable to the miscellaneous works from time to time subject to the Maximum Payment Limits;

- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second XRL Agreement that were carried out in the immediately preceding calendar month and, within three months following the earlier of handover of the Express Rail Link project to Government or termination of the Second XRL Agreement, a final report on the activities required to be carried out under the Second XRL Agreement;
- the Company shall be responsible for the care of all works constructed under the Express Rail Link project from the commencement of construction until the date of handover of those works to Government (or to a third party directed by Government) and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second XRL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second XRL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second XRL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor;
- Government is required to bear (i) any costs payable to third parties, (ii) any charges, costs or amounts payable to any Government department, bureau, agency or body in relation to the activities to be carried out under the Second XRL Agreement, (iii) any and all amounts payable to KCRC as compensation for damage arising as a result of the Company and/or a third party contractor carrying out activities under the Second XRL Agreement; and (iv) all land acquisition, clearance and related costs (including all amounts arising as a result of any claim for compensation by any third party) and those costs which are incurred by the Lands Department in connection with the Express Rail Link project (further details relating to the amendments to this provision are set out in the section below headed "The Third Agreement in Relation to the Express Rail Link"); and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Express Rail Link are given or granted.

Government had agreed that the Company would proceed with the construction, testing and commissioning of the Express Rail Link (pursuant to and on the terms of the Second XRL Agreement) on the understanding that the Company would be invited to undertake the operation of the Express Rail Link under the concession approach.

The Third Agreement in Relation to the Express Rail Link

On 30 November 2015, Government and the Company entered into the deed of agreement relating to the further funding and completion of the Express Rail Link project (the "Third XRL Agreement"). The Third XRL Agreement contains an integrated package of terms and provides that:

(i) Government will bear and finance the project cost up to HK$84.42 billion;

(ii) if the project cost exceeds HK$84.42 billion, the Company will bear and finance the portion which exceeds that sum (if any), except for certain agreed excluded costs;

(iii) the Company will pay a special dividend of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share, in cash in each tranche);

(iv) certain amendments will be made to the existing entrustment arrangements entered into in 2010 relating to the Express Rail Link, including an increase in the project management fee payable to the Company to HK$6.34 billion;

(v) Government reserves the right to refer to arbitration, after commencement of operations on the Express Rail Link, the question of the Company's liability for the current cost overrun (if any); and

(vi) the Third XRL Agreement was subject to (a) the obtaining of approval of the Company's independent shareholders (which was obtained on 1 February 2016) and (b) the obtaining of approval of the Legislative Council for Government's additional funding obligations (which was obtained on 11 March 2016).

The first tranche of the special dividend of HK$2.20 per share was distributed on 13 July 2016 and the second tranche, also of HK$2.20 per share, was distributed on 12 July 2017.

Pursuant to the Third XRL Agreement, certain amendments have been made to the Second XRL Agreement to reflect the arrangements contained in the Third XRL Agreement, including (i) amendments to the arrangements for the bearing and financing of the project cost; and (ii) an increase in the project management cost payable to the Company to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations in relation to the Express Rail Link project).

C1 Maintenance Agreement for the Automated People Mover System at the Hong Kong International Airport

On 5 July 2013, the Company entered into a Maintenance Contract with the AA for the renewal of the then expired maintenance agreement for the maintenance of the Automated People Mover system at the Hong Kong International Airport (the "System") for a seven year period (the "Maintenance Contract"), effective from 6 July 2013. It is expected that the highest amount per year receivable from the AA under the Maintenance Contract will be no more than HK$85 million.

The Maintenance Contract contains provisions relating to the operation and maintenance by the Company of the System and the carrying out by the Company of certain specified services in respect of the System, they include the following:

- provisions stating that the duration of the Maintenance Contract shall be seven years from 6 July 2013 up to and including 5 July 2020;
- provisions relating to the performance of scheduled maintenance works and overhaul of the System by the Company;
- provisions relating to monitoring the System for any breakdown and the Company providing repair services where necessary;
- provisions relating to the standards to which the Company must operate the System;
- provisions relating to the carrying out by the Company (as additional services), in certain circumstances, of upgrade work on the System; and
- provisions relating to the operations of and maintenance for the extension of the System to the Midfield Concourse.

C2 Subcontractor Warranty to the AA

On 18 May 2018, the Company provided a sub-contractor warranty to the AA as a result of obtaining a subcontract from Niigata Transys Co., Ltd. ("NTS") for the modification works of the existing System for a seven year period, effective from 25 September 2017 (the "Subcontract"). It is expected that the highest amount per year receivable from NTS will be no more than HK$60 million.

The Subcontract contains provisions covering the provision and modification of the power distribution, communication and control subsystems in respect of the System, which includes the following:

- modification of the existing System for its extension to the new Automated People Mover Interchange Station;
- provision of related electrical and mechanical systems, including power distribution system, telecommunication systems, platform screen door and maintenance equipment; and
- relocation of existing maintenance equipment to the new Automated People Mover depot.

D Project Agreement for the Financing, Design, Construction and Operation of the West Island Line

The Project Agreement for the Financing, Design, Construction and Operation of the West Island Line (the "WIL Project Agreement") was entered into on 13 July 2009 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The WIL Project Agreement contains provisions for the financing of and the carrying out, or procuring the carrying out, of the design, construction, completion, testing and commissioning by the Company of the railway works required in order to bring the West Island Line into operation in accordance with the MTR Ordinance, the Operating Agreement between the Company and the Secretary for Transport and Housing for and on behalf of Government dated 9 August 2007 and the WIL Project Agreement. The West Island Line will be owned, operated and maintained by the Company for its own account for the period of the Company's railway franchise. The final payment certificate was issued on 28 June 2019.

The WIL Project Agreement includes provisions in relation to:

- payment by Government of HK$12,252 million to the Company in consideration of the Company's obligations under the WIL Project Agreement, such sum constituting funding support from Government for the Company to implement the West Island Line project;
- within 24 months of commercial operations commencing on the West Island Line on a revenue earning basis and providing scheduled transport for the public (which period was extended to no later than 30 June 2018 by a supplemental agreement between the Company and Government dated 23 December 2016, further extended for a period ended on or before 31 March 2019 by a second supplemental agreement between the Company and Government dated 29 June 2018, and further extended for a period ended on 30 June 2019 by a third supplemental agreement between the Company and Government dated 29 March 2019), payment by the Company to Government of any "Repayment Amounts" for any over-estimation of certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway works and reprovisioning, remedial and improvement works (together with interest);
- the design, construction and completion of the associated reprovisioning, remedial and improvement works (the cost of which shall be the responsibility of the Company) and the associated essential public infrastructure works (the cost of which shall be the responsibility of Government);
- the Company's responsibility for costs relating to land acquisition, clearance and related costs arising from the implementation of the West Island Line project (save for costs arising from certain claims for compensation by third parties) and all costs, expenses and other amounts incurred or paid by the Lands Department pursuant to the involvement of the Lands Department in connection with the implementation of the West Island Line project; and
- the Company carrying out measures specified in the environmental impact assessment and the environmental permit issued by Government to the Company in relation to the West Island Line on 12 January 2009.

III Continuing Connected Transactions relating to the Operation of the High Speed Rail (formerly known as the Express Rail Link)

The following disclosures, in paragraphs A and B below (together, the "Continuing Connected Transactions relating to the Operation of the High Speed Rail"), are made in accordance with the conditions of the Waiver, the Merger-related Waiver and Rule 14A.71 of the Listing Rules.

A Amendment Operating Agreement

On 23 August 2018, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the Amendment Operating Agreement (the "AOA") to amend and supplement the Integrated Operating Agreement dated 9 August 2007 (as described in paragraph D of the section headed "Additional Information in respect of the Rail Merger" on pages 173 to 174), as amended ("Existing Integrated Operating Agreement"), in order to prescribe the operational requirements that will apply to the High Speed Rail. The intent and effect of the AOA is that the operational requirements that are applicable to the existing railway network will apply in substantially the same manner to the High Speed Rail, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the High Speed Rail.

The AOA is an "operating agreement" for the purposes of the MTR Ordinance, forms part of the legal and regulatory regime for the operation of railways in Hong Kong and is required for the purposes of the MTR Ordinance so that the High Speed Rail is properly regulated under the MTR Ordinance.

Principal Terms of the AOA are as follows:

The terms of the AOA are based substantially on the terms of the Existing Integrated Operating Agreement. The AOA has taken effect on 23 September 2018 (the "Commercial Operation Date (High Speed Rail)") and will expire at the same time as the Supplemental Service Concession Agreement (the "SSCA") entered into between the Company and KCRC on 23 August 2018.

Certain principal terms of the AOA that are specific to the High Speed Rail include:

- obligations on the Company to maintain specific performance requirements in relation to train service delivery, ticket machine reliability, ticket-gate reliability and escalators and passenger lifts reliability;
- obligations on the Company to publish specific customer services pledges in relation to train service delivery, ticket machine reliability, ticket-gate reliability, escalators and passenger lifts reliability, temperature and ventilation levels, railway cleanliness (relating only to the Company's High Speed Rail trains) and passenger enquiry response time;
- obligations in relation to the carrying out of the maintenance of the Company's High Speed Rail trains outside Hong Kong;
- obligations on the Company to carry out design checks and tests to verify that the Mainland operator's High Speed Rail trains are compatible with the Company's infrastructure and can run on the High Speed Rail safely;
- establishing procedures with the Mainland operator for approving the Mainland operator's trains to run on the High Speed Rail safely and for informing Government of the modification of any such trains;
- developing and maintaining a training qualification system for drivers of High Speed Rail trains;
- facilitating the carrying out of inspections by the railway inspector, including liaising with the Mainland operator for this purpose, where necessary;
- security obligations in relation to maintaining the integrity and security of the boundaries of the Mainland Port Area and the Cross-Boundary Restricted Area; and
- mechanisms and Government approval procedures for setting fares for High Speed Rail train journeys, including that:
  - (i) prior to the Commercial Operation Date (High Speed Rail), the Company will seek prior written consent from Government before setting the fares for the various available High Speed Rail ticket types; and
  - (ii) thereafter, fares cannot be adjusted, introduced or withdrawn without the prior consent of Government.

B Supplemental Service Concession Agreement

On 23 August 2018, the Company and KCRC entered into the SSCA to supplement the Service Concession Agreement dated 9 August 2007 (as described in paragraph B of the section headed "Additional Information in respect of the Rail Merger" on pages 172 to 173) (the "Existing Service Concession Agreement") in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. The intent and effect of the SSCA is that the operational requirements that are applicable to the Company's operation of the existing KCRC railway system will apply in substantially the same manner to the High Speed Rail, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the High Speed Rail. The financial provisions in the SSCA have been designed to reflect the provisions of the Existing Integrated Operating Agreement that relate to new concession projects, such as the High Speed Rail subject as set out below.

The SSCA is a "service concession agreement" for the purposes of the MTR Ordinance, forms part of the legal and regulatory regime for the operation of railways in Hong Kong and is required for the purposes of the MTR Ordinance so that the High Speed Rail is properly regulated under the MTR Ordinance.

Principal Terms of the SSCA

The terms of the SSCA are based substantially on the terms of the Existing Service Concession Agreement. The operating period with respect to the High Speed Rail has commenced on the Commercial Operation Date (High Speed Rail) and will terminate automatically on the earlier of:

(i) a revocation of the Company's franchise under the MTR Ordinance in whole or in respect of the High Speed Rail; and

(ii) the date falling immediately before the tenth anniversary of the Commercial Operation Date (High Speed Rail), but may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA, in which case it shall terminate on such other date as is agreed between the Company and KCRC (the "Concession Period (High Speed Rail)").

Certain principal terms of the SSCA that are specific to the High Speed Rail include:

- Additional concession payments for the High Speed Rail

  (i) General

  The additional concession payments to be made by the Company to KCRC and by KCRC to the Company in respect of the High Speed Rail (described below) have been designed to reflect the requirements under the Existing Integrated Operating Agreement, inter alia, for the Company to retain 10% of the currently expected positive discounted net cash flow from the operation of the High Speed Rail (being discounted at a discount rate which reflects the Company's commercial rate of return in relation to the High Speed Rail).

  The SSCA provides for the fixed annual payments and variable annual payments structure for the additional concession payments, to reflect the current concession payments structure for the existing KCRC system under the Existing Service Concession Agreement.

  The additional concession payments for the High Speed Rail are in addition to, and do not replace, the payments made in respect of the existing KCRC system under the Existing Service Concession Agreement.

  (ii) Variable annual payments

  The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the Existing Service Concession Agreement whereby the Company pays to KCRC, for each financial year, a certain percentage of the revenue generated from the KCRC system (being 35% for revenues generated from the KCRC system that are beyond the first HK$7.5 billion). For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the High Speed Rail fares received or retained by the Company and revenue derived from businesses related to the High Speed Rail which may include, without limitation, advertising, telecommunications, duty free and kiosk rental.

  (iii) Fixed annual payments for the High Speed Rail

  In light of the variable annual payments described in paragraph (ii) above and in order for the Company to be able to retain 10% of the currently expected positive discounted net cash flow from the operation of the High Speed Rail as described above, the fixed annual payments shall comprise payments from KCRC to the Company which, in aggregate, over the Concession Period (High Speed Rail), will be equal to HK$7,965 million.

  These fixed annual payments shall be without prejudice to the Company's obligation to pay the fixed annual payments of HK$750 million each financial year to KCRC under the Existing Service Concession Agreement.

- Revenue-related arrangements

  In addition, the SSCA contains the following revenue-related arrangements:

  (i) Patronage adjustment

  In respect of actual deviations from the current patronage projections for the High Speed Rail:

  (a) any excess or shortfall in actual patronage of up to 15% in relation to the currently projected patronage for the High Speed Rail will be borne by the Company; and

(b) any excess or shortfall in actual patronage greater than 15% in relation to the currently projected patronage for the High Speed Rail will be borne between the Company and KCRC in the proportions of 30% by the Company and 70% by KCRC.

(ii) Incremental revenue adjustment

In respect of actual deviations from the currently projected patronage for the Company's existing cross-boundary services to and from Lo Wu and Lok Ma Chau, and the existing intercity service, the Company may receive two payments from KCRC (in respect of the period from and including the Commercial Operation Date (High Speed Rail) up to and including 31 December 2023 and in respect of the period from and including 1 January 2024 up to and including the day falling immediately before the tenth anniversary of the Commercial Operation Date (High Speed Rail), respectively) and which will be capped at HK$500 million and HK$1,000 million, respectively.

(iii) Mainland discount programme loss

In respect of revenue loss resulting from the Mainland Student Ticket Discount and the Mainland Disabled Military/Police Officer Discount programmes adopted by the Mainland operator, the Company will receive reimbursement payments from KCRC on an annual basis.

KCRC and the Company will also discuss in good faith similar reimbursement arrangements should the Mainland operator introduce any other discount programmes in future.

(iv) Service fees subsidy

In respect of the proportion of the service fee charged in respect of tickets sold at West Kowloon Station for journeys originating from and terminating at any railway station in the Mainland which Government has directed should be borne by the Company, the Company will receive reimbursement payments from KCRC on an annual basis.

- Pre-operating costs reimbursements

  In addition, KCRC shall reimburse the Company for the pre-operating costs that are agreed between the Company and KCRC, being costs and expenses reasonably incurred by the Company prior to the Commercial Operation Date (High Speed Rail) that satisfy all of the following criteria:

  (i) that directly resulted from the planning and commencement of the operation of the relevant High Speed Rail assets;

  (ii) that have not already been paid, and will not be paid or payable, by Government to the Company under any relevant agreement or which the Company and Government otherwise agree in writing should be treated as a pre-operating cost;

  (iii) that are not covered in any of the payments to be made by KCRC to the Company under the SSCA; and

  (iv) that fall within certain other types of agreed costs and expenses in connection with the operation of the High Speed Rail (including, mobilisation activities in preparation for the opening of the High Speed Rail and trial operations prior to the opening of the High Speed Rail, and other items as may be agreed between KCRC and the Company).

- Equalisation payment

  If the franchise is revoked by Government prior to 31 December 2023, KCRC is required to make a payment to the Company of an amount that is equivalent to the aggregate fixed annual payment payable by KCRC over the ten year life of the concession, reduced pro rata to take account of the time at which termination occurs, and less any amounts of the fixed annual payment already paid to the Company. The intention of this equalisation payment is to ensure that the Company is partly protected in the event of early termination of the concession in respect of the High Speed Rail.

- High Speed Rail services

  The Company is obliged to operate the High Speed Rail during the Concession Period (High Speed Rail) to the standards prescribed in the MTR Ordinance and the

Existing Operating Agreement (subject as otherwise stated herein). The Company is not regarded as having failed to meet a requirement under the MTR Ordinance or the Existing Integrated Operating Agreement if the failure has resulted from anything done or omitted to be done by the Mainland operator, any Mainland authority or persons directly under their control.

- Return requirements

  If the Concession Period (High Speed Rail) expires or is terminated, the Company shall, at no cost to KCRC, redeliver possession of the High Speed Rail concession property.

IV Continuing Connected Transactions relating to the Operation of the First Phase of the Tuen Ma Line

The following disclosures, in paragraphs A and B below (together, the "Continuing Connected Transactions relating to the Operation of the first phase of the Tuen Ma Line"), are made in accordance with the conditions of the Waiver, the Merger-related Waiver and Rule 14A.71 of the Listing Rules.

A Amendment Operating Agreement and Supplemental Operating Agreement

On 11 February 2020, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the Amendment Operating Agreement ("TML1 AOA") and the Company and the Commissioner for Transport, for and on behalf of Government, entered into the Supplemental Operating Agreement ("TML1 SOA") to amend and supplement, respectively, the Existing Integrated Operating Agreement in order to prescribe the operational requirements, such as service standards, that will apply to the first phase of the Tuen Ma Line ("TML1") which shall extend the existing Ma On Shan Railway from Tai Wai to Kai Tak with two new stations at Hin Keng and Kai Tak, and an interchange station at Diamond Hill. The intent and effect of the TML1 AOA and the TML1 SOA together is that the operational requirements that are applicable to the existing railway network will apply in substantially the same manner to TML1.

The TML1 AOA and TML1 SOA are each an "operating agreement" for the purposes of the MTR Ordinance, form part of the legal and regulatory regime for the operation of railways in Hong Kong and are required for the purposes of the MTR Ordinance so that TML1 is properly regulated under the MTR Ordinance.

The principal terms of the TML1 AOA and the TML1 SOA have the effect of bringing TML1 within the legal and regulatory regime for the operation of railways in Hong Kong contained in the Existing Integrated Operating Agreement, as explained above. The amendments under the TML1 AOA and the TML1 SOA took effect on 14 February 2020.

B Supplemental Service Concession Agreement

On 11 February 2020, the Company and KCRC entered into the Supplemental Service Concession Agreement No. 2 ("TML1 SSCA") relating to TML1, to supplement the Existing Service Concession Agreement in order for KCRC to grant a concession to the Company in respect of TML1 and to prescribe the operational and financial requirements that will apply to TML1. The intent and effect of the TML1 SSCA is that the operational requirements that are applicable to the Company's operation of the existing KCRC railway system will apply in substantially the same manner to TML1, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, TML1. The financial provisions in the TML1 SSCA have been designed to reflect the principles contained in the Existing Integrated Operating Agreement that relate to new concession projects, such as TML1 (as referred to in paragraph A above of this section) other than as set out below.

The TML1 SSCA is a "service concession agreement" for the purposes of the MTR Ordinance, forming part of the legal and regulatory regime for the operation of railways in Hong Kong, and is required for the purposes of the MTR Ordinance so that TML1 is properly regulated under the MTR Ordinance.

Principal Terms of the TML1 SSCA

The terms of the TML1 SSCA are based substantially on the terms of the Existing Service Concession Agreement, as explained above. The TML1 SSCA was made on 11 February 2020 and the term of the service concession and licence granted by KCRC to the Company pursuant to the terms of the TML1 SSCA and the commercial operation of TML1 commenced on 14 February 2020 (the "New Project Effective Date (TML1)"), which will terminate automatically on and from the earlier of (being the "Termination Date (TML1)"):

(i) the effective date of the revocation of the franchise pursuant to the MTR Ordinance as it relates to the KCRC railway;

(ii) the effective date of the withdrawal or revocation of the permission by the Director of Lands pursuant to the vesting deed entered into between KCRC and Government as well as the revocation of the franchise pursuant to the MTR Ordinance as it relates to TML1;

(iii) the first date of commissioning and commercial operation of the entire Tuen Ma Line ("TML2") to be designated by Government under a new supplemental service concession agreement for TML2 (which shall supersede and replace the TML1 SSCA); and

(iv) the day falling immediately before the second anniversary of the New Project Effective Date (TML1), or such later date as each of the Company, KCRC and Government may agree in a written agreement by no later than the date falling one month prior to the second anniversary of the New Project Effective Date (TML1) or prior to the last extended date (where applicable) ("Natural Expiry Date (TML1)").

Certain principal terms of the TML1 SSCA that are specific to TML1 include:

- Concession payments

  (i) Variable annual payments

  The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the Existing Service Concession Agreement whereby the Company pays to KCRC, for each financial year, a certain percentage of the revenue generated from the KCRC system (being 35% for revenues generated from the KCRC system that are beyond the first HK$7.5 billion). For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the TML1 fares received or retained by the Company and revenue derived from businesses related to TML1 which may include, without limitation, telecommunications and kiosk rental.

  (ii) Fixed annual payments for TML1

  In light of the variable annual payments described above and in order for the Company to be able to earn a commercial return as described above, the fixed annual payments for TML1 shall comprise payments from KCRC to the Company which, in aggregate over the period commencing on the New Project Effective Date (TML1) and ending on the day prior to the Termination Date (TML1) ("Concession Period (TML1)") and assuming that the Concession Period (TML1) terminates on the Natural Expiry Date (TML1), will be equal to HK$465 million. These fixed annual payments shall be without prejudice to the Company's obligation to pay the fixed annual payments of HK$750 million each financial year to KCRC under the Existing Service Concession Agreement.

- A new supplemental service concession agreement for TML2

  On and from the date of the TML1 SSCA, to and including the date that is four months before the Natural Expiry Date (TML1) (prior to any extension or otherwise after such extension(s) as agreed in writing by the Company, KCRC and Government for the purposes of this end date), Government, the Company and KCRC shall commence exclusive negotiations in good faith with a view to agreeing the terms of a supplemental service concession agreement for TML2 which shall, in accordance with the Existing Integrated Operating Agreement, enable the Company to earn a commercial rate of return from its operation of TML2 (and that new supplemental service concession agreement for TML2 is intended to replace the TML1 SSCA).

- Return requirements

  If the Concession Period (TML1) expires or is terminated, and no supplemental service concession agreement is entered into for TML2, the Company shall, at no cost to KCRC, redeliver possession of the TML1 concession property.

V Non-Governmental Continuing Connected Transaction

The following disclosure (the "Non-Governmental Continuing Connected Transaction") is made in accordance with Rule 14A.71 of the Listing Rules.

Contract 903 between the Company and LCAL relating to certain works on the South Island Line (East)

As explained above, LCAL is a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. Contract 903 (as defined below) is therefore a "continuing connected transaction" within the meaning of Rule 14A.31 of the Listing Rules.

On 17 May 2011, the Company and LCAL entered into Contract 903 (as amended by a supplemental agreement on 14 November 2014) (the "Contract 903") for the construction of certain works relating to the Aberdeen Channel Bridge, Wong Chuk Hang Station and Ocean Park Station in respect of the South Island Line (East) (the "Contract 903 Works").

Contract 903 is in substantially the same form as the Company's standard conditions of contract for target cost construction and contains the following provisions:

- the principal obligation of LCAL under Contract 903 is the construction of the Contract 903 Works;
- LCAL shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 903 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 903 Works, or the right of the Company to execute the Contract 903 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by LCAL;
- LCAL shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of LCAL or its sub-contractors or suppliers arising out of and in the course of such employment;
- LCAL shall effect and maintain insurance with a limit of not less than HK$200 million in relation to certain of its liabilities;
- a bond issued by Chartis Insurance Hong Kong Limited has been provided to the Company in respect of the obligations of LCAL under Contract 903;
- LCAL's liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 903 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage. The total liability of LCAL to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the target cost plus fees as calculated under Contract 903;
- the total amount payable by the Company to LCAL under Contract 903 includes costs for the Contract 903 Works and fees to LCAL. From time to time the scope of the Contract 903 Works may vary and the Company will be obliged to revise the fees payable to LCAL in accordance with the terms of the Contract;
- the Company is obliged to pay the costs for the Contract 903 Works to LCAL on a scheduled basis set out in Contract 903. If the final total cost of the Contract 903 Works exceeds or is less than the target cost for the Works, the deficit or, as the case may be, the excess will be borne by or, as the case may be, distributed to the Company and LCAL on a basis calculated in accordance with Contract 903;

- the maximum aggregate amount payable annually by the Company under Contract 903 is approximately HK$1,400 million. As payments by the Company to LCAL are paid on a scheduled basis as set out in Contract 903, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$700 million. In addition, LCAL has agreed to separately purchase additional cover for "Third Party Liability" insurance in the amount of HK$3,638 million; and
- the Company may at any time, by giving 30 days' notice in writing to LCAL, terminate Contract 903 but without prejudice to any claims by the Company for breach of contract.

In relation to the Merger-related Continuing Connected Transactions, the Non Merger-related Continuing Connected Transactions, the Continuing Connected Transactions relating to the Operation of the High Speed Rail, the Continuing Connected Transactions relating to the Operation of the first phase of the Tuen Ma Line and the Non-Governmental Continuing Connected Transaction (collectively "Transactions") and in accordance with (i) in the case of the Merger-related Continuing Connected Transactions, paragraph B(I)(i) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(I)(iii)(a) of the Waiver; (iii) in the case of the Continuing Connected Transactions relating to the Operation of the High Speed Rail, paragraph B(I)(i) of the Merger-related Waiver and paragraph B(I)(iii)(a) of the Waiver; (iv) in the case of the Continuing Connected Transactions relating to the Operation of the first phase of the Tuen Ma Line, paragraph B(I)(i) of the Merger-related Waiver and paragraph B(I)(iii)(a) of the Waiver; and (v) in the case of the Non-Governmental Continuing Connected Transaction, Rule 14A.55 of the Listing Rules, the Company confirms that the Independent Non-executive Directors of the Company have reviewed and confirmed that each of the Transactions was entered into:

(1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;

(2) on normal commercial terms or better (within the meaning of the Listing Rules); and

(3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to report on the Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with (i) in the case of the Merger-related Continuing Connected Transactions, paragraph B(I)(ii) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(I)(iii)(b) of the Waiver; (iii) in the case of the Continuing Connected Transactions relating to the Operation of the High Speed Rail, paragraph B(I)(ii) of the Merger-related Waiver and paragraph B(I)(iii)(b) of the Waiver; (iv) in the case of the Continuing Connected Transactions relating to the Operation of the first phase of the Tuen Ma Line, paragraph B(I)(ii) of the Merger-related Waiver and paragraph B(I)(iii)(b) of the Waiver; and (v) in the case of the Non-Governmental Continuing Connected Transaction, Rule 14A.56 of the Listing Rules, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that any of the Transactions has not been approved by the Board;

(b) nothing has come to their attention that causes them to believe that any of the Transactions was not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and in the case of the Non-Governmental Continuing Connected Transaction, in addition, that:

(c) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that such transactions were not, in all material respects, in accordance with the pricing policies of the Group; and

(d) with respect to the aggregate amount of each of such transactions, nothing has come to their attention that causes them to believe that such transactions have exceeded the relevant annual caps as set by the Company in respect of each of such transactions.

Additional Information in respect of the Rail Merger

The Rail Merger consisted of a number of separate agreements, each of which was detailed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, and which together formed a complete package deal which was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. The information set out at paragraph A below describes the payment framework adopted in respect of the Rail Merger and paragraphs B to E below set out, summaries of the various agreements entered into by the Company in respect of the Rail Merger in addition to those agreements disclosed above under the heading "Merger-related Continuing Connected Transactions".

A Payments in connection with Merger-related Agreements

In connection with the Rail Merger, the following initial payments were made by the Company to KCRC on 2 December 2007 (being the Merger Date):

- an upfront payment of HK$4.25 billion, payable under the Service Concession Agreement (as described in paragraph B below), being the upfront fee for the right to operate the Service Concession (as defined in paragraph B below) and the consideration for the purchased rail assets; and
- an upfront payment of HK$7.79 billion payable under the Merger Framework Agreement (as described on pages 155 to 156) in consideration for the execution of the Property Package Agreements (as described on pages 156 to 157 and in paragraph E below) and the sale of the shares in the subsidiaries of KCRC (the "KCRC Subsidiaries") that were transferred to the Company under the Sale and Purchase Agreement which was entered into on 9 August 2007 between the Company and KCRC.

In addition to the initial payments above, the Company is also required to make the following payments to KCRC going forward:

- fixed annual payments of HK$750 million payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in arrears on the day immediately preceding each anniversary of the Merger Date which falls during the concession period in respect of the 12-month period up to and including the date on which such payment falls due; and
- variable annual payments payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in each case, calculated on a tiered basis by reference to the amount of revenue from the KCRC system (as determined in accordance with the Service Concession Agreement) for each financial year of the Company. No variable annual payment is payable in respect of the first 36 months following the Merger Date.

As a complete package deal, other than the payment elements described above and unless stated otherwise in the relevant paragraph below, no specific allocation was made between the various elements of the Rail Merger.

B Service Concession Agreement

The Service Concession Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Service Concession Agreement contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company (the "Service Concession"), including in relation to:

- the grant of the Service Concession to the Company to access, use and operate the concession property (other than KCRC railway land referred to immediately below) to certain specified standards;
- the grant of a licence to access and use certain KCRC railway land;

- the term (being an initial period of 50 years from the Merger Date) of the Service Concession and redelivery of the KCRC system upon expiry or termination of the concession period. The Service Concession will end if the Company's franchise relating to the KCRC railway is revoked;
- the payments of an upfront payment of HK$4.25 billion and fixed annual payments and variable annual payments (as described in paragraph A above);
- KCRC remaining the legal and beneficial owner of the concession property as at the Merger Date and the Company being the legal and beneficial owner of certain future concession property (the "Additional Concession Property");
- the regime for compensation payable by KCRC to the Company if Additional Concession Property is returned to KCRC at the end of the concession period;
- the rights and restrictions of the Company and KCRC in relation to the concession property; and
- subject to certain conditions, the Company bearing all risks, liabilities and/or costs whatsoever associated with or arising from the concession property and the land on which any of the concession property is located during the concession period.

On 23 August 2018, the Company and KCRC entered into the SSCA in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. Further details are set out in the section above headed "III Continuing Connected Transactions relating to the Operation of the High Speed Rail (formerly known as the Express Rail Link)" in the section headed "Continuing Connected Transactions".

On 11 February 2020, the Company and KCRC entered into the TML1 SSCA in order for KCRC to grant a concession to the Company in respect of the first phase of the Tuen Ma Line of the Shatin to Central Link and to prescribe the operational and financial requirements that will apply to TML1. Further details are set out in the section above headed "IV Continuing Connected Transactions relating to the Operation of the First Phase of the Tuen Ma Line" in the section headed "Continuing Connected Transactions".

C Sale and Purchase Agreement

The Sale and Purchase Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Sale and Purchase Agreement provides the terms pursuant to which the Company acquired certain assets and contracts (the "Purchased Rail Assets") from KCRC.

The consideration for the sale of the Purchased Rail Assets (excluding the shares in the KCRC Subsidiaries) formed part of the upfront payment of HK$4.25 billion. The consideration for the sale of the shares in the KCRC Subsidiaries (which own the Category 1A Properties referred to at paragraph E below and act as property managers) formed part of the payment of HK$7.79 billion for the property package (as described in paragraph A above and in paragraph E below).

D Operating Agreement

The Operating Agreement was entered into on 9 August 2007 between the Company and the Secretary for Transport and Housing for and on behalf of Government as contemplated in the MTR Ordinance.

The Operating Agreement is based on the previous Operating Agreement which was signed on 30 June 2000. The Operating Agreement differs from the previous Operating Agreement to provide for, amongst other things, the nature of the combined MTRC railway and KCRC railway.

The Operating Agreement includes terms relating to:

- the extension of the Company's franchise under the MTR Ordinance;
- the design, construction and maintenance of the railway;
- passenger services;
- a framework for the award of new projects and the operation and ownership structure of new railways;
- the adjustment mechanism to be applied to certain of the Company's fares; and
- compensation which may be payable under the MTR Ordinance to the Company in relation to a suspension, expiry or termination of the franchise.

Under the Operating Agreement, the fare adjustment mechanism is subject to review periodically. The first of such reviews was undertaken in 2013 and the second was conducted in 2017. The Company and Government agreed on 16 April 2013 to amend the fare adjustment mechanism. On 21 March 2017, the Company announced that it and Government had agreed to maintain the fare adjustment mechanism formula and direct-drive nature of such formula, save for certain consequential changes as a result of the review of the formula having been advanced by one year. In addition, the wider terms of the Operating Agreement are subject to review every five years and such a review was also undertaken in 2013. As a result of such review, the Company and Government agreed measures in enhancing communication and liaison on operational arrangements.

On 23 August 2018, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the AOA to amend and supplement the Integrated Operating Agreement dated 9 August 2007, as amended, in order to prescribe the operational requirements that will apply to the High Speed Rail. Further details are set out in the section above headed "III Continuing Connected Transactions relating to the Operation of the High Speed Rail (formerly known as the Express Rail Link)" in the section headed "Continuing Connected Transactions".

On 11 February 2020, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the TML1 AOA and the Company and the Commissioner for Transport, for and on behalf of Government, entered into the TML1 SOA to amend and supplement, respectively, the Existing Integrated Operating Agreement, in order to prescribe the operational requirements that will apply to the first phase of the Tuen Ma Line of the Shatin to Central Link. Further details are set out in the section above headed "IV Continuing Connected Transactions relating to the Operation of the First Phase of the Tuen Ma Line" in the section headed "Continuing Connected Transactions".

E Additional Property Package Agreements

Category 1A Properties

The Category 1A Properties are held by the KCRC Subsidiaries. Under the terms of the Sale and Purchase Agreement, the Company acquired from KCRC the shares in the KCRC Subsidiaries (and thereby indirectly acquired the "Category1A Properties").

Category 1B Properties

On 9 August 2007, KCRC and the Company entered into an agreement for sale and purchase under which KCRC agreed to assign certain properties (the "Category 1B Properties") to the Company on the Merger Date. The relevant assignment was executed between KCRC and the Company on 2 December 2007.

Category 4 Properties

On 9 August 2007, Government entered into an undertaking that it would, within periods to be agreed between the Company and Government, offer to the Company a private treaty grant in respect of certain development sites (the "Category 4 Properties"). The terms of each private treaty grant shall generally be determined by Government, and the premium for each private treaty grant shall be assessed on a full market value basis ignoring the presence of the railway other than the Tin Shui Wai Terminus, Light Rail, Yuen Long, New Territories.

On 9 August 2007, the Company issued a letter to KCRC confirming that, if there should be any railway premises on the Category 4 Properties, the Company would assign the railway premises to KCRC.

Metropolis Equity Sub-participation Agreement

The Metropolis Equity Sub-participation Agreement was entered into on 9 August 2007 between KCRC and the Company. KCRC is obliged to act on the Company's instructions, and pay to the Company any distributions, or proceeds of sale, relating to its shareholding in the property management company The Metropolis Management Company Limited ("Metropolis"). The issued share capital of Metropolis is 25,500 A shares (which are held by KCRC) and 24,500 B shares (which are held by Cheung Kong Property Management Limited). Metropolis' business is property management.

F Application of Merger-related Waiver

In relation to the Operating Agreement and the Service Concession Agreement, pursuant to paragraph A of the Merger-related Waiver, the Stock Exchange granted a waiver to the Company from strict compliance with all the continuing connected transaction requirements of Chapter 14A of the Listing Rules.

CAPITAL AND REVENUE EXPENDITURE

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. All project expenditures over 0.2% of the net assets of the Company and the employment of consultancy services over 0.1% of the net assets of the Company require the approval of the Board.

REPORTING AND MONITORING

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board. Monthly results of the Company's operations, businesses and projects are reported against the budget to the Board and updated forecasts for the year are prepared regularly.

TREASURY MANAGEMENT

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt portfolio with reference to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debt, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's financing requirements and the market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's exposure to interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

Major financing transactions and guidelines for derivatives transactions, including the credit risk management framework, are approved at the Board level.

COMPUTER PROCESSING

There are defined procedures, controls and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2015. Disaster recovery rehearsal on critical applications is conducted annually.

For cyber security, the Company has been certified with ISO 27001:2013 on the Information Security Management System that complies with the required standard for the comprehensive scope of IT services operation. The Corporate Cyber Security Committee sets the direction, strategy, and policies related to cyber security for the Company. It steers and oversees the management and performance of all matters relating to cyber security. Various security controls have been implemented and are reviewed regularly to protect the Company from cyber-attacks.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, subject to the statutes, the Company will indemnify every Director of the Company out of its own assets against any liability incurred by him/her in the execution of his/her office in defending any civil or criminal proceedings. The relevant Article was in force during the year ended 31 December 2019 and on 5 March 2020 when this Report was approved. To ensure sufficient coverage is provided, the Company undertakes an annual review of the Directors' and Officers' liability insurance policy of the Company (the "D&O Insurance Policy") in light of recent trends in the insurance market and other relevant factors. The D&O Insurance Policy also indemnifies the other directors within the Group.

GOING CONCERN

The Consolidated Accounts on pages 182 to 262 have been prepared on a going concern basis. The Board has reviewed the Group's budget for 2020, together with the longer-term forecast for the following five years and is satisfied that the Group has sufficient resources to continue as a going concern for the foreseeable future.

AUDITORS

The retiring auditors, KPMG, have signified their willingness to continue in office. A resolution will be proposed at the forthcoming AGM to reappoint them and to authorise the Directors to fix their remuneration.

For and on behalf of the Board

Gillian Elizabeth Meller
Company Secretary
Hong Kong, 5 March 2020

DIRECTORS OF SUBSIDIARY UNDERTAKINGS

The directors of the subsidiary undertakings of the Company during the year and up to the date of this Report (unless otherwise stated) are listed below:

Name	Director	Alternate Director
Altamirano Celis, Sandra Elena	√	
Arrowsmith, Stephen		√
Auyeung Pak-kuen, Rex	√	
Bailie, William Paul	√	
Butcher, Stephen Anthony*		√
Chan Chi-kun	√	
Chan Wai-man, Raymond*	√	
Chan Yuen-ping*	√(Resigned)	
Dr Chan Yuen Tak-fai, Dorothy	√	
Cheng Wai-ching, Margaret*	√	
Choi Tak-tsan*		√(Resigned)
Chow Chiu-wai*		√
Chow Chun-ling*	√	
Chu Fung-kuen, Margaret	√	
Collis, Charles G.	√	
Dalin, Bengt Carl Harald Henrik*	√	√
Damm, Bo Fredrik	√	
Downie, Brian Francis*	√	√
Edlund, Lars Anders	√	
Elfving, Hans-Åke Börje	√(Resigned)	
Espinoza Ceballos, Natalia		√(Resigned)
Dr Ewen, Peter Ronald	√	
Dr Fong Ching, Eddy	√	
Fu Oi-yu*	√	
Fung Wai-yee*	√	
Hellners, Karl Erik Hjalmar*	√	
Ho Ka-wa*	√	
Holness, Nigel Graham	√	
Hor Wai-hong	√(Resigned)	
Hui Leung-wah, Herbert*	√	
Jensen, Frederik Mark*	√	
Jia Jun	√	
Jim Kwok-wah*	√	√(Resigned)
Jones, Niel L.		√
Jubian, Albert	√	
Dr Kam Chak-pui, Jacob*	√	
Kwok Lai-kay, Lena*	√	√
Kwong Chung-hing*		√
Lai Ching-kai*	√(Resigned)	√
Lau Ping-cheung, Kaizer	√(Resigned)	
Lau Tin-shing, Adi*	√	
Lau Wai-ming*	√	
Dr Lee Kar-yun, Tony*	√	
Lee Wai-ying	√(Resigned)	
Lee Yuen-ling*	√	
Leong Kwok-kuen, Lincoln*	√(Resigned)	
Leung Yiu-fai, David	√	
Li Sau-lin, Linda*		√
Li Zhe*	√	

Name	Director	Alternate Director
Liu Chung-gay	√	
Lo Yiu-cho		√(Resigned)
Long, Jeremy Paul Warwick*	√	
Lung Tze-ho*	√	√
Luo Jiancheng	√	
Professor Ma Si-hang, Frederick	√(Resigned)	
McCusker, Andrew*	√	
McKenzie, Andrew Charles*		√
Meller, Gillian Elizabeth*	√	
Meyer, Peter*	√	
Moros, Tony Antonio	√	
Murphy, Stephen John	√	
Mylvaganam, Deva Rajan*	√	
Nelson, Michael John*	√	
Ng Yuen-fan, Hannah		√
Nilsson, Per Håkan Lennart*	√	
Norris, Mark Frederick*	√	
O'Flaherty, Raymond Anthony	√	
Oscarsson, Karl Johan*	√(Resigned)	
Pang Hoi-hing*	√	
Pira, Tomas*	√(Resigned)	
Qian Yu-hong	√	
Schelin, David	√(Resigned)	
Seto Siu-wah, Lisa*	√(Resigned)	√(Resigned)
Shao Jianming	√	
Shen Linchong	√	
Sin Pik-kwan*	√	
Söderström, Tim Rafael	√	
Suen Yiu-tat	√	
Tam Lup-kwan*	√	√
Tang Chi-fai, David*	√	
Waymark, Leah Nicole	√	
Wennerberg, Matti Sigfrid Hasse	√(Resigned)	
Wikman, Jens		√(Resigned)
Dr Wong Chi-yun, Allan	√	
Wong Ho-leung*	√	
Wong Kin-wai	√	
Wong Kwan-wai, Sammy*	√(Ceased)	
Wong Ping-sau*	√	
Wong Wing-kin*	√	
Xia Jing	√	
Xu Muhan*	√	
Yam Pak-nin*	√	√
Yeung Mei-chun, Jeny*	√	
Young Ka-fan, Glen		√
Yuen Lai-ki*	√	
Yuen Lap-hang	√	
Zhu Chunlei	√	

* *Person who serves as a director and/or an alternate director in more than one subsidiary.*

CONTENTS OF CONSOLIDATED ACCOUNTS AND NOTES

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the Members of MTR Corporation Limited

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated accounts of MTR Corporation Limited ("the Company") and its subsidiaries ("the Group") set out on pages 182 to 262, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated accounts, including a summary of significant accounting policies.

In our opinion, the consolidated accounts give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated accounts* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of our audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Railway construction in progress under entrustment by the HKSAR Government

Refer to note 21 to the consolidated accounts and the accounting policies in note 2AA

The key audit matter

The Group and the Government of the Hong Kong Special Administrative Region ("HKSAR Government") have entered into certain entrustment arrangements whereby the Group has been entrusted by the HKSAR Government to proceed with the planning, design, construction, testing and commissioning of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("the HSR") and the Shatin to Central Link ("the SCL"). As the HKSAR Government is the owner of both the HSR and the SCL, the financing of the development of these two railway lines is borne by the HKSAR Government, with the Group receiving project management fees.

HSR

Pursuant to an agreement entered into with the HKSAR Government on 30 November 2015, the Group will bear and finance project costs for the HSR (including the Group's project management fees) which exceed HK$84.42 billion and the HKSAR Government reserves the right to refer to arbitration the question of the Group's liability, if any, in respect of the project costs borne and financed by the HKSAR Government which exceed HK$65 billion up to HK$84.42 billion. In the event that the Group is found to be liable under the relevant HSR entrustment agreements, the Group's liability for such costs is currently limited to the amount of the project management fees and certain other additional fees received by the Group under the agreements.

In September 2018, construction of the HSR was completed following which commercial operations commenced. However, the total project costs can only be ascertained upon finalisation of all construction contracts which may take several years to reach agreement and settlement.

Management has engaged an independent expert to provide an independent assessment of management's estimate of cost to complete the HSR project.

As at 31 December 2019, the Group has made a provision for project management costs as it estimated that the total costs to complete its performance obligations under the HSR entrustments are likely to exceed the project management fees from the HKSAR Government. No other provision for project costs has been made.

How the matter was addressed in our audit

Our audit procedures in relation to railway construction in progress under entrustment by the HKSAR Government included the following:

- inspecting the minutes of the relevant committees of the Group and discussing with management the current status of the HSR and SCL projects, including:
  - (a) For the HSR, the forecast total project costs, assessment of contract claims, estimate of further internal costs to be incurred and assessment of the financial implications of the project for the Group;
  - (b) For the SCL, the costs incurred to date, remaining critical milestones and estimated costs to complete including contract claims, latest status of the COI and its findings to date and the assessment of the financial implications of the project for the Group;
- assessing the design and implementation of management's key internal controls over the determination of the project costs for the HSR and SCL and the allocation of costs to each of these projects;
- evaluating the qualifications, experience, expertise, independence and objectivity of the independent expert engaged by management for the HSR;
- discussing with the independent expert the forecast total project costs for the HSR project and the risk of these exceeding HK$84.42 billion;
- comparing, on a sample basis, the project costs for the HSR/SCL as assessed by management and, for the HSR, as assessed by the independent expert, with relevant underlying documentation;
- comparing, on a sample basis, costs incurred during the current year in respect of the HSR and SCL with underlying contracts and interim or final payment certificates;

Railway construction in progress under entrustment by the HKSAR Government *(Continued)*	
Refer to note 21 to the consolidated accounts and the accounting policies in note 2AA	
The key audit matter	**How the matter was addressed in our audit**
SCL Towards the end of the first half of 2018, there were allegations concerning workmanship in relation to the Hung Hom Station extension. A commission of enquiry ("COI") was set up by the HKSAR Government to investigate, inter-alia, certain construction works at the Hung Hom station extension. Subsequently, the Company advised the HKSAR Government of an insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel, the South Approach Tunnel and the Hung Hom Stabling Sidings. The terms of the COI were expanded in February 2019. A redacted interim report from the COI was published in March 2019, in which the COI found that although the Hung Hom Station extension diaphragm wall and platform slab construction works are safe, they were not executed in accordance with the relevant contract in material aspects. The time for the COI to submit its final report has been extended to 31 March 2020. In July 2019, the Group completed and submitted to the HKSAR Government two separate final reports containing, inter alia, proposals for suitable measures required at certain locations of the Hung Hom station extension to achieve code compliance. These suitable measures are being implemented. In July 2019, the HKSAR Government accepted the Group's recommendation that the Tuen Ma Line should open in phases ("Phased Opening"). The Group has announced that it would fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom incidents and certain costs associated with the Phased Opening, which was estimated to be around HK$2 billion in aggregate, and has charged the full amount of such estimate in its consolidated profit and loss account for the year. The Group has also notified the HKSAR Government of the latest estimate of the cost to complete the SCL Project of HK$82,999 million, which increased from the original estimate of HK$70,827 million. The Group has been liaising with the HKSAR Government to facilitate their review and verification process as regards the cost to complete the SCL Project. The above matters are ongoing and the timing of their ultimate resolution and any further financial impact to the Group are highly uncertain at this stage. In the event that the Group is found to be liable under the entrustment agreements, the Group's liability is currently limited to a cap equal to the aggregate fees received by the Group under the relevant SCL agreements. However, such cap could not be relied upon if the Group were, in accordance with general principles of law, found to be liable for any loss that had been caused by the fraudulent or other dishonest conduct of its employees or agents. We identified railway construction in progress under entrustment by the HKSAR Government as a key audit matter because the arrangements in respect of these railway projects are highly complex and convey rights and obligations on the Group which could potentially have significant financial implications for the Group.	• assessing the provision made for costs arising from the Hung Hom incidents and Phased Opening in relation to the SCL, which are funded by the Group, by inspecting, on a sample basis, the relevant underlying documentation and, where applicable, the actual amounts incurred during the year; • holding discussions with management and the Group's external legal advisors to assess the Company's legal obligations and financial exposure in connection with the HSR and SCL projects; • inspecting the relevant entrustment agreements to ascertain project management fees receivable and comparing the receipt of such project management fees for the year with bank statements and other relevant documentation; and • assessing the disclosures in the consolidated accounts in relation to the HSR and SCL projects with reference to the requirements of the prevailing accounting standards.

Valuation of investment properties ("IP")	
Refer to note 19A to the consolidated accounts and the accounting policies in note 2E(i)	
The key audit matter	**How the matter was addressed in our audit**
The fair value of the Group's IP as at 31 December 2019 was HK$91,712 million, with a revaluation gain for the year ended 31 December 2019 recorded in the consolidated profit and loss account of HK$1,372 million. The Group's IP, which are mainly located in Hong Kong, principally comprise shopping malls and office premises. The fair values of the Group's IP were assessed by external property valuers based on independent valuations. We identified valuation of the Group's IP as a key audit matter because of the significance of IP to the consolidated accounts and because the determination of the fair values involves significant judgement and estimation, particularly in selecting the appropriate valuation methodology, market yields and market rents.	Our audit procedures to assess the valuation of the Group's IP included the following: • obtaining and inspecting the IP valuation reports prepared by the external property valuers; • evaluating the independence, qualifications, expertise and objectivity of the external property valuers; • evaluating the valuation methodologies adopted with reference to those applied by other external property valuers for similar property types; • holding discussions with management and the external property valuers and challenging the key assumptions and estimates adopted in the valuations, including prevailing market rents and market yields applied by comparing, on a sample basis, the key estimates adopted with comparable available market data and government produced market statistics; and • comparing the tenancy information, including occupancy rates and market rents, provided by the Group to the external property valuers with underlying contracts and documentation, on a sample basis.

Assessing potential impairment of fixed assets other than assets carried at revalued amounts	
Refer to notes 19B and 20 to the consolidated accounts and the accounting policies in note 2I(ii)	
The key audit matter	**How the matter was addressed in our audit**
The carrying value of the Group's fixed assets other than assets carried at revalued amounts as at 31 December 2019 totalled HK$129,666 million and the related depreciation and amortisation charge for the year ended 31 December 2019 amounted to HK$5,479 million. The carrying values of these assets are reviewed annually by management for potential indicators of impairment. For assets where such indicators exist, management performs detailed impairment reviews, taking into account, inter alia, the impact of revenue assumptions and technical factors which may affect the expected remaining useful lives and carrying value of the assets. We identified the potential impairment of fixed assets other than assets carried at revalued amounts as a key audit matter because the assessment can involve a significant degree of management judgement in determining the key assumptions such as expected revenue levels.	Our audit procedures to assess the potential impairment of fixed assets other than assets carried at revalued amounts included the following: • obtaining, discussing with management and evaluating the key assumptions underlying management's assessment of potential impairment of these assets; • where potential indicators of impairment were identified, evaluating management's impairment assessments and the assumptions adopted therein, including revenue assumptions, with reference to the actual revenue levels achieved in the current year, future operating plans and broader city specific developments; • assessing the discount rates adopted by management in the impairment assessments by comparison with available financial information of other similar companies taking into account regional and industry specific risk premiums; • comparing the assumptions adopted in the prior year's impairment assessments with actual results for the current year, investigating significant variances identified and considering the impact on the current year's impairment assessments; and • performing sensitivity analyses for the discount rates applied and the assumptions for revenue levels adopted and considering the information used to derive the most sensitive assumptions and whether there were any indicators of management bias in their selection.

Information other than the consolidated accounts and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated accounts and our auditor's report thereon.

Our opinion on the consolidated accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated accounts

The directors are responsible for the preparation of the consolidated accounts that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounts.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Sze Kit Roy.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
5 March 2020

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December in HK$ million	Note	2019	2018
Revenue from Hong Kong transport operations	4	**19,938**	19,490
Revenue from Hong Kong station commercial businesses	5	**6,799**	6,458
Revenue from Hong Kong property rental and management businesses	6	**5,137**	5,055
Revenue from Mainland of China and international railway, property rental and management subsidiaries	7	**21,085**	20,877
Revenue from other businesses	8	**1,545**	1,990
		54,504	53,870
Revenue from Mainland of China property development	7	**–**	60
Total revenue		**54,504**	53,930
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses	10A	**(6,489)**	(5,847)
– Maintenance and related works		**(2,662)**	(1,638)
– Energy and utilities		**(1,841)**	(1,670)
– General and administration expenses		**(1,209)**	(769)
– Railway support services		**(630)**	(380)
– Stores and spares consumed		**(613)**	(559)
– Government rent and rates		**(256)**	(117)
– Other expenses		**(329)**	(339)
		(14,029)	(11,319)
Expenses relating to Hong Kong station commercial businesses		**(680)**	(567)
Expenses relating to Hong Kong property rental and management businesses		**(851)**	(813)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	7	**(19,760)**	(20,001)
Expenses relating to other businesses	21B(c)(ii)	**(3,557)**	(2,004)
Project study and business development expenses		**(276)**	(323)
		(39,153)	(35,027)
Expenses relating to Mainland of China property development	7	**(25)**	(35)
Operating expenses before depreciation, amortisation and variable annual payment	10B&C	**(39,178)**	(35,062)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment			
– Arising from recurrent businesses		**15,351**	18,843
– Arising from Mainland of China property development		**(25)**	25
		15,326	18,868
Profit on Hong Kong property development	12	**5,707**	2,574
Operating profit before depreciation, amortisation and variable annual payment		**21,033**	21,442
Depreciation and amortisation	13	**(5,237)**	(4,985)
Variable annual payment		**(2,583)**	(2,305)
Share of profit or loss of associates and joint venture	25	**288**	658
Profit before interest, finance charges and taxation		**13,501**	14,810
Interest and finance charges	14	**(859)**	(1,074)
Investment property revaluation	19A	**1,372**	4,745
Profit before taxation		**14,014**	18,481
Income tax	15A	**(1,922)**	(2,325)
Profit for the year		**12,092**	16,156
Attributable to:			
– Shareholders of the Company		**11,932**	16,008
– Non-controlling interests		**160**	148
Profit for the year		**12,092**	16,156
Profit for the year attributable to shareholders of the Company:			
– Arising from recurrent businesses		**4,980**	9,020
– Arising from property development		**5,580**	2,243
– Arising from underlying businesses		**10,560**	11,263
– Arising from investment property revaluation		**1,372**	4,745
		11,932	16,008
Earnings per share:	17		
– Basic		**HK$1.94**	HK$2.64
– Diluted		**HK$1.94**	HK$2.64

The notes on pages 187 to 262 form part of the accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December in HK$ million	Note	2019	2018
Profit for the year		**12,092**	16,156
Other comprehensive income for the year (after taxation and reclassification adjustments):	18		
Items that will not be reclassified to profit or loss:			
– Surplus on revaluation of self-occupied land and buildings		**121**	519
– Remeasurement of net liability of defined benefit schemes		**730**	(348)
		851	171
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of subsidiaries, associates and joint venture outside Hong Kong		**(344)**	(761)
– non-controlling interests		**(15)**	(22)
– Cash flow hedges: net movement in hedging reserve		**244**	(27)
		(115)	(810)
		736	(639)
Total comprehensive income for the year		**12,828**	15,517
Attributable to:			
– Shareholders of the Company		**12,683**	15,391
– Non-controlling interests		**145**	126
Total comprehensive income for the year		**12,828**	15,517

The notes on pages 187 to 262 form part of the accounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in HK$ million	Note	At 31 December 2019	At 31 December 2018
Assets			
Fixed assets			
– Investment properties	19A	**91,712**	82,676
– Other property, plant and equipment	19B	**102,632**	102,776
– Service concession assets	20	**31,261**	30,473
		225,605	215,925
Goodwill and property management rights		**77**	84
Property development in progress	22A	**12,022**	14,840
Deferred expenditure	23	**1,948**	1,878
Interests in associates and joint venture	25	**10,359**	8,756
Deferred tax assets	38B	**134**	121
Investments in securities	26	**386**	294
Properties held for sale	27	**1,245**	1,369
Derivative financial assets	28	**198**	61
Stores and spares	29	**1,844**	1,673
Debtors and other receivables	30	**11,169**	9,576
Amounts due from related parties	31	**3,041**	2,088
Cash, bank balances and deposits	32	**21,186**	18,022
		289,214	274,687
Liabilities			
Short-term loans	33A	**3,371**	4,424
Creditors, other payables and provisions	34	**33,315**	25,947
Current taxation	38A	**2,024**	1,161
Amounts due to related parties	35	**2,990**	2,676
Loans and other obligations	33A	**36,085**	35,781
Obligations under service concession	36	**10,350**	10,409
Derivative financial liabilities	28	**408**	545
Loans from holders of non-controlling interests	37	**144**	146
Deferred tax liabilities	38B	**13,729**	12,979
		102,416	94,068
Net assets		**186,798**	180,619
Capital and reserves	39		
Share capital		**58,804**	57,970
Shares held for Executive Share Incentive Scheme		**(263)**	(265)
Other reserves		**128,065**	122,742
Total equity attributable to shareholders of the Company		**186,606**	180,447
Non-controlling interests		**192**	172
Total equity		**186,798**	180,619

Approved and authorised for issue by the Members of the Board on 5 March 2020

Rex P K Auyeung
Chairman

Jacob C P Kam
Chief Executive Officer

Herbert L W Hui
Finance Director

The notes on pages 187 to 262 form part of the accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

				Other reserves							
for the year ended 31 December in HK$ million	Note	Share capital	Shares held for Executive Share Incentive Scheme	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total equity attributable to shareholders of the Company	Non-controlling interests	Total equity
2019											
Balance as at 1 January 2019, as previously reported		**57,970**	**(265)**	**3,815**	**(26)**	**142**	**(788)**	**119,599**	**180,447**	**172**	**180,619**
Effect of adoption of HKFRS 16 (net of tax)	2A	**–**	**–**	**–**	**–**	**–**	**–**	**(8)**	**(8)**	**–**	**(8)**
Balance as at 1 January 2019, as restated		**57,970**	**(265)**	**3,815**	**(26)**	**142**	**(788)**	**119,591**	**180,439**	**172**	**180,611**
Changes in equity for the year ended 31 December 2019:											
– Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**11,932**	**11,932**	**160**	**12,092**
– Other comprehensive income for the year	18	**–**	**–**	**121**	**244**	**–**	**(344)**	**730**	**751**	**(15)**	**736**
– Total comprehensive income for the year		**–**	**–**	**121**	**244**	**–**	**(344)**	**12,662**	**12,683**	**145**	**12,828**
– Amounts transferred from hedging reserve to initial carrying amount of hedged items		**–**	**–**	**–**	**3**	**–**	**–**	**–**	**3**	**–**	**3**
– 2018 final ordinary dividend	16	**–**	**–**	**–**	**–**	**–**	**–**	**(5,835)**	**(5,835)**	**–**	**(5,835)**
– Shares issued in respect of scrip dividend of 2018 final ordinary dividend	39A	**654**	**(2)**	**–**	**–**	**–**	**–**	**2**	**654**	**–**	**654**
– 2019 interim ordinary dividend	16	**–**	**–**	**–**	**–**	**–**	**–**	**(1,539)**	**(1,539)**	**–**	**(1,539)**
– Shares issued in respect of scrip dividend of 2019 interim ordinary dividend	39A	**71**	**(1)**	**–**	**–**	**–**	**–**	**1**	**71**	**–**	**71**
– Shares purchased for Executive Share Incentive Scheme	39B	**–**	**(88)**	**–**	**–**	**–**	**–**	**–**	**(88)**	**–**	**(88)**
– Vesting and forfeiture of award shares of Executive Share Incentive Scheme	39B	**5**	**93**	**–**	**–**	**(96)**	**–**	**(2)**	**–**	**–**	**–**
– Ordinary dividends paid to holders of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(125)**	**(125)**
– Employee share-based payments		**–**	**–**	**–**	**–**	**122**	**–**	**–**	**122**	**–**	**122**
– Employee share options exercised	39A	**104**	**–**	**–**	**–**	**(8)**	**–**	**–**	**96**	**–**	**96**
Balance as at 31 December 2019		**58,804**	**(263)**	**3,936**	**221**	**160**	**(1,132)**	**124,880**	**186,606**	**192**	**186,798**
2018											
Balance as at 1 January 2018		52,307	(173)	3,296	1	203	(27)	110,697	166,304	122	166,426
Changes in equity for the year ended 31 December 2018:											
– Profit for the year		–	–	–	–	–	–	16,008	16,008	148	16,156
– Other comprehensive income for the year	18	–	–	519	(27)	–	(761)	(348)	(617)	(22)	(639)
– Total comprehensive income for the year		–	–	519	(27)	–	(761)	15,660	15,391	126	15,517
– 2017 final ordinary dividend	16	–	–	–	–	–	–	(5,224)	(5,224)	–	(5,224)
– Shares issued in respect of scrip dividend of 2017 final ordinary dividend	39A	4,175	(4)	–	–	–	–	–	4,171	–	4,171
– 2018 interim ordinary dividend	16	–	–	–	–	–	–	(1,525)	(1,525)	–	(1,525)
– Shares issued in respect of scrip dividend of 2018 interim ordinary dividend	39A	1,298	(1)	–	–	–	–	–	1,297	–	1,297
– Shares purchased for Executive Share Incentive Scheme	39B	–	(239)	–	–	–	–	–	(239)	–	(239)
– Vesting and forfeiture of award shares of Executive Share Incentive Scheme	39B	15	152	–	–	(158)	–	(9)	–	–	–
– Ordinary dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	(76)	(76)
– Employee share-based payments		–	–	–	–	110	–	–	110	–	110
– Employee share options exercised	39A	175	–	–	–	(13)	–	–	162	–	162
Balance as at 31 December 2018		57,970	(265)	3,815	(26)	142	(788)	119,599	180,447	172	180,619

The notes on pages 187 to 262 form part of the accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December in HK$ million	Note	2019		2018	
Cash flows from operating activities					
Cash generated from operations	40	**17,120**		12,929	
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		**608**		645	
Purchase of tax reserve certificates		**(54)**		(462)	
Current tax paid					
– Hong Kong Profits Tax paid		**(308)**		(1,621)	
– Tax paid outside Hong Kong		**(323)**		(541)	
Net cash generated from operating activities			**17,043**		10,950
Cash flows from investing activities					
Capital expenditure					
– Purchase of assets for Hong Kong transport and related operations		**(5,291)**		(5,441)	
– Shenzhen Metro Longhua Line Project and related operations		**(99)**		(70)	
– Hong Kong railway extension projects		**(292)**		(416)	
– Investment property projects and fitting out work		**(308)**		(450)	
– Other capital projects		**(82)**		(70)	
Fixed and variable annual payments		**(3,055)**		(2,683)	
Receipts in respect of property development		**9,175**		4,235	
Payments in respect of property development		**(3,259)**		(515)	
Increase in bank deposits with more than three months to maturity when placed or pledged		**(3,683)**		(4,746)	
Investments in associate and joint venture		**(1,416)**		(1,840)	
Others		**(2)**		331	
Net cash used in investing activities			**(8,312)**		(11,665)
Cash flows from financing activities					
Proceeds from shares issued under share option scheme		**96**		162	
Purchase of shares for Executive Share Incentive Scheme		**(88)**		(239)	
Proceeds from loans and capital market instruments		**11,659**		36,964	
Repayment of loans and capital market instruments		**(13,172)**		(38,507)	
Interest and finance charges paid		**(1,054)**		(1,147)	
Interest received		**370**		305	
Capital element of lease rentals paid		**(165)**		(5)	
Dividends paid to shareholders of the Company		**(6,649)**		(1,281)	
Dividends paid to holders of non-controlling interests		**(125)**		(76)	
Net cash used in financing activities			**(9,128)**		(3,824)
Net decrease in cash and cash equivalents			**(397)**		(4,539)
Cash and cash equivalents at 1 January			**8,865**		13,939
Effect of exchange rate changes			**(122)**		(535)
Cash and cash equivalents at 31 December	32		**8,346**		8,865

The notes on pages 187 to 262 form part of the accounts.

NOTES TO THE CONSOLIDATED ACCOUNTS

1 Statement of Compliance

These accounts have been prepared in compliance with the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These accounts have also been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The HKFRSs are fully converged with International Financial Reporting Standards in all material respects. A summary of the principal accounting policies adopted by the Group is set out in note 2.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2019. Changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts are disclosed in note 2A(iii).

2 Principal Accounting Policies

A Basis of Preparation of the Accounts

(i) The measurement basis used in the preparation of the accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (note 2E(i));
- self-occupied buildings (note 2E(ii));
- investments in securities (note 2O); and
- derivative financial instruments (note 2V).

(ii) The preparation of the accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and estimations about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates are discussed in note 49.

(iii) The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this annual report.

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*.

The accounting policies in respect of leases prior to and after 1 January 2019 are detailed in Note 2F. The lessor accounting requirements are brought forward from HKAS 17 and are substantially unchanged.

The Group has applied HKFRS 16 as from 1 January 2019. At initial application, the Group has elected (a) to use the modified retrospective approach; (b) to apply the recognition exemption for operating leases with a remaining lease term of less than 12 months from 1 January 2019; and (c) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. The Group applies the new definition of a lease in HKFRS 16 to contracts that were effective as at 1 January 2019. For lease liabilities, at the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases at the present value of the remaining lease payments, discounted using its incremental borrowing rates at 1 January 2019. The weighted average rate applied was 4.5%. For contracts entered into before 1 January 2019 which are or contain leases, the Group recognised right-of-use assets as if HKFRS 16 had always been applied since the commencement date of the leases, other than discounting using the relevant borrowing rate at 1 January 2019. As a result, any difference between the right-of-use asset recognised, the lease liability and related net deferred tax, is recognised as an adjustment to the opening balance of equity at 1 January 2019.

Comparative information has not been restated and continue to be reported under HKAS 17. The difference between the amount of operating lease commitments as at 31 December 2018 as disclosed in the Group's 2018 consolidated accounts and the amount of lease liabilities initially recognised at 1 January 2019 mainly related to the commitments of those arrangements which are not leases under HKFRS 16, as well as the discounting effect of lease payments.

2 Principal Accounting Policies *(continued)*

A Basis of Preparation of the Accounts *(continued)*

Upon adoption of HKFRS 16 on 1 January 2019, the Group recognised right-of-use assets under "other property, plant and equipment" and "investment properties" of HK$491 million and HK$361 million respectively, lease liabilities under "loans and other obligations" of HK$865 million and related net deferred tax assets of HK$5 million, with the net difference of HK$8 million being recognised as a decrease in the opening balance of "retained profits", on leases previously classified as operating leases.

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the classification for the lease liability. Accordingly, instead of "finance leases" under "loans and other obligations", the amount of HK$450 million is included within "lease liabilities" under "loans and other obligations". There is no impact on the classification and balance for the related leased asset and equity.

(iv) The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 50).

B Basis of Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint venture (note 2D) made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate.

C Subsidiaries and Non-controlling Interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group or other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated profit and loss account, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (note 2D).

Investments in subsidiaries are carried in the Company's statement of financial position at cost less any impairment losses (note 2I(ii)).

D Associates and Joint Ventures

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated accounts of the Group using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets. The Group's share of the post-acquisition results of the investees for the year is recognised in the consolidated profit and loss account, whereas the Group's share of the post-acquisition items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit losses ("ECL") model to such other long-term interests where applicable (see note 2I(i)).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

D Associates and Joint Ventures *(continued)*

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (note 2I(ii)).

E Fixed Assets

(i) Investment Properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include properties that are being constructed or developed for future use as investment properties.

Investment properties are stated on the statement of financial position at fair value as measured semi-annually by independent professionally qualified valuers. Gains or losses arising from changes in the fair value are recognised in the consolidated profit and loss account in the period in which they arise.

(ii) Other Property, Plant and Equipment

Leasehold land registered and located in the Hong Kong Special Administrative Region is stated at cost less accumulated depreciation and impairment losses (note 2I(ii)). Self-occupied leasehold buildings where the Group is the registered owner of the property interest are stated on the statement of financial position at their fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers semi-annually, with changes in the fair value arising on revaluations recorded as movements in the fixed assets revaluation reserve, except:

(a) where the balance of the fixed assets revaluation reserve relating to a self-occupied leasehold building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the profit and loss account; and

(b) where a revaluation deficit had previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is firstly credited to the profit and loss account to the extent of the deficit previously charged to the profit and loss account, and thereafter taken to the fixed assets revaluation reserve.

Civil works and plant and equipment, including right-of-use assets arising from freehold or leasehold properties where the Group is not the registered owner of the property interest, and right-of-use assets arising from leases of underlying plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2I(ii)).

Assets under construction include capital works on operating railway and are stated at cost less impairment losses (note 2I(ii)). Cost comprises direct costs of construction, such as materials, staff costs and overheads, together with interest expense capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate fixed assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

(iii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services, upfront payments and expenditure directly attributable to the acquisition of the service concession up to inception of the service concession are capitalised as service concession assets and amortised on a straight-line basis over the period of the service concession. Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at their present value, calculated using the incremental long term borrowing rate determined at inception as the discount rate, as service concession assets and amortised on a straight-line basis over the period of the service concession, with a corresponding liability recognised as obligations under service concession. Annual payments for the service concession which are not fixed or determinable at inception and are contingent on future revenue are charged to the profit and loss account in the period when incurred.

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenue and costs are recognised in the profit and loss account by reference to the stage of completion at the end of reporting period while the fair value of construction service is capitalised initially as service concession assets in the statement of financial position and amortised on a straight-line basis over the shorter of the assets' useful lives and the period in which the service concession assets are expected to be available for use by the Group.

Expenditure for assets subject to service concession is capitalised and amortised on a straight-line basis at rates sufficient to write off their cost less their estimated residual value, if any, over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried on the statement of financial position at cost less accumulated amortisation and impairment losses, if any (note 2I(ii)).

2 Principal Accounting Policies *(continued)*

E Fixed Assets *(continued)*

(iv) Subsequent Expenditure and Gains or Losses on Retirement or Disposal

Subsequent expenditure relating to the replacement and/or upgrade of certain parts of an existing asset is recognised in the carrying amount of the asset if it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised, with any gain or loss arising therefrom being dealt with in the profit and loss account.

Expenditure on repairs or maintenance of an existing asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense in the profit and loss account when incurred.

Gains or losses arising from the retirement or disposal of an asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed assets revaluation reserve to retained profits and is not re-classified to profit and loss account.

F Leased Assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a Lessee

(a) Policy applicable from 1 January 2019

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2J and 2I(ii)), except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 2E(i);
– right-of-use assets related to leasehold self-occupied buildings where the Group is the registered owner of the leasehold interest are carried at fair value in accordance with note 2E(ii); and
– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 2N.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) Policy applicable prior to 1 January 2019

Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments (computed using the rate of interest implicit in the lease), of such assets are included in fixed assets and the corresponding liabilities, net of finance charges are recorded as obligations under finance leases. Depreciation and impairment losses are accounted for in accordance with the accounting policies as set out in notes 2J and 2I(ii) respectively. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Leases of assets under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as operating leases. Rentals payable under operating leases are charged on a straight-line basis over the period of the lease to the profit and loss account, except for rentals payable in respect of railway construction, property development in progress and proposed capital projects which are capitalised as part of railway construction in progress, property development in progress and deferred expenditure respectively.

F Leased Assets *(continued)*

(ii) As a Lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2AA(ii).

G Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2I(ii)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

H Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated on the statement of financial position at cost less accumulated amortisation and impairment losses (note 2I(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

I Impairment of Assets

(i) Credit Losses from Financial Instruments, Contract Assets and Lease Receivables

For the Group's trade receivables, contract assets and lease receivables, the Group recognises a loss allowance for expected credit losses ("ECL") which is measured at an amount equal to "lifetime ECLs" (which are the losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies). For the Group's other financial assets measured at amortised cost, the loss allowance is measured at an amount equal to "12-month ECLs" (which are losses that are expected to result from possible default events within the 12 months after the reporting date) unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to "lifetime ECLs". Financial assets measured at fair value are not subject to the ECL assessment.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including right-of-use assets and service concession assets but other than assets carried at revalued amounts);
- property management rights;
- goodwill;
- railway construction in progress;
- property development in progress;
- deferred expenditure; and
- investments in subsidiaries, associates and joint ventures.

2 Principal Accounting Policies *(continued)*

I Impairment of Assets *(continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount for goodwill is estimated annually whether or not there is any indication of impairment.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

J Depreciation and Amortisation

(i) Investment properties are not depreciated.

(ii) Fixed assets other than investment properties, assets under construction and service concession assets which are amortised over the entire or remaining period of the service concession (note 2E(iii)) are depreciated or amortised on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

Land and Buildings

Self-occupied buildings	the shorter of 50 years and the unexpired term of the lease
Leasehold land	the unexpired term of the lease

Civil Works

Excavation and boring	Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes	100 years
Station building structures	100 years
Depot structures	80 years
Kiosk structures	20 – 30 years
Cableway station tower and theme village structures	27 – 30 years

Plant and Equipment

Rolling stock and components	15 – 42 years
Platform screen doors	20 – 35 years
Rail track	15 – 50 years
Environmental control systems, lifts and escalators, fire protection and drainage system	20 – 45 years
Power supply systems	20 – 45 years
Aerial ropeway and cabin	10 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	9 – 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 35 years
Station architectural finishes	20 – 30 years
Fixtures and fittings	10 – 25 years
Maintenance equipment	10 – 40 years
Office furniture and equipment	5 – 15 years
Computer software licences and applications	5 – 10 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	5 – 12 years

Where parts of an item of property, plant and equipment have different useful lives, each part is depreciated or amortised separately. The useful lives of the various categories of fixed assets are reviewed annually in the light of actual asset condition, usage experience and the current asset replacement programme.

(iii) No depreciation or amortisation is provided on assets under construction until the construction is completed and the assets are ready for their intended use.

2 Principal Accounting Policies *(continued)*

K Construction Costs

(i) Costs incurred by the Group in respect of feasibility studies on proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:

- where the proposed projects are at a preliminary review stage with no certainty of materialising, the costs concerned are charged to the profit and loss account; and
- where the proposed projects are at a detailed study stage, having been agreed based on a feasible financial plan, the costs concerned are recorded as deferred expenditure until such time as a project agreement is reached, whereupon the costs are transferred to railway construction in progress.

(ii) After entering into a project agreement, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

L Joint Operations

A joint operation is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The arrangements entered into by the Group with developers for Hong Kong property development without establishing separate entities are considered to be joint operations in accordance with HKFRS 11, *Joint Arrangements*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. In respect of its interests in such operations, the Group accounts for the purchase consideration of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) paid net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the profit and loss account on the basis of note 2M(iii) after netting off any related balance in property development in progress at that time.

M Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs, acquisition of development rights, aggregate cost of development, borrowing costs capitalised, provisions and other direct expenses are dealt with as property development in progress.

(ii) Payments received from developers in respect of property developments are offset against the amounts in property development in progress attributable to that development. Payments received from developers in excess of the balance in property development in progress are transferred to deferred income which is included in creditors and other payables. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

(iii) Profits arising from the development of properties in Hong Kong undertaken in conjunction with property developers are recognised in the profit and loss account as follows:

- where the Group receives payments from developers, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
- where the Group receives a right to a share of the net surplus from the development, the Group's share of the profit is initially recognised once the amounts of revenue (including the fair value of any unsold properties) and costs for the development as a whole can be estimated reliably. The Group's interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2N and included within properties held for sale; and
- where the Group receives a distribution of the assets of the development, profit is recognised based on the fair value of such assets at the time of receipt and after taking into account any outstanding risks and obligations retained by the Group in connection with the development.

Upon recognition of profit, the balance of deferred income or property development in progress relating to that development is credited or charged to the profit and loss account, as the case may be.

(iv) Revenue arising from sales of properties in Mainland of China is recognised when the legal assignment is completed, which is the point in time when the purchaser has the ability to direct the use of the properties and obtain substantially all of the remaining benefits of the properties. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under "Creditors and other payables".

(v) Where properties under construction are received from a development for investment purpose, these properties are recognised as investment properties at fair value. Further costs incurred in the construction of those assets and the related fitting out costs are capitalised in investment properties.

2 Principal Accounting Policies *(continued)*

N Properties Held for Sale

Where properties are held for sale, those properties are stated initially at their cost and subsequently carried at the lower of cost and net realisable value.

For those properties in Hong Kong, cost represents the fair value, as determined by reference to an independent open market valuation, upon the recognition of profits arising from the development as set out in note 2M(iii).

For those properties in Mainland of China, cost is determined by the apportionment of the development costs attributable to the unsold properties.

Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

When properties held for sale are sold, the carrying amount of those properties is recognised in the profit and loss account.

O Investments in Securities

Investments in securities (other than investments in subsidiaries, associates and joint venture) are classified as at fair value through profit or loss ("FVPL"). Changes in the fair value of the investments (including interest) are recognised in profit or loss.

Investments in securities are recognised/derecognised on the date the Group commits to purchase/sell the investments. Profit or loss on disposal of investments in securities are determined as the difference between the net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

P Stores and Spares

Stores and spares used for business operation are categorised as either revenue or capital. Revenue spares are stated in the statement of financial position at cost, using the weighted average cost method and are recognised as expenses in the period in which the consumption occurs. Provision is made for obsolescence where appropriate. Capital spares are included in fixed assets and stated at cost less accumulated depreciation and impairment losses (note 2I(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

Q Contract Assets and Contract Liabilities

A contract asset is recognised when the Group recognises revenue (see note 2AA) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2I(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2S).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2AA). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2S).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2AB).

R Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value with a maturity at acquisition within three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

S Debtors and Other Receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2Q). Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2I(i)).

2 Principal Accounting Policies *(continued)*

T Interest-bearing Borrowings

Interest-bearing borrowings are measured initially at fair value net of transaction costs incurred. The interest-bearing borrowings not subject to fair value hedges are subsequently stated at amortised costs using effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for interest and finance charges (see note 2AB).

Subsequent to initial recognition, the carrying amount of interest-bearing borrowings subject to fair value hedges is remeasured and the change in fair value attributable to the risk being hedged is recognised in the profit and loss account to offset the effect of the gain or loss on the related hedging instrument.

U Creditors and Other Payables

Creditors and other payables are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

V Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on the Group's policies, these instruments are used solely for reducing or eliminating financial risks associated with the Group's investments and liabilities and not for trading or speculation purposes.

Derivatives are recognised at fair value and are remeasured at their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment; or (3) a hedge of a net investment: to hedge the variability in cash flows of a monetary item that is receivable from or payable to a foreign operation where the settlement for the monetary item is neither planned nor likely to occur in foreseeable future.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income which is accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the profit and loss account in the periods when the hedged item is recognised in the profit and loss account. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the profit and loss account.

(iii) Hedge of a Net Investment

The effective portion of changes in the fair value of derivatives that are designated and qualified as hedges of net investments in foreign operations is recognised in other comprehensive income which is accumulated separately in equity in the exchange reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the profit and loss account as a reclassification adjustment on the disposal or partial disposal of the foreign operation.

(iv) Derivatives That Do Not Qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

2 Principal Accounting Policies *(continued)*

W Employee Benefits

(i) Salaries, annual leave, other allowances, contributions to defined contribution retirement schemes, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and other costs of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where these benefits are incurred for staff relating to construction projects, capital works and property developments, they are capitalised as part of the cost of the qualifying assets. In other cases, they are recognised as expenses in the profit and loss account as incurred.

(ii) The Group's net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value, and the fair value of any scheme assets is deducted. The calculation is performed by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme. Service cost and net interest expense/income on the net defined benefit liability/asset are recognised either as an expense in the profit and loss account, or capitalised as part of the cost of the relevant construction projects, capital works or property developments, as the case may be. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Net interest expense/income for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the weighted average duration of the scheme's obligations.

When the benefits of a scheme are changed, or when a scheme is curtailed, current service cost for the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in the profit or loss account or capitalised at the earlier of when the scheme amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised.

Remeasurements arising from defined benefit retirement schemes are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise of actuarial gains and losses, the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability/asset) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/asset).

(iii) Equity-settled share-based payments are measured at fair value at the date of grant.

- For share options, the fair value determined at the grant date is recognised as staff costs, unless the relevant employee expenses qualify for recognition as an asset, on a straight-line basis over the vesting period and taking into account the probability that the options will vest, with a corresponding increase in the employee share-based capital reserve within equity. Fair value is measured by use of the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

  During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit and loss account in the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based capital reserve). The equity amount is recognised in the employee share-based capital reserve until either the option is exercised which is transferred to the share capital account or the option is lapsed (on expiry of the share options) which is released directly to retained profits.
- For award shares under the Executive Share Incentive Scheme, the amounts to be expensed as staff costs are determined by reference to the fair value of the award shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the relevant vesting periods, with a corresponding credit to the employee share-based capital reserve under equity.

  For those award shares which are amortised over the vesting periods, the Group reviews its estimates of the number of award shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit and loss account in the year of the review, with a corresponding adjustment to the employee share-based capital reserve. Upon vesting of award shares, the related costs of the vested award shares purchased from the market (the "purchased shares") and shares received in relation to scrip dividend and shares purchased from the proceeds of cash ordinary dividends received (the "ordinary dividend shares") are credited to Shares held for Executive Share Incentive Scheme, with a corresponding decrease in employee share-based compensation reserve for the purchased shares, and decrease in retained earnings for the ordinary dividend shares.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the fair value of the shares determined at the end of each reporting period.

(iv) Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2 Principal Accounting Policies *(continued)*

X Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit (provided they are not part of a business combination).

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, and interests in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2E(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Y Financial Guarantee Contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment to the holder when due in accordance with the original or modified terms of a debt instrument.

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee, after netting off any consideration received or receivable at inception, is initially debited to the profit and loss account and recognised as deferred income within creditors and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in creditors and other payables in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation). To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2I(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

2 Principal Accounting Policies *(continued)*

Z Provisions, Contingent Liabilities and Onerous Contracts

(i) Provisions and Contingent Liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(ii) Onerous Contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

AA Revenue Recognition

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. Further details of the Group's revenue and other income recognition policies are as follows:

(i) Fare revenue is recognised when the journey is provided.

(ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased assets. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised progressively over-time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

(iv) Incomes from other railway and station commercial businesses, property management, railway franchises and service concessions are recognised when the services are provided.

AB Interest and Finance Charges

Interest income and expense directly attributable to the financing of capital projects prior to their completion or commissioning are capitalised. Exchange differences arising from foreign currency borrowings relating to the acquisition of assets are capitalised to the extent that they are regarded as an adjustment to capitalised interest costs. Interest expense attributable to other purposes is charged to the profit and loss account.

Finance charges on lease liabilities are charged to the profit and loss account over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

AC Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year. Statement of financial position items are translated into Hong Kong dollars at the closing exchange rates at the end of reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

2 Principal Accounting Policies *(continued)*

AD Segment Reporting

Operating segments, and the amounts of each segment item reported in the accounts, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of businesses and operations in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services and products, the type or class of customers, the methods used to provide the services or distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

AE Related Parties

For the purposes of these accounts, a person, or a close member of that person's family, is related to the Group if that person has control, joint control or significant influence over the Group, or is a member of the key management personnel of the Group.

An entity is related to the Group if (i) the entity and the Group are members of the same group; (ii) the entity is an associate or joint venture of the Group; (iii) the entity is a post-employment benefit scheme for the benefit of employees of the Group or of any entity that is a related party of the Group; (iv) an individual who is a related party of the Group has control or joint control over that entity; (v) a person, or a close member of that person's family, who has control or joint control over the Group has significant influence over the entity or is a member of the key management personnel of that entity; or (vi) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

AF Government Grants

Government grants are assistance by governments in the form of transfer of resources in return for the Group's compliance with the conditions attached thereto. Government grants which represent compensation for the cost of an asset are deducted from the cost of the asset in arriving at its carrying value to the extent of the amounts received and receivable as at the date of the statement of financial position. Government grants which represent compensation for expenses or losses are deducted from the related expenses. Any excess of the amount of grant received or receivable over the cost of the asset or the expenses or losses at the end of reporting period are carried forward as advance receipts or deferred income to set off against the future cost of the asset or future expenses or losses.

3 Rail Merger with Kowloon-Canton Railway Corporation and Operating Arrangements for High Speed Rail and Tuen Ma Line Phase 1

Rail Merger

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of Kowloon-Canton Railway Corporation ("KCRC") (the "Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the Hong Kong Special Administrative Region (the "HKSAR Government"), KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement.

Pursuant to the Service Concession Agreement ("SCA"), KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the franchise period (as it relates to the KCRC railway) is extended. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay to KCRC fixed annual payments and variable annual payments (calculated on a tiered basis by reference to the revenue generated from the KCRC system above certain thresholds).

Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value.

Details of the Rail Merger are disclosed in the Company's circular dated 3 September 2007.

3 Rail Merger with Kowloon-Canton Railway Corporation and Operating Arrangements for High Speed Rail and Tuen Ma Line Phase 1 *(continued)*

Operating Arrangements for High Speed Rail

On 23 August 2018, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the then current agreements to enable the Company to operate the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") in substantially the same manner as the existing railway network. Under the supplemental service concession agreement that was executed on 23 August 2018 ("SSCA-HSR"), the operating period with respect to the HSR is for an initial term of 10 years from 23 September 2018 ("Concession Period (High Speed Rail)"), which may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA-HSR. Under the SSCA-HSR, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the concession property of the High Speed Rail (with any new assets acquired being classified as "additional concession property (High Speed Rail)"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold (High Speed Rail)"), the Company will be reimbursed for any above-threshold expenditure at the end of the concession period with such reimbursement to be on the basis of depreciated book value.

Details of the SSCA-HSR are disclosed in the Company's announcement dated 23 August 2018.

Operating Arrangements for Tuen Ma Line Phase 1

On 11 February 2020, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the then current agreements to enable the Company to operate Tuen Ma Line Phase 1 (which extends the Ma On Shan Line from Tai Wai to Kai Tak) in substantially the same manner as the existing railway network for a period of two years from 14 February 2020. Prior to the full opening of the Tuen Ma Line, the parties are obliged to commence exclusive negotiations in good faith with a view to agreeing the terms of a supplemental service concession agreement for the entire Tuen Ma Line (which is intended to replace the supplemental service concession agreement that was executed on 11 February 2020 ("SSCA-SCL")). Under the SSCA-SCL, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the concession property of the Tuen Ma Line Phase 1.

Details of the SSCA-SCL are disclosed in the Company's announcement dated 11 February 2020.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK$ million	2019	2018
Domestic Service	**12,714**	13,232
Cross-boundary Service	**3,164**	3,472
High Speed Rail	**2,098**	600
Airport Express	**1,011**	1,156
Light Rail and Bus	**677**	723
Intercity Service	**175**	214
Others	**99**	93
	19,938	19,490

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, South Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan Lines. Others include mainly by-law infringement surcharge and Octopus load agent fees.

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK$ million	2019	2018
Duty free shops and kiosks	**4,800**	4,424
Advertising	**1,130**	1,212
Telecommunication income	**743**	696
Other station commercial income	**126**	126
	6,799	6,458

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK$ million	2019	2018
Property rental income	**4,833**	4,748
Property management income	**304**	307
	5,137	5,055

7 Revenue and Expenses Relating to Mainland of China and International Subsidiaries

Revenue and expenses relating to Mainland of China and international subsidiaries comprise:

	2019		2018	
in HK$ million	Revenue	Expenses	Revenue	Expenses
Railway-related businesses outside of Hong Kong				
– Melbourne Train	**10,680**	**10,154**	10,994	10,500
– Sydney Metro Northwest	**1,110**	**1,073**	1,752	1,658
– Sydney Metro City & Southwest	**515**	**450**	–	–
– MTR Nordic*	**4,862**	**4,832**	4,891	5,050
– TfL Rail/Elizabeth Line (formerly known as London Crossrail)	**2,037**	**1,899**	1,782	1,723
– Shenzhen Metro Longhua Line	**761**	**599**	776	600
– Macao Light Rapid Transit Taipa Line	**949**	**687**	529	349
	20,914	**19,694**	20,724	19,880
Property rental and management businesses in Mainland of China	**171**	**66**	153	121
	21,085	**19,760**	20,877	20,001
Property development in Mainland of China	**–**	**25**	60	35
	21,085	**19,785**	20,937	20,036

* MTR Nordic comprises the Stockholm Metro, MTR Tech, MTR Express, Stockholm Commuter Rail ("Stockholms pendeltåg") and Emtrain (being the Group's subsidiary since September 2019 following the Group's acquisition of the remaining 50% interests) operations in Sweden.

The Group's 60% owned subsidiary, Metro Trains Sydney Pty Ltd, commenced the train services of Sydney Metro North West on 26 May 2019.

The Group's wholly owned subsidiary, MTR Operações Ferroviárias (Macau) Sociedade Unipessoal Lda., commenced the train services of Macao Light Rapid Transit Taipa Line on 10 December 2019.

8 Revenue from Other Businesses

Revenue from other businesses comprises income from:

in HK$ million	2019	2018
Ngong Ping 360	**392**	476
Consultancy business	**184**	188
Project management for HKSAR Government	**935**	1,293
Miscellaneous businesses	**34**	33
	1,545	1,990

9 Segmental Information

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

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

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

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

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

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

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

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

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

9 Segmental Information *(continued)*

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

					Mainland of China and international affiliates				
in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international railway, property rental and management businesses	Mainland of China property development	Other businesses	Un-allocated amount	Total
2019									
Revenue from contracts with customers within the scope of HKFRS 15	19,938	2,026	304	–	20,902	–	1,529	–	44,699
– Recognised at a point in time	19,174	49	–	–	2,701	–	387	–	22,311
– Recognised over time	764	1,977	304	–	18,201	–	1,142	–	22,388
Revenue from other sources	–	4,773	4,833	–	183	–	16	–	9,805
– Lease payments that are fixed or depend on an index or a rate	–	4,511	4,702	–	182	–	14	–	9,409
– Variable lease payments that do not depend on an index or a rate	–	262	131	–	1	–	2	–	396
Total revenue	19,938	6,799	5,137	–	21,085	–	1,545	–	54,504
Operating expenses	(14,029)	(680)	(851)	–	(19,760)	(25)	(3,557)	–	(38,902)
Project study and business development expenses	–	–	–	–	(201)	–	–	(75)	(276)
Operating profit/(loss) before Hong Kong property development, depreciation, amortisation and variable annual payment	5,909	6,119	4,286	–	1,124	(25)	(2,012)	(75)	15,326
Profit on Hong Kong property development	–	–	–	5,707	–	–	–	–	5,707
Operating profit/(loss) before depreciation, amortisation and variable annual payment	5,909	6,119	4,286	5,707	1,124	(25)	(2,012)	(75)	21,033
Depreciation and amortisation	(4,728)	(192)	(16)	–	(236)	–	(65)	–	(5,237)
Variable annual payment	(1,772)	(805)	(6)	–	–	–	–	–	(2,583)
Share of profit or loss of associates and joint venture	–	–	–	–	54	–	234	–	288
Profit/(loss) before interest, finance charges and taxation	(591)	5,122	4,264	5,707	942	(25)	(1,843)	(75)	13,501
Interest and finance charges	–	–	–	–	(57)	80	–	(882)	(859)
Investment property revaluation	–	–	1,449	–	(77)	–	–	–	1,372
Income tax	–	–	–	(176)	(200)	(6)	–	(1,540)	(1,922)
Profit/(loss) for the year ended 31 December 2019	(591)	5,122	5,713	5,531	608	49	(1,843)	(2,497)	12,092
Assets									
Fixed assets	123,669	2,598	91,110	–	7,544	58	626	–	225,605
Other segment assets *	3,552	310	459	2,850	8,549	4,500	1,665	15,553	37,438
Goodwill and property management rights	–	–	21	–	56	–	–	–	77
Property development in progress	–	–	–	12,022	–	–	–	–	12,022
Deferred expenditure	140	–	7	–	–	–	1,801	–	1,948
Deferred tax assets	–	2	–	–	131	1	–	–	134
Investments in securities	–	–	–	–	–	–	386	–	386
Properties held for sale	–	–	–	1,034	–	211	–	–	1,245
Interests in associates and joint venture	–	–	–	–	9,335	–	1,024	–	10,359
Total assets	127,361	2,910	91,597	15,906	25,615	4,770	5,502	15,553	289,214
Liabilities									
Segment liabilities	11,694	2,126	2,379	10,434	9,449	864	3,162	51,958	92,066
Obligations under service concession	10,177	–	–	–	173	–	–	–	10,350
Total liabilities	21,871	2,126	2,379	10,434	9,622	864	3,162	51,958	102,416
Other information									
Capital expenditure on:									
Fixed assets	5,085	449	311	–	204	–	28	–	6,077
Property development in progress	–	–	–	3,819	–	–	–	–	3,819
Non-cash expenses other than depreciation and amortisation	29	1	–	–	19	–	2	–	51

* Other segment assets mainly include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

9 Segmental Information *(continued)*

					Mainland of China and international affiliates				
in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international railway, property rental and management businesses	Mainland of China property development	Other businesses	Un-allocated amount	Total
2018									
Revenue from contracts with customers within the scope of HKFRS 15	19,490	1,909	307	–	20,640	–	1,974	–	44,320
– Recognised at a point in time	19,258	52	–	–	2,801	–	469	–	22,580
– Recognised over time	232	1,857	307	–	17,839	–	1,505	–	21,740
Revenue from other sources	–	4,549	4,748	–	237	60	16	–	9,610
Total revenue	19,490	6,458	5,055	–	20,877	60	1,990	–	53,930
Operating expenses	(11,319)	(567)	(813)	–	(20,001)	(35)	(2,004)	–	(34,739)
Project study and business development expenses	–	–	–	–	(263)	–	–	(60)	(323)
Operating profit/(loss) before Hong Kong property development, depreciation, amortisation and variable annual payment	8,171	5,891	4,242	–	613	25	(14)	(60)	18,868
Profit on Hong Kong property development	–	–	–	2,574	–	–	–	–	2,574
Operating profit/(loss) before depreciation, amortisation and variable annual payment	8,171	5,891	4,242	2,574	613	25	(14)	(60)	21,442
Depreciation and amortisation	(4,578)	(174)	(12)	–	(154)	–	(67)	–	(4,985)
Variable annual payment	(1,608)	(692)	(5)	–	–	–	–	–	(2,305)
Share of profit or loss of associates and joint venture	–	–	–	–	437	–	221	–	658
Profit/(loss) before interest, finance charges and taxation	1,985	5,025	4,225	2,574	896	25	140	(60)	14,810
Interest and finance charges	–	–	–	–	2	134	–	(1,210)	(1,074)
Investment property revaluation	–	–	4,745	–	–	–	–	–	4,745
Income tax	–	–	–	(421)	(190)	(69)	–	(1,645)	(2,325)
Profit/(loss) for the year ended 31 December 2018	1,985	5,025	8,970	2,153	708	90	140	(2,915)	16,156
Assets									
Fixed assets	123,185	2,361	82,349	1	7,300	63	666	–	215,925
Other segment assets *	2,572	271	428	1,985	6,810	4,543	1,617	13,194	31,420
Goodwill and property management rights	–	–	26	–	58	–	–	–	84
Property development in progress	–	–	–	14,840	–	–	–	–	14,840
Deferred expenditure	77	–	41	–	–	–	1,760	–	1,878
Deferred tax assets	–	2	–	–	117	2	–	–	121
Investments in securities	–	–	–	–	–	–	294	–	294
Properties held for sale	–	–	–	1,156	–	213	–	–	1,369
Interests in associates and joint venture	–	–	–	–	7,779	–	977	–	8,756
Total assets	125,834	2,634	82,844	17,982	22,064	4,821	5,314	13,194	274,687
Liabilities									
Segment liabilities	11,132	2,270	2,278	5,498	7,645	920	2,117	51,799	83,659
Obligations under service concession	10,236	–	–	–	173	–	–	–	10,409
Total liabilities	21,368	2,270	2,278	5,498	7,818	920	2,117	51,799	94,068
Other information									
Capital expenditure on:									
Fixed assets	5,302	379	462	–	139	–	15	–	6,297
Property development in progress	–	–	–	1,121	–	–	–	–	1,121
Non-cash expenses other than depreciation and amortisation	40	2	–	–	1	–	1	–	44

* Other segment assets mainly include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

9 Segmental Information *(continued)*

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

For the year ended 31 December 2019, revenue from one (2018: one) customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue. Approximately 14.47% (2018: 13.76%) of the Group's total revenue was attributable to this customer.

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

	Revenue from external customers		Specified non-current assets	
in HK$ million	**2019**	2018	**2019**	2018
Hong Kong SAR (place of domicile)	**33,357**	32,935	**233,019**	226,282
Australia	**12,305**	12,746	**941**	446
Mainland of China and Macao SAR	**1,934**	1,568	**15,155**	13,965
Sweden	**4,862**	4,891	**786**	699
United Kingdom	**2,046**	1,790	**110**	91
	21,147	20,995	**16,992**	15,201
	54,504	53,930	**250,011**	241,483

As at 31 December 2019, the aggregated amount of the transaction price allocated to the remaining performance obligation under the Group's existing contracts is HK$42,183 million (as at 31 December 2018: HK$13,053). This amount represents revenue expected to be recognised in the future mainly from the fixed annual payments in relation to High Speed Rail under the SSCA–HSR, as well as the construction, consultancy and project management contracts entered into with the Group's customers. The Group will recognise the expected revenue in future when or as the work is completed which is expected to occur over the next one to fifteen years.

The Group has applied the practical expedients in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from certain contracts with customers in existence at the reporting date that are billed based on the performance completed to date or have an original expected duration of one year or less.

10 Operating Expenses

A Total staff costs include:

in HK$ million	2019	2018
Amounts charged to consolidated profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**6,489**	5,847
– maintenance and related works for Hong Kong transport operations	**117**	131
– other expense line items for Hong Kong transport operations	**304**	115
– expenses relating to Hong Kong station commercial businesses	**117**	97
– expenses relating to Hong Kong property rental and management businesses	**149**	137
– expenses relating to Mainland of China and international subsidiaries	**9,006**	8,219
– expenses relating to other businesses	**1,384**	1,797
– project study and business development expenses	**271**	358
– profit on Hong Kong property development	**24**	26
Amounts capitalised under:		
– property development in progress	**194**	157
– assets under construction and other projects	**733**	634
– service concession assets	**359**	387
Amounts recoverable	**602**	566
Total staff costs	**19,749**	18,471

Amounts recoverable relate to property management, entrustment works and other agreements.

The following expenditures are included in total staff costs:

in HK$ million	2019	2018
Share-based payments	**122**	110
Contributions to defined contribution retirement schemes and Mandatory Provident Fund	**907**	849
Amounts recognised in respect of defined benefit retirement schemes	**469**	431
	1,498	1,390

B Auditors' remuneration charged to the consolidated profit and loss account include:

in HK$ million	2019	2018
Audit services	**19**	18
Tax services	**2**	2
Other audit related services	**6**	6
	27	26

C Loss on disposal of fixed assets of HK$57 million (2018: HK$45 million) is included in operating expenses.

11 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of Members of the Board and the Executive Directorate of the Company were as follows:

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2019					
Members of the Board					
– Frederick Ma Si-hang (retired on 1 July 2019)*	**0.9**	–	–	–	**0.9**
– Rex Auyeung Pak-kuen (appointed on 7 March 2019)**	**0.9**	–	–	–	**0.9**
– Andrew Clifford Winawer Brandler	**0.5**	–	–	–	**0.5**
– Walter Chan Kar-lok (appointed on 22 May 2019)**	**0.2**	–	–	–	**0.2**
– Pamela Chan Wong Shui	**0.4**	–	–	–	**0.4**
– Dorothy Chan Yuen Tak-fai	**0.5**	–	–	–	**0.5**
– Cheng Yan-kee (appointed on 22 May 2019)**	**0.3**	–	–	–	**0.3**
– Vincent Cheng Hoi-chuen (retired on 22 May 2019)*	**0.2**	–	–	–	**0.2**
– Anthony Chow Wing-kin	**0.5**	–	–	–	**0.5**
– Eddy Fong Ching	**0.5**	–	–	–	**0.5**
– James Kwan Yuk-choi	**0.5**	–	–	–	**0.5**
– Kaizer Lau Ping-cheung (retired on 22 May 2019)*	**0.2**	–	–	–	**0.2**
– Rose Lee Wai-mun	**0.4**	–	–	–	**0.4**
– Lucia Li Li Ka-lai	**0.5**	–	–	–	**0.5**
– Jimmy Ng Wing-ka (appointed on 22 May 2019)**	**0.3**	–	–	–	**0.3**
– Abraham Shek Lai-him (retired on 22 May 2019)*	**0.2**	–	–	–	**0.2**
– Benjamin Tang Kwok-bun	**0.4**	–	–	–	**0.4**
– Allan Wong Chi-yun	**0.5**	–	–	–	**0.5**
– Johannes Zhou Yuan	**0.5**	–	–	–	**0.5**
– James Henry Lau Jr	**0.4**	–	–	–	**0.4**
– Secretary for Transport and Housing	**0.4**	–	–	–	**0.4**
– Permanent Secretary for Development (Works)	**0.4**	–	–	–	**0.4**
– Commissioner for Transport	**0.4**	–	–	–	**0.4**
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen (retired on 1 April 2019)***	–	**4.4**	**0.3**	–	**4.7**
– Jacob Kam Chak-pui	–	**8.1**	**1.2**	**1.4**	**10.7**
– Roger Francis Bayliss (appointed on 18 March 2019)****	–	**4.0**	–~	**0.6**	**4.6**
– Margaret Cheng Wai-ching	–	**5.0**	**0.7**	**0.8**	**6.5**
– Peter Ronald Ewen	–	**4.5**	**0.6**	**0.7**	**5.8**
– Herbert Hui Leung-wah	–	**5.0**	**0.7**	**0.7**	**6.4**
– Adi Lau Tin-shing	–	**5.1**	–~~	**0.9**	**6.0**
– Gillian Elizabeth Meller	–	**4.5**	**0.7**	**0.7**	**5.9**
– Linda So Ka-pik	–	**4.5**	**0.6**	**0.7**	**5.8**
– David Tang Chi-fai	–	**5.1**	**0.7**	**0.8**	**6.6**
– Jeny Yeung Mei-chun	–	**4.9**	**0.7**	**0.8**	**6.4**
	10.0	**55.1**	**6.2**	**8.1**	**79.4**

* Frederick S H Ma, Vincent H C Cheng, Kaizer P C Lau and Abraham L H Shek retired as Members of the Board on the date shown in the above table. The amounts of their emolument shown in the above table cover the period from 1 January 2019 to the respective dates of retirement.

** Rex P K Auyeung, Walter K L Chan, Cheng Y K and Jimmy W K Ng were appointed as Members of the Board on the date shown in the above table. The amounts of their emolument shown in the above table covers the period from the date of their respective dates of appointment to 31 December 2019.

*** Lincoln K K Leong retired as a Member of the Executive Directorate on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2019 to his retirement date. Lincoln K K Leong agreed to waive his variable remuneration related to performance in 2019 of approximately HK$6,613,020.

**** Roger F Bayliss was appointed as a Member of the Executive Directorate on the date shown in the above table. The amount of his emolument shown in the above table covers the period from the date of his appointment to 31 December 2019.

~ The total contributions paid by the Company attributable to the financial year ended 31 December 2019 for Roger F Bayliss, who participated in Mandatory Provident Fund Scheme was HK$15,000.

~~ The total contributions paid by the Company attributable to the financial year ended 31 December 2019 for Adi T S Lau, who participated in MTR Retirement Scheme was nil, pursuant to the requirement of the scheme.

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2018					
Members of the Board					
– Frederick Ma Si-hang	1.7	–	–	–	1.7
– Andrew Clifford Winawer Brandler	0.5	–	–	–	0.5
– Pamela Chan Wong Shui	0.4	–	–	–	0.4
– Dorothy Chan Yuen Tak-fai	0.5	–	–	–	0.5
– Vincent Cheng Hoi-chuen	0.4	–	–	–	0.4
– Anthony Chow Wing-kin	0.5	–	–	–	0.5
– Eddy Fong Ching	0.5	–	–	–	0.5
– James Kwan Yuk-choi	0.5	–	–	–	0.5
– Kaizer Lau Ping-cheung	0.5	–	–	–	0.5
– Rose Lee Wai-mun (appointed on 16 May 2018)#	0.3	–	–	–	0.3
– Lucia Li Li Ka-lai	0.5	–	–	–	0.5
– Alasdair George Morrison (retired on 16 May 2018)##	0.2	–	–	–	0.2
– Abraham Shek Lai-him	0.5	–	–	–	0.5
– Benjamin Tang Kwok-bun	0.4	–	–	–	0.4
– Allan Wong Chi-yun	0.5	–	–	–	0.5
– Johannes Zhou Yuan	0.5	–	–	–	0.5
– James Henry Lau Jr	0.4	–	–	–	0.4
– Secretary for Transport and Housing	0.4	–	–	–	0.4
– Permanent Secretary for Development (Works)	0.4	–	–	–	0.4
– Commissioner for Transport	0.4	–	–	–	0.4
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen	–	9.6	1.5	0.7	11.8
– Jacob Kam Chak-pui	–	6.9	1.1	3.4	11.4
– Margaret Cheng Wai-ching	–	4.8	0.7	2.3	7.8
– Morris Cheung Siu-wa (retired with effect from 17 July 2018)###	–	3.1	0.1	1.1	4.3
– Peter Ronald Ewen	–	4.1	0.6	1.9	6.6
– Herbert Hui Leung-wah	–	4.8	0.7	2.1	7.6
– Adi Lau Tin-shing	–	4.9	–^	2.3	7.2
– Gillian Elizabeth Meller	–	4.3	0.6	2.1	7.0
– Linda So Ka-pik	–	4.0	0.5	2.1	6.6
– David Tang Chi-fai	–	4.9	0.7	2.4	8.0
– Philco Wong Nai-keung (resigned with effect from 7 August 2018)###	–	5.3	0.5	0.4	6.2
– Jeny Yeung Mei-chun	–	4.7	0.7	2.3	7.7
	10.0	61.4	7.7	23.1	102.2

Rose W M Lee was appointed as a Member of the Board on the date shown in the above table. The amount of her emolument shown in the above table covers the period from the date of her appointment to 31 December 2018.

Alasdair G Morrison retired as a Member of the Board on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2018 to his retirement date.

Morris S W Cheung retired and Philco N K Wong resigned as Members of the Executive Directorate on the respective dates shown in the above table. The amount of their emoluments shown in the above table cover the period from 1 January 2018 to the respective dates of retirement or resignation.

^ The total contributions paid by the Company attributable to the financial year ended 31 December 2018 for Adi T S Lau, who participated in MTR Retirement Scheme, was HK$58,901.77.

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

The above emoluments do not include the fair value of Award Shares granted under the Executive Share Incentive Scheme.

The director's fees in respect of the office of the Secretary for Transport and Housing (Frank Chan Fan), the office of the Permanent Secretary for Development (Works) (Hon Chi-keung for the period from 1 January 2018 to 12 October 2018 and Lam Sai-hung for the period from 13 October 2018 to 31 December 2019) and the office of the Commissioner for Transport (Mable Chan), each of whom was appointed Director by the Chief Executive of the HKSAR pursuant to Section 8 of the Mass Transit Railway Ordinance ("MTR Ordinance"), were received by Government rather than by the individuals concerned.

The director's fee in respect of James Henry Lau Jr, being the Secretary for Financial Services and the Treasury of Government, was received by Government rather than by the individual personally.

Alternate Directors were not entitled to director's fees.

(ii) Restricted Shares and Performance Shares were granted to Members of the Executive Directorate under the Company's Executive Share Incentive Scheme on 27 April 2015, 8 April 2016, 19 August 2016, 10 April 2017, 16 March 2018, 10 April 2018, 1 April 2019 and 8 April 2019. Performance Shares offered to Members of the Executive Directorate under such grants, in general, covered a period of three years from the date of grant. The entitlements of each of the Members of the Executive Directorate are as follows:

- Lincoln K K Leong was granted 60,200 Restricted Shares and 255,000 Performance Shares on 27 April 2015, 64,850 Restricted Shares on 8 April 2016, 63,900 Restricted Shares on 10 April 2017, 80,000 Contract–end Restricted Shares on 16 March 2018 and 73,300 Restricted Shares and 239,950 Performance Shares on 10 April 2018, of which a total of 217,518 Restricted Shares were vested in 2019 (2018: 62,984 Restricted Shares and 232,735 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$6.5 million (2018: HK$8.3 million). No award shares were lapsed/forfeited in 2019 (2018: 22,265 Performance Shares);
- Jacob C P Kam was granted 22,050 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 21,550 Restricted Shares on 8 April 2016, 22,050 Restricted Shares on 10 April 2017, 25,550 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 120,000 Contract–end Restricted Shares on 1 April 2019 and 47,400 Restricted Shares and 91,750 Performance Shares on 8 April 2019, of which a total of 23,050 Restricted Shares were vested in 2019 (2018: 21,883 Restricted Shares and 52,570 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$5.5 million (2018: HK$1.6 million). No award shares were lapsed/forfeited in 2019 (2018: 5,030 Performance Shares);
- Margaret W C Cheng was granted 71,428 Restricted Shares on 19 August 2016 and 16,950 Restricted Shares, 30,400 Performance Shares on 10 April 2017,17,600 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 16,550 Restricted Shares on 8 April 2019, of which a total of 35,326 Restricted Shares were vested in 2019 (2018: 29,459 Restricted Shares and 27,745 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.7 million (2018: HK$2.1 million). No award shares were lapsed/forfeited in 2019 (2018: 2,655 Performance Shares);
- Peter Ronald Ewen was granted 35,700 Performance Shares on 8 April 2016, 15,050 Restricted Shares on 10 April 2017, 12,250 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 12,500 Restricted Shares on 8 April 2019, of which 9,099 Restricted Shares were vested in 2019 (2018: 5,016 Restricted Shares and 32,583 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.3 million (2018: HK$1.1 million). No award shares were lapsed/forfeited in 2019 (2018: 3,117 Performance Shares);
- Herbert L W Hui was granted 15,200 Restricted Shares and 30,400 Performance Shares on 10 April 2017, 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 13,800 Restricted Shares on 8 April 2019, of which 9,799 Restricted Shares were vested in 2019 (2018: 5,066 Restricted Shares and 27,745 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.3 million (2018: HK$1.3 million). No award shares were lapsed/forfeited in 2019 (2018: 2,655 Performance Shares);
- Adi T S Lau was granted 8,600 Restricted Shares and 12,550 Performance Shares on 27 April 2015, 8,400 Restricted Shares on 8 April 2016, 17,700 Restricted Shares and 25,050 Performance Shares on 10 April 2017, 16,450 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 16,250 Restricted Shares on 8 April 2019, of which a total of 14,183 Restricted Shares were vested in 2019 (2018: 11,568 Restricted Shares and 34,316 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.5 million (2018: HK$1.4 million). No award shares were lapsed/forfeited in 2019 (2018: 3,284 Performance Shares);
- Gillian E Meller was granted 16,950 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 17,300 Restricted Shares on 8 April 2016, 16,200 Restricted Shares on 10 April 2017, 16,050 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 13,400 Restricted Shares on 8 April 2019, of which a total of 16,518 Restricted Shares were vested in 2019 (2018: 16,816 Restricted Shares and 52,570 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.4 million (2018: HK$1.3 million). No award shares were lapsed/forfeited in 2019 (2018: 5,030 Performance Shares);
- Linda K P So was granted 16,400 Restricted Shares and 44,050 Performance Shares on 8 April 2016, 15,300 Restricted Shares on 10 April 2017, 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 14,800 Restricted Shares on 8 April 2019, of which a total of 15,301 Restricted Shares were vested in 2019 (2018: 10,566 Restricted Shares and 40,203 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.4 million (2018: HK$1.3 million). No award shares were lapsed/forfeited in 2019 (2018: 3,847 Performance Shares);

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

- David C F Tang was granted 18,450 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 17,950 Restricted Shares on 8 April 2016, 17,250 Restricted Shares on 10 April 2017, 16,850 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 17,200 Restricted Shares on 8 April 2019, of which a total of 17,350 Restricted Shares were vested in 2019 (2018: 17,883 Restricted Shares and 52,570 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.5 million (2018: HK$1.3 million). No award shares were lapsed/forfeited in 2019 (2018: 5,030 Performance Shares);
- Jeny M C Yeung was granted 19,350 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 18,850 Restricted Shares on 8 April 2016, 17,700 Restricted Shares on 10 April 2017, 17,350 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 16,350 Restricted Shares on 8 April 2019, of which a total of 17,967 Restricted Shares were vested in 2019 (2018: 18,633 Restricted Shares and 52,570 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.5 million (2018: HK$1.3 million). No award shares were lapsed/forfeited in 2019 (2018: 5,030 Performance Shares); and
- Roger Francis Bayliss was granted 30,150 Performance Shares on 8 April 2019, of which nil was vested in 2019 (2018: nil), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$0.5 million (2018:HK$nil). No award shares were lapsed/forfeited in 2019 (2018: nil).

None of the Performance Shares awarded to the Members of the Executive Directorate were vested in 2019.

The details of Board Members' and Members of the Executive Directorate's interest in the Company's shares are disclosed in the Report of the Members of the Board and note 42.

(iii) For the year ended 31 December 2019, three (2018: four) Members of the Executive Directorate of the Company, whose emoluments are shown above, were among the five individuals whose emoluments were the highest. The total remuneration of the five highest paid individuals for the year is shown below:

in HK$ million	2019	2018
Base pay, allowances and benefits in kind	**30.1**	31.1
Variable remuneration related to performance	**6.2**	11.6
Retirement scheme contributions	**2.6**	4.0
	38.9	46.7

The emoluments of the top 5 highest paid individuals for the year are within the following bands:

	2019	2018
HK$6,000,001 – HK$6,500,000	**1**	–
HK$6,500,001 – HK$7,000,000	**2**	–
HK$7,500,001 – HK$8,000,000	**–**	3
HK$8,000,001 – HK$8,500,000	**1**	–
HK$10,500,001 – HK$11,000,000	**1**	–
HK$11,000,001 – HK$11,500,000	**–**	1
HK$11,500,001 – HK$12,000,000	**–**	1
	5	5

(iv) The aggregate emoluments and share–based payments of Members of the Board and the Executive Directorate for the year was HK$103.5 million (2018: HK$124.2 million).

(v) The Company has a service contract with each of the independent non-executive Directors ("INED")/non-executive Directors ("NED") (excluding three additional directors appointed pursuant to Section 8 of the MTR Ordinance) specifying the terms of his/her continuous appointments as an INED/a NED and a Member of the relevant Board Committees, for a period not exceeding three years. He/she is also subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Articles of Association where applicable. Professor Frederick S H Ma was re-appointed by the Financial Secretary Incorporated ("FSI") on 19 November 2018 as non-executive Chairman of the Company for a term commencing from 1 January 2019 to 30 June 2019 (both dates inclusive). Mr Rex P K Auyeung was appointed by the FSI as non-executive Chairman of the Company for a term commencing from 1 July 2019 until 31 December 2021 (both dates inclusive).

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2019 are set out in the Report of the Members of the Board.

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 42(i), all Members of the Executive Directorate were granted options to acquire shares between 2007 and 2014.

Under the vesting terms of the options, options granted will be evenly vested in respect of their underlying shares over a period of three years from the date of offer to grant such options. As all the share options granted to each Member of the Executive Directorate were vested prior to 2018, the respective fair value of the share based payments recognised for the year ended 31 December 2019 was HK$nil (2018: HK$nil).

C Award Shares

Award Shares outstanding in respect of each Member of the Executive Directorate as at 31 December 2019 are set out in the Report of the Members of the Board.

Under the Executive Share Incentive Scheme as described in note 42(ii), all Members of the Executive Directorate may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded on the basis of individual performance. Performance Shares are awarded which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions, as determined by the Remuneration Committee from time to time.

An award of Restricted Shares will vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved.

12 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK$ million	**2019**	2018
Share of surplus and interest in unsold properties from property development	**4,376**	2,480
Income from receipt of properties for investment purpose	**1,211**	–
Agency fee and other income from West Rail property development (note 22C)	**182**	139
Overheads and miscellaneous studies	**(62)**	(45)
	5,707	2,574

During the year ended 31 December 2019, profits attributable to joint operations of HK$5,587 million (2018: HK$2,480 million) were recognised.

13 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	**2019**	2018
Depreciation charge relating to:		
– Owned property, plant and equipment	**3,865**	3,837
– Right-of-use assets	**332**	189
	4,197	4,026
Amortisation charge:		
– Amortisation charge relating to service concession assets and other intangible assets	**1,439**	1,392
– Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(399)**	(433)
	1,040	959
	5,237	4,985

14 Interest and Finance Charges

in HK$ million	2019	2019	2018	2018
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments	**1,053**		1,042	
– Obligations under service concession	**700**		704	
– Lease liabilities	**58**		25	
– Others	**23**		22	
Finance charges	**42**		71	
Exchange gain	**(53)**		(159)	
		1,823		1,705
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(70)**		(96)
Derivative financial instruments:				
– Fair value hedges	**1**		27	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**(32)**		18	
– transferred from hedging reserve to offset exchange gain	**69**		211	
– Hedge of net investments:				
– ineffective portion	**(1)**		(1)	
		37		255
Interest expenses capitalised		**(449)**		(406)
		1,341		1,458
Interest income in respect of:				
– Deposits with banks	**(466)**		(382)	
– Others	**(16)**		(2)	
		(482)		(384)
		859		1,074

During the year ended 31 December 2019, interest expenses capitalised were calculated on a monthly basis at the pre–determined cost of borrowings and/or the relevant group companies' borrowing cost which varied from 2.5% to 2.9% per annum (2018: 2.4% to 3.2% per annum).

During the year ended 31 December 2019, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line were HK$70 million (2018: HK$96 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2019, the loss resulting from fair value changes of the underlying financial assets and liabilities being hedged under fair value hedge was HK$45 million (2018: HK$11 million) while the gain resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$44 million (2018: HK$16 million of loss), thus resulting in a net loss of HK$1 million (2018: HK$27 million of net loss).

15 Income Tax in the Profit and Loss Account

A Income tax in the consolidated profit and loss account represents:

in HK$ million	2019	2018
Current tax		
– Hong Kong Profits Tax	**1,191**	1,933
– Tax outside Hong Kong	**264**	325
	1,455	2,258
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(71)**	(69)
	1,384	2,189
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**(1)**	(102)
– depreciation allowances in excess of related depreciation	**620**	228
– revaluation of properties	**(5)**	–
– provisions and others	**(76)**	10
	538	136
	1,922	2,325

The provision for Hong Kong Profits Tax for the year ended 31 December 2019 is calculated at 16.5% (2018: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current taxes for subsidiaries outside Hong Kong are charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The Company is a qualifying corporation under the two-tiered Profits Tax rate regime in Hong Kong. Under the two-tiered Profits Tax rate regime, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for the Company was calculated on the same basis in 2019 and 2018.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant Mainland of China tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions. During the year ended 31 December 2019, Land Appreciation Tax of HK$nil (2018: HK$30 million) was charged to profit or loss.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2018: 16.5%), while that arising outside Hong Kong is calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The Company purchased tax reserve certificates in connection with the tax deductibility of certain payments relating to the Rail Merger. Please refer to note 30 to the consolidated accounts for details.

B Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019		2018	
	HK$ million	%	HK$ million	%
Profit before taxation	**14,014**		18,481	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**2,330**	**16.6**	3,153	17.1
Land Appreciation Tax (net of tax effect on deduction of Enterprise Income Tax)	**–**	**–**	30	0.2
Tax effect of non-deductible expenses	**1,241**	**8.8**	464	2.5
Tax effect of non-taxable revenue	**(1,562)**	**(11.1)**	(1,253)	(6.8)
Tax effect of unused tax losses not recognised	**(16)**	**(0.1)**	–	–
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(71)**	**(0.5)**	(69)	(0.4)
Actual tax expenses	**1,922**	**13.7**	2,325	12.6

16 Dividends

During the year, ordinary dividends paid and proposed to shareholders of the Company comprise:

in HK$ million	2019	2018
Ordinary dividends attributable to the year		
– Interim ordinary dividend declared of HK$0.25 (2018: HK$0.25) per share	**1,539**	1,526
– Final ordinary dividend proposed after the end of reporting period of HK$0.98 (2018: HK$0.95) per share	**6,035**	5,833
	7,574	7,359
Ordinary dividends attributable to the previous year		
– Final ordinary dividend of HK$0.95 (2018: HK$0.87 per share attributable to year 2017) per share approved and payable/paid during the year	**5,835**	5,228

The final ordinary dividend proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

For 2019 final ordinary dividend, the Board proposed that a scrip dividend option will be offered to all shareholders of the Company whose names appeared on the register of members of the Company as at the close of business on 29 May 2020 (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions).

Details of ordinary dividends paid to the Financial Secretary Incorporated are disclosed in note 45O.

17 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to shareholders of HK$11,932 million (2018: HK$16,008 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

	2019	2018
Issued ordinary shares at 1 January	**6,139,485,589**	6,007,777,302
Effect of scrip dividend issued	**6,682,480**	51,890,075
Effect of share options exercised	**2,130,711**	2,253,653
Less: Shares held for Executive Share Incentive Scheme	**(5,752,047)**	(5,330,351)
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 31 December	**6,142,546,733**	6,056,590,679

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to shareholders of HK$11,932 million (2018: HK$16,008 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme, which is calculated as follows:

	2019	2018
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 31 December	**6,142,546,733**	6,056,590,679
Effect of dilutive potential shares under the share option scheme	**2,218,657**	3,490,644
Effect of shares awarded under Executive Share Incentive Scheme	**5,759,306**	5,820,496
Weighted average number of shares (diluted) at 31 December	**6,150,524,696**	6,065,901,819

C Both basic and diluted earnings per share would have been HK$1.72 (2018: HK$1.86), if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$10,560 million (2018: HK$11,263 million).

18 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below:

in HK$ million	2019 Before-tax amount	2019 Tax expense	2019 Net-of-tax amount	2018 Before-tax amount	2018 Tax (expense)/ benefit	2018 Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries, associates and joint venture	**(344)**	**–**	**(344)**	(761)	–	(761)
– Non-controlling interests	**(15)**	**–**	**(15)**	(22)	–	(22)
	(359)	**–**	**(359)**	(783)	–	(783)
Surplus on revaluation of self-occupied land and buildings	**145**	**(24)**	**121**	622	(103)	519
Remeasurement of net liability of defined benefit schemes	**869**	**(139)**	**730**	(422)	74	(348)
Cash flow hedges: net movement in hedging reserve (note 18B)	**292**	**(48)**	**244**	(32)	5	(27)
Other comprehensive income	**947**	**(211)**	**736**	(615)	(24)	(639)

B The components of other comprehensive income of the Group relating to cash flow hedges are as follows:

in HK$ million	2019	2018
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**255**	(260)
Amounts charged to profit or loss:		
– Interest and finance charges (note 14)	**37**	229
– Other expenses	**–**	(1)
	292	(32)
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the year	**(42)**	43
– Amounts charged to profit or loss	**(6)**	(38)
	244	(27)

19 Investment Properties and Other Property, Plant and Equipment

A Investment Properties

Movements and analysis of the Group's investment properties, all of which being held in Hong Kong and Mainland of China and carried at fair value, are as follows:

in HK$ million	2019	2018
At 1 January, as previously reported	**82,676**	77,086
Effect of adoption of HKFRS 16	**361**	–
At 1 January, as restated	**83,037**	77,086
Additions	**7,316**	450
Transfer from property held for sale	**–**	395
Change in fair value	**1,372**	4,745
Exchange loss	**(13)**	–
At 31 December	**91,712**	82,676

All investment properties of the Group were revalued at 31 December 2019 and 2018. Details of the fair value measurement are disclosed in note 41. The net increase in fair value of HK$1,372 million (2018: HK$4,745 million) arising from the revaluation has been credited to the consolidated profit and loss account. Investment properties in Hong Kong and Mainland of China are revalued semi–annually by Jones Lang LaSalle Limited and Cushman & Wakefield Limited respectively. Future market condition changes may result in further gains or losses to be recognised through profit and loss account in subsequent periods.

Included in the Group's investment properties as at 31 December 2019, was HK$670 million (2018: HK$395 million) relating to a property in Mainland of China.

19 Investment Properties and Other Property, Plant and Equipment *(continued)*

B Other Property, Plant and Equipment

The Group

in HK$ million	Leasehold land	Self-occupied buildings	Civil works	Plant and equipment	Assets under construction	Total
2019						
Cost or Valuation						
At 1 January 2019, as previously reported	**1,757**	**4,234**	**62,385**	**86,696**	**5,115**	**160,187**
Effect of adoption of HKFRS 16	**–**	**363**	**–**	**128**	**–**	**491**
At 1 January 2019, as restated	**1,757**	**4,597**	**62,385**	**86,824**	**5,115**	**160,678**
Additions	**–**	**60**	**–**	**292**	**3,173**	**3,525**
Disposals/write-offs	**–**	**–**	**(2)**	**(315)**	**(6)**	**(323)**
Surplus on revaluation	**–**	**(7)**	**–**	**–**	**–**	**(7)**
Transfer to stores and spares	**–**	**–**	**–**	**(12)**	**–**	**(12)**
Transfer to additional concession property (note 20)	**–**	**–**	**–**	**(4)**	**(2)**	**(6)**
Other assets commissioned	**8**	**–**	**(5)**	**1,441**	**(1,444)**	**–**
Exchange differences	**–**	**–**	**–**	**(51)**	**(1)**	**(52)**
At 31 December 2019	**1,765**	**4,650**	**62,378**	**88,175**	**6,835**	**163,803**
At Cost	**1,765**	**423**	**62,378**	**88,175**	**6,835**	**159,576**
At 31 December 2019 Valuation	**–**	**4,227**	**–**	**–**	**–**	**4,227**
Aggregate depreciation						
At 1 January 2019	**340**	**–**	**8,865**	**48,206**	**–**	**57,411**
Charge for the year	**34**	**226**	**523**	**3,414**	**–**	**4,197**
Written back on disposals	**–**	**–**	**–**	**(270)**	**–**	**(270)**
Written back on revaluation	**–**	**(152)**	**–**	**–**	**–**	**(152)**
Exchange differences	**–**	**–**	**–**	**(15)**	**–**	**(15)**
At 31 December 2019	**374**	**74**	**9,388**	**51,335**	**–**	**61,171**
Net book value at 31 December 2019	**1,391**	**4,576**	**52,990**	**36,840**	**6,835**	**102,632**
2018						
Cost or Valuation						
At 1 January 2018	1,757	3,748	61,981	85,717	3,786	156,989
Additions	–	–	–	229	3,201	3,430
Disposals/write-offs	–	–	(5)	(572)	(3)	(580)
Surplus on revaluation	–	486	–	–	–	486
Reclassification within other property, plant and equipment	–	–	2	(2)	–	–
Transfer to additional concession property (note 20)	–	–	–	(2)	(12)	(14)
Other assets commissioned	–	–	407	1,449	(1,856)	–
Exchange differences	–	–	–	(123)	(1)	(124)
At 31 December 2018	1,757	4,234	62,385	86,696	5,115	160,187
At Cost	1,757	–	62,385	86,696	5,115	155,953
At 31 December 2018 Valuation	–	4,234	–	–	–	4,234
Aggregate depreciation						
At 1 January 2018	306	–	8,346	45,448	–	54,100
Charge for the year	34	136	520	3,336	–	4,026
Written back on disposals	–	–	(1)	(529)	–	(530)
Written back on revaluation	–	(136)	–	–	–	(136)
Exchange differences	–	–	–	(49)	–	(49)
At 31 December 2018	340	–	8,865	48,206	–	57,411
Net book value at 31 December 2018	1,417	4,234	53,520	38,490	5,115	102,776

19 Investment Properties and Other Property, Plant and Equipment *(continued)*

C Right-of-use Assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

in HK$ million	Note	31 December 2019	1 January 2019
Ownership interests in leasehold land held for own use, with remaining lease term of:	(i)		
– less than 50 years		**1,391**	1,417
Ownership interests in self-occupied buildings held for own use, with remaining lease term of:	(i)		
– less than 50 years		**4,227**	4,234
Other self-occupied buildings leased for own use, with remaining lease term of:	(ii)		
– less than 10 years		**349**	363
Plant and equipment, with remaining lease term of:	(iii)		
– less than 10 years		**503**	523
		6,470	6,537
Ownership interests in leasehold investment property, with remaining lease term of:			
– 50 years or more		**15**	16
– less than 50 years		**91,412**	82,660
		91,427	82,676
Other leasehold investment property, with remaining lease term of:			
– less than 10 years		**285**	361
		91,712	83,037
		98,182	89,574

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

in HK$ million	2019	2018
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land held for own use	**34**	34
Ownership interests in self-occupied buildings held for own use	**152**	136
Other self-occupied buildings leased for own use	**74**	–
Plant and equipment	**72**	19
	332	189
Interest on lease liabilities	**58**	25
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**37**	–
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**22**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	1,760

During the year, additions to right–of–use assets were HK$7,438 million. This amount primarily related to additions of investment properties.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 40C and 33D, respectively.

(i) Ownership Interests in Leasehold Land and Buildings Held for Own Use

The lease of the land on which civil works as well as plant and equipment are situated for Hong Kong transport operations was granted to the Company under a running line lease which is coterminous with the Company's franchise to operate the mass transit railway under the Operating Agreement (notes 45A, 45B and 45C).

Under the terms of the lease, the Company undertakes to keep and maintain all the leased areas, including underground and overhead structures, at its own cost. With respect to parts of the railway situated in structures where access is shared with other users, such as the Lantau Fixed Crossing, the Company's obligation for maintenance is limited to the railway only. All maintenance costs incurred under the terms of the lease have been dealt with as expenses relating to Hong Kong transport operations in the consolidated profit and loss account.

All self–occupied buildings of the Group in Hong Kong are held under medium–term leases and carried at fair value. The details of the fair value measurement are disclosed in note 41. The revaluation surplus of HK$145 million (2018: HK$622 million) and the related deferred tax expenses of HK$24 million (2018: HK$103 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 39D). The carrying amount of the self–occupied buildings at 31 December 2019 would have been HK$692 million (2018: HK$718 million) had the buildings been stated at cost less accumulated depreciation.

19 Investment Properties and Other Property, Plant and Equipment *(continued)*

C Right-of-use Assets *(continued)*

(ii) Other Self-occupied Buildings Leased for Own Use

The Group has obtained the right to use other properties as its offices through tenancy agreements. The leases typically run for an initial period of 4 to 7 years.

(iii) Other Leases

The Group leases plant and equipment under leases expiring from 2 to 20 years. Some leases include an option to renew the lease when all terms are renegotiated, while some include an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

D Properties Leased Out under Operating Leases

The Group leases out investment properties and station kiosks, including duty free shops, under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date, at which time all terms will be renegotiated. Lease payments are adjusted periodically to reflect market rentals. Certain leases carry additional rental based on turnover, some of which are with reference to thresholds. Lease incentives granted are amortised in the consolidated profit and loss account as an integral part of the net lease payment receivable.

The gross carrying amount of investment properties of the Group held for use in operating leases were HK$84,624 million (2018: HK$82,676 million). The costs of station kiosks of the Group held for use in operating leases were HK$775 million (2018: HK$751 million) and the related accumulated depreciation charges were HK$493 million (2018: HK$452 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

in HK$ million	**2019**	2018
Within 1 year	**8,466**	8,388
After 1 year but within 2 years	**6,629**	6,364
After 2 year but within 3 years	**4,234**	4,638
After 3 year but within 4 years	**985**	2,971
After 4 year but within 5 years	**305**	651
After 5 years	**341**	481
	20,960	23,493

E

In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars ("Lease Transaction") involving a total original cost of HK$2,562 million and a total net book value of HK$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors based on terms ranging from 21 to 29 years with an obligation to pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at the expiry of the lease term for fixed amounts. Part of the rental prepayments received from the Investors has been invested in debt securities to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. The Group has an obligation to replace these debt securities with other debt securities in the event those securities do not meet certain credit ratings requirements. In addition, the Group has provided standby letters of credit to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms.

The Group retains legal title to the assets and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, an amount of approximately HK$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value of approximately HK$3,533 million in March 2003. This resulted in the Group having received in 2003 an amount of HK$141 million net of costs. As the Group is not able to control the investment account in pursuit of its own objectives and its obligations to pay the lease payments are funded by the proceeds of the above investments, those obligations and investments in the Defeasance Securities were not recognised in March 2003 as liabilities and assets of the Group. The net amount of cash received was accounted for as deferred income by the Group and amortised to the consolidated profit and loss account over the lease period until 2008, when credit ratings of some of these Defeasance Securities were downgraded and subsequently replaced by standby letters of credit, the charge on which had fully offset the remaining balance of the deferred income.

20 Service Concession Assets

Movements and analysis of the Group's service concession assets are as follows:

The Group

	KCRC Rail Merger						
in HK$ million	Initial concession property	Additional concession property	Additional concession property (High Speed Rail)	Shenzhen Metro Longhua Line	MTR Nordic	TfL Rail/ Elizabeth Line	Total
2019							
Cost							
At 1 January 2019	**15,226**	**15,397**	**1**	**8,587**	**84**	**56**	**39,351**
Net additions during the year	**–**	**2,232**	**50**	**75**	**–**	**–**	**2,357**
Disposals	**–**	**(53)**	**–**	**(45)**	**(4)**	**–**	**(102)**
Transfer from other property, plant and equipment (note 19)	**–**	**6**	**–**	**–**	**–**	**–**	**6**
Exchange differences	**–**	**–**	**–**	**(157)**	**(4)**	**2**	**(159)**
At 31 December 2019	**15,226**	**17,582**	**51**	**8,460**	**76**	**58**	**41,453**
Accumulated amortisation							
At 1 January 2019	**3,375**	**2,825**	**–**	**2,584**	**65**	**29**	**8,878**
Charge for the year	**305**	**719**	**–**	**401**	**2**	**7**	**1,434**
Written-off on disposals	**–**	**(35)**	**–**	**(27)**	**(1)**	**–**	**(63)**
Exchange differences	**–**	**–**	**–**	**(55)**	**(3)**	**1**	**(57)**
At 31 December 2019	**3,680**	**3,509**	**–**	**2,903**	**63**	**37**	**10,192**
Net book value at 31 December 2019	**11,546**	**14,073**	**51**	**5,557**	**13**	**21**	**31,261**
2018							
Cost							
At 1 January 2018	15,226	13,114	–	9,000	84	59	37,483
Net additions during the year	–	2,353	1	63	–	–	2,417
Disposals	–	(84)	–	(19)	–	–	(103)
Transfer from other property, plant and equipment (note 19)	–	14	–	–	–	–	14
Exchange differences	–	–	–	(457)	–	(3)	(460)
At 31 December 2018	15,226	15,397	1	8,587	84	56	39,351
Accumulated amortisation							
At 1 January 2018	3,070	2,242	–	2,290	62	22	7,686
Charge for the year	305	641	–	435	3	8	1,392
Written-off on disposals	–	(58)	–	(6)	–	–	(64)
Exchange differences	–	–	–	(135)	–	(1)	(136)
At 31 December 2018	3,375	2,825	–	2,584	65	29	8,878
Net book value at 31 December 2018	11,851	12,572	1	6,003	19	27	30,473

Shenzhen Metro Longhua Line ("SZL4") forms part of the Shenzhen Metro, which is operated by a wholly-owned subsidiary, MTR Corporation (Shenzhen) Limited ("MTRSZ"). There has been no increase in fare since MTRSZ started operating the line in 2010. Currently, the Shenzhen Municipal Government is in the planning process to implement a fare adjustment mechanism in the Shenzhen Metro Network. Based on progress of the fare adjustment made to date, no impairment loss is recognised at 31 December 2019. If a suitable fare adjustment mechanism is not put in place, the long-term financial viability of SZL4 is expected to be impacted.

Initial concession property relates to the payments recognised at inception of the Rail Merger with KCRC while additional concession property relates to the expenditures for the upgrade of the initial concession property after inception of the Rail Merger. Additional concession property (High Speed Rail) relates to the expenditures for the upgrade of the concession property of High Speed Rail.

21 Railway Construction Projects under Entrustment by the HKSAR Government

A Hong Kong Section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project

(a) HSR Preliminary Entrustment Agreement

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

(b) HSR Entrustment Agreement

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the HSR on the understanding that the Company would subsequently be invited to undertake the operation of the HSR under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the HSR (the "**HSR Entrustment Agreement**"). Pursuant to the HSR Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the HSR and the HKSAR Government, as owner of HSR, is responsible for bearing and financing the full amount of the total cost of such activities (the "**Entrustment Cost**") and for paying to the Company a fee in accordance with an agreed payment schedule (the "**HSR Project Management Fee**") (subsequent amendments to these arrangements are described below). As at 31 December 2019 and up to the date of this annual report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

The HKSAR Government has the right to claim against the Company if the Company breaches the HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the HSR Project Management Fee and any other fees that the Company receives under the HSR Entrustment Agreement and certain fees received by the Company under the HSR Preliminary Entrustment Agreement (the "**Liability Cap**"). In accordance with general principles of law, such Liability Cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has reserved the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (as defined hereunder) (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement (as more particularly described in note 21A(c)(iv) below), up to the date of this annual report, no claim has been received from the HKSAR Government.

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

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

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

As a result of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "**Revised Cost Estimate**"). Further particulars relating to the Revised Cost Estimate are set out in notes 21A(c) and (e) below.

(c) HSR Agreement

On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "**HSR Agreement**") relating to the further funding and completion of the HSR. The HSR Agreement contains an integrated package of terms (subject to conditions as set out in note 21A(c)(vi) below) and provides that:

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

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

(iii) The Company will pay a special dividend in cash of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share in cash in each tranche) ("**Special Dividend**"). The first tranche was paid on 13 July 2016 and the second tranche was paid on 12 July 2017;

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project *(continued)*

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

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
- seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;

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

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

- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and
- HKSAR Legislative Council approval in respect of the HKSAR Government's additional funding obligations.

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

(d) Operations of HSR

On 23 August 2018, the Company and KCRC entered into the SSCA–HSR to supplement the SCA dated 9 August 2007 in order for KCRC to grant a concession to the Company in respect of the HSR and to prescribe the operational and financial requirements that will apply to the HSR. The commercial operation of HSR began on 23 September 2018.

(e) Based on the Company's latest review of the Revised Cost Estimate for the agreed scope of the project and having taken account of the opinion of independent experts including one on the review of the Revised Cost Estimate, the Company believes that, although the latest final project cost is likely to come close to the Revised Cost Estimate, the Revised Cost Estimate is still achievable and there is no current need to revise further such estimate. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach settlement based on past experience.

Having considered the number of contracts yet to be finalised and the contingency allowance currently available, there can be no absolute assurance that the final project cost will not exceed the Revised Cost Estimate, particularly if unforeseen difficulties arise in the resolution of commercial issues during the process of negotiating the final accounts. In such case, under the terms of the HSR Agreement, the Company will be required to bear and finance the portion of the project cost that exceeds the Revised Cost Estimate (if any) except for certain agreed excluded costs (as more particularly described in note 21A(c)(ii) above).

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

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe based on information available to date there is any need to revise further the Revised Cost Estimate. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach settlement;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in note 21A(c)(iv) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the HSR Agreement, cannot take place until after commencement of commercial operations on the HSR) (as of 31 December 2019 and up to the date of this annual report); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and

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

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project *(continued)*

(g) During the year ended 31 December 2019, HSR Project Management Fee of HK$78 million (2018: HK$402 million) was recognised in the consolidated profit and loss account. As at 31 December 2019, the total HSR Project Management Fee and the additional fees referred to above recognised to date in the consolidated profit and loss account amounted to HK$6,548 million (as at 31 December 2018: HK$6,470 million).

In relation to the sufficiency of the HSR Project Management Fee, the Company estimated that the total costs to complete performance of its obligations in relation to the HSR project are likely to exceed the HSR Project Management Fee. Accordingly, an appropriate amount of provision was recognised in the profit and loss account.

B Shatin to Central Link ("SCL") Project

(a) SCL Agreements

The Company and the HKSAR Government entered into the SCL Preliminary Entrustment Agreement ("**SCL EA1**") in 2008, the SCL Advance Works Entrustment Agreement ("**SCL EA2**") in 2011, and the SCL Entrustment Agreement ("**SCL EA3**") in 2012 (together, the "**SCL Agreements**"), in relation to the SCL.

Pursuant to the SCL EA1, the Company is responsible for carrying out or procuring the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible for funding directly the total cost of such activities.

Pursuant to the SCL EA2, the Company is responsible for carrying out or procuring the carrying out of the agreed works while the HKSAR Government is responsible for bearing and paying to the Company all the work costs ("**EA2 Advance Works Costs**").

The funding for both SCL EA1 and SCL EA2 has been obtained by the HKSAR Government.

The SCL EA3 was entered into in 2012 for the construction and commissioning of the SCL. The HKSAR Government is responsible for bearing all the work costs specified in the SCL EA3 including costs to contractors and costs to the Company ("**Interface Works Costs**") (which the Company would pay upfront and recover from the HKSAR Government) except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The total sum entrusted to the Company by the HKSAR Government for the main construction works under the SCL EA3, including project management fee, is HK$70,827 million ("**Original Entrusted Amount**").

The Company is responsible for carrying out or procuring the carrying out of the works specified in the SCL Agreements for a SCL Project Management Fee of HK$7,893 million (the "**Original PMC**"). As at 31 December 2019 and up to the date of this annual report, the Company has received payments of the Original PMC from the HKSAR Government in accordance with the original agreed payment schedule. During the year ended 31 December 2019, Original PMC of HK$857 million (2018: HK$891 million) was recognised in the consolidated profit and loss account. As at 31 December 2019, the total Original PMC recognised to date in the consolidated profit and loss account amounted to HK$7,328 million (as at 31 December 2018: HK$6,471 million).

As mentioned above, the EA2 Advance Works Costs and the Interface Works Costs are payable by the HKSAR Government to the Company. During the year ended 31 December 2019, the total of these costs payable by the HKSAR Government to the Company were HK$343 million (2018: HK$401 million). As at 31 December 2019, the amount of such costs which remained outstanding from the HKSAR Government was HK$1,219 million (as at 31 December 2018: HK$1,107 million).

(b) SCL EA3 Cost Overrun

(i) Cost to Complete

The Company has previously announced that, due to the continuing challenges posed by external factors, the Original Entrusted Amount under SCL EA3 would not be sufficient to cover the total estimated cost to complete ("**CTC**") and would need to be revised upwards significantly. The Company carried out a detailed review of the estimated CTC for the main construction works in 2017 and submitted a revised estimated total CTC of HK$87,328 million ("**2017 CTC Estimate**") to the HKSAR Government on 5 December 2017, taking into account a number of factors, including issues such as archaeological relics, the HKSAR Government's requests for additional scope and late or incomplete handover of construction sites. The 2017 CTC Estimate represented an increase to the CTC of HK$16,501 million, including an increase in the SCL Project Management Fee payable to the Company. Since submission of the 2017 CTC Estimate to the HKSAR Government, the Company has been liaising with the HKSAR Government to facilitate their review and verification process.

The Company then carried out and completed a further review and revalidation of the CTC and, on 10 February 2020, notified the HKSAR Government, in accordance with the terms of the SCL EA3, of the latest estimate of the CTC, being HK$82,999 million ("**2020 CTC Estimate**"), including additional project management fee payable to the Company of HK$1,371 million ("**Additional PMC**"), being the additional cost to the Company of carrying out its remaining project management responsibilities under the SCL EA3, as detailed in note 21B(b)(ii) below but excluding the Hung Hom Incidents Related Costs in respect of which the Company has already made a provision of HK$2 billion in its consolidated profit and loss account for the year ended 31 December 2019 (as detailed in note 21B(c) below). The 2020 CTC Estimate represents an increase of HK$12,172 million from the Original Entrusted Amount of HK$70,827 million, which is less than the increase in the 2017 CTC Estimate of HK$16,501 million.

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

In accordance with the terms of SCL EA3, the HKSAR Government will now seek the approval of Legislative Council for additional funding required for the SCL Project so that the SCL can be completed. For the avoidance of doubt, the amount sought by the HKSAR Government will exclude the Hung Hom Incidents Related Costs (as detailed in note 21B(c)(ii) below) and (as notified by the HKSAR Government and reflected its paper for the first stage of the Legislative Council process for the approval of additional funding for the SCL Project) any Additional PMC for the Company as further detailed in note 21B(b)(ii) below.

(ii) Additional PMC

As mentioned above, the Company is responsible for carrying out or procuring the execution of the works specified in the existing entrustment agreements relating to the SCL Project and the HKSAR Government, as the owner of the SCL, is responsible for bearing and financing the full amount of the total cost of such activities and for paying to the Company the Original PMC of HK$7,893 million in accordance with an agreed payment schedule. As detailed in note 21B(b)(i) above and as previously disclosed by the Company, the programme for the delivery of the SCL Project has been significantly impacted by certain key external events, including the discovery of archaeological relics in the Sung Wong Toi Station area, requests for additional scope and the late or incomplete handover by third parties of construction sites to the Company. Not only do these matters increase the cost of works they also increase the cost to the Company of carrying out its project management responsibilities under the relevant SCL entrustment agreement, this increase estimated to be around HK$1,371 million. Regular updates have been provided to, and discussions have been held with, the HKSAR Government on the delays to the programme for the delivery of the SCL Project and the associated impacts on the CTC including the Additional PMC.

Given such significant modifications to the project programme and the associated increase in the project management costs of the Company and following the Company's receipt of independent expert advice, the Company believes that it is entitled (in accordance with the terms of the SCL EA3) to an increase in the project management fee, to be agreed by way of good faith negotiations or otherwise determined in accordance with the provisions of the SCL EA3. Accordingly, as stated above, the Company has included the Additional PMC of HK$1,371 million in the 2020 CTC Estimate notified to the HKSAR Government, reflecting the additional scope of work and programme extension.

The HKSAR Government has advised the Company that: (i) the HKSAR Government considers there has been no material modification in respect of the SCL Project and, therefore, the HKSAR Government disagrees to the inclusion of any Additional PMC in the CTC; and (ii) in the HKSAR Government's applications to the Legislative Council for additional funding for the SCL Project, the HKSAR Government will not make any provision for any Additional PMC for the Company.

The Company notes that the HKSAR Government has issued its paper for the first stage of the Legislative Council process for the approval of additional funding for the SCL Project and that the HKSAR Government's paper does not include any provision by the HKSAR Government for any Additional PMC for the Company.

The Board is of the view that the Company's entitlement to any Additional PMC should be resolved with the HKSAR Government in accordance with the terms of the SCL EA3.

Despite the fact that this matter needs to be resolved, the Company will, in the interim, continue to comply with its project management obligations under the SCL EA3 and meet the costs thereof, to allow (subject to the availability of additional funding for the cost of the project works) the SCL Project to progress in accordance with the latest programme.

Given the uncertainty and potential financial impact to the Company in connection with the Additional PMC, at the appropriate time following further developments relating to this matter, the Company will recognise a provision in its consolidated profit and loss account for an amount of up to HK$1,371 million to reflect the additional cost to the Company of completing its remaining project management responsibilities.

(c) Hung Hom Incidents

As stated in the Company's announcement dated 18 July 2019, towards the end of the first half of 2018, there were allegations concerning workmanship in relation to the Hung Hom Station extension ("**First Hung Hom Incident**"). The Company took immediate steps to investigate the issues, report the Company's findings to the HKSAR Government and reserve the Company's position against relevant contractors. To address the First Hung Hom Incident, the Company submitted to the HKSAR Government a holistic proposal for the verification and assurance of the as-constructed conditions and workmanship quality of the Hung Hom Station extension.

In late-2018 and early 2019, the Company advised the HKSAR Government of an insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel, the South Approach Tunnel and the Hung Hom Stabling Sidings, forming an addition to the First Hung Hom Incident ("**Second Hung Hom Incident**"). To address the Second Hung Hom Incident, the Company submitted to the HKSAR Government a verification proposal for verification of the as-constructed condition and workmanship quality of these areas.

*(i) Commission of Inquiry ("**COI**")*

On 10 July 2018, the COI was set up by the HKSAR Chief Executive in Council pursuant to the Commissions of Inquiry Ordinance (Chapter 86 of the Laws of Hong Kong). The Company has cooperated fully with the COI. The COI process included hearing of evidence from factual witnesses and reviewing evidence from experts on project management and structural engineering issues. On 29 January 2019, the HKSAR Government made its closing submission to the first phase of the COI in which it stated its view that the Company ought to have provided the required skills and care reasonably expected of a professional and competent project manager but that the Company had failed to do so. On 19 February 2019, the HKSAR Government announced that the terms of reference of the COI had been expanded and approved a further extension of time for the COI to submit its report to the Chief Executive by 30 August 2019, or such time as the Chief Executive in Council may allow. Subsequently, the Chief Executive in Council extended the time for the COI to submit its final report to the Chief Executive to 31 March 2020.

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

*(i) Commission of Inquiry ("**COI**") (continued)*

On 25 February 2019, the COI submitted an interim report to the Chief Executive on its findings and recommendations on matters covered by the original terms of reference. On 26 March 2019, the HKSAR Government published the redacted interim report in which the COI, while recognising it to be an interim report, found that although the Hung Hom Station extension diaphragm wall and platform slab construction works are safe, they were not executed in accordance with the relevant contract in material aspects. The COI also made a number of comments regarding the Company's performance and systems as well as a number of recommendations for the future.

On 18 July 2019, the Company completed and submitted to the HKSAR Government two separate final reports, one in respect of the First Hung Hom Incident and one in respect of the Second Hung Hom Incident, containing, inter alia, proposals for suitable measures required at certain locations to achieve code compliance. These suitable measures are being implemented to enable the SCL Project to be completed for public use in accordance with the latest project programme.

On 22 January 2020, the HKSAR Government reiterated, in its closing submissions on factual evidence for the extended inquiry submitted to the COI, that there was failure on the part of both the Company and the contractor Leighton Contractors Asia Limited to perform the obligations which the two parties undertook for the SCL project and that the Company, which was entrusted by the HKSAR Government as the project manager of the SCL project, ought to have provided the requisite degree of skill and care reasonably expected of a professional and competent project manager. Up to the date of this annual report, no claim has been received from the HKSAR Government in relation to any SCL Agreement (as detailed in note 21B(c)(iii) below).

(ii) Hung Hom Incidents Related Costs

In July 2019, the HKSAR Government accepted the Company's recommendation that the Tuen Ma Line (Tai Wai to Hung Hom Section of the SCL) should open in phases, with the first phase involving the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station ("**Phased Opening**") which occurred on 14 February 2020.

In order to progress the SCL Project and to facilitate the Phased Opening in the first quarter of 2020, the Company announced in July 2019 that it would fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom Incidents and certain costs associated with Phased Opening (being costs for alteration works, trial operations and other costs associated with the preparation activities for the Phased Opening) ("**Hung Hom Incidents Related Costs**"), whilst reserving the Company's position as to the ultimate liability for such costs. Currently, the Company's best estimate of such costs is around HK$2 billion in aggregate. However, there is no certainty that, ultimately, the entirety of this amount will need to be funded.

The Company and the HKSAR Government will continue discussions with a view to reaching an overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the CTC and the Hung Hom Incidents Related Costs. If no overall settlement is reached between the Company and the HKSAR Government within a reasonable period, the provisions of the SCL EA3 shall continue to apply (as they currently do) including in relation to such costs, and the responsibility for the funding of such costs shall be determined in accordance with the SCL EA3.

After taking into account the above and in light of the Company's decision to fund, on an interim and without prejudice basis, the Hung Hom Incidents Related Costs, the Company recognised a provision of HK$2,000 million in its consolidated profit and loss account for the year ended 31 December 2019. Up to 31 December 2019, the Company has committed and/or paid Hung Hom Incidents Related Costs totaling HK$915 million, and no provision was written back during the year. The provision is included in "**Expenses relating to other businesses**" in the consolidated profit and loss account and in "**Creditors, other payables and provisions**" in the consolidated statement of financial position.

This amount does not take into account any potential recovery from any other party (whether in the circumstances that no overall settlement is reached and/or as a result of an award, settlement or otherwise). Accordingly, if any such potential recovery becomes virtually certain, the amount of any such recovery will be recognised and credited to the Company's consolidated profit and loss account in that financial period.

(iii) Potential Claims from and Indemnification to the HKSAR Government

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses incurred by the HKSAR Government as a result of the negligence of the Company in performing its obligations under the relevant SCL Agreement or breach thereof by the Company. Under the SCL EA3, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. In accordance with general principles of law, such cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the COI (as stated in note 21B(b) above), up to the date of this annual report, no claim has been received from the HKSAR Government in relation to any SCL Agreement. It is uncertain as to whether such claim will be made against the Company in the future and, if made, the nature and amount of such claim.

(iv) The eventual outcome of the discussions between the Company and the HKSAR Government on various matters including the timing of any overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the Hung Hom Incidents Related Costs, the level of recovery from relevant parties and the development and eventual outcome relating to the Additional PMC (as detailed in note 21B(b)(ii) above) remain highly uncertain at the current stage. As a result, no additional provision other than the HK$2,000 million referred to above has been made as the Company is currently not able to measure with sufficient reliability the ultimate amount of the Company's obligation or liability arising from the SCL Project as a whole in light of the significant uncertainties involved. While no other provision on the SCL Project related matters was recognised at 31 December 2019, the Company will reassess on an ongoing basis the need to recognise a further provision in future years in light of any further developments.

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

(d) Phased Opening of SCL

On 11 February 2020, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate Tuen Ma Line Phase 1 in substantially the same manner as the existing railway network for a period of two years from 14 February 2020. Prior to the full opening of the Tuen Ma Line, the parties are obliged to commence exclusive negotiations in good faith with a view to agreeing the terms of a supplemental service concession agreement for the entire Tuen Ma Line (which is intended to replace the Supplemental Service Concession Agreement that was executed on 11 February 2020).

22 Property Development in Progress

Pursuant to the project agreements in respect of the construction of railway extensions and the Property Package Agreements in respect of the Rail Merger, the HKSAR Government has granted the Company with development rights on the land over the stations along railway lines.

As at 31 December 2019, the outstanding Hong Kong Property Development Projects of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung Kwan O Area 86 (LOHAS Park) and at the ventilation building in Yau Tong, South Island Line Property Project at sites in Wong Chuk Hang, Kwun Tong Line Extension Property Project at sites in Ho Man Tin and the East Rail Line/Light Rail Property Projects at sites along the related railway lines.

A Property Development in Progress

The Group

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Balance at 31 December
2019					
Hong Kong Property Development Projects	**14,840**	**3,819**	**(662)**	**(5,975)**	**12,022**
2018					
Hong Kong Property Development Projects	14,810	1,121	(912)	(179)	14,840

Leasehold land in Hong Kong included under property development in progress are held under medium-term leases.

B Stakeholding Funds

Being the stakeholder under certain Airport Railway, Tseung Kwan O Extension and East Rail Line Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, are to be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the HKSAR Government Consent Schemes and development agreements. Any balance remaining is to be released for distribution only after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the Group's and the Company's statement of financial position. As at 31 December 2019, the balance of the stakeholding funds was HK$21,283 million (2018: HK$12,075 million).

C West Rail Property Development

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company can receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company can receive 10% of the net profits accrued under the development agreement. The Company can also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During the year ended 31 December 2019, HK$182 million (2018: HK$139 million) agency fee and other income in respect of West Rail property development was recognised (note 12). During the year ended 31 December 2019, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$81 million (2018: HK$94 million).

23 Deferred Expenditure

The Group

in HK$ million	**2019**	2018
Balance at 1 January	**1,878**	710
Expenditure during the year	**70**	1,168
Balance at 31 December	**1,948**	1,878

24 Investments in Subsidiaries

The following list contains the particulars of principal subsidiaries which contribute materially to the Group's results, assets or liabilities:

		Proportion of ownership interest				
Name of company	Issued and paid up ordinary share capital/ registered capital	Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
MTR Academy (HK) Company Limited	HK$10,000	100%	–	100%	Hong Kong	Administering the operation of MTR Academy
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services
Ngong Ping 360 Limited	HK$2	100%	100%	–	Hong Kong	Operating the Tung Chung to Ngong Ping cable car system and theme village in Ngong Ping
Pierhead Garden Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property investment
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network and related services
Metro Trains Melbourne Pty. Ltd.*	AUD39,999,900 AUD100	60% on ordinary shares; 30% on Class A shares	– –	100% on ordinary shares; 100% on Class A shares	Australia	Railway operations and maintenance
Metro Trains Sydney Pty Ltd*	AUD100	60%	–	60%	Australia	Railway operations and maintenance
MTR Corporation (Sydney) NRT Pty Limited	AUD2	100%	–	100%	Australia	Design and delivery of railway related systems
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Financing
MTR Consultadoria (Macau) Sociedade Unipessoal Lda.	MOP25,000	100%	–	100%	Macao	Railway consultancy services
MTR Operações Ferroviárias (Macau) Sociedade Unipessoal Lda. (also known as MTR Railway Operations (Macau) Company Limited)	MOP25,000	100%	–	100%	Macao	Railway operations, management and technical support services
MTR Express (Sweden) AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management
MTR Pendeltågen AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations, maintenance and station management
MTR Tech AB	SEK30,000,000	100%	–	100%	Sweden	Railway maintenance
MTR Tunnelbanan AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR (Beijing) Commercial Facilities Management Co., Ltd.^	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR Corporation (Shenzhen) Limited^	HK$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operations and management
MTR Property Development (Shenzhen) Company Limited#	HK$2,180,000,000	100%	–	100%	The People's Republic of China	Property development, operation, leasing, management and consultancy services
MTR Corporation (Crossrail) Limited	GBP1,000,000	100%	–	100%	United Kingdom	Railway operations and maintenance

* Subsidiaries not audited by KPMG

^ Wholly foreign owned enterprise registered under PRC Law

Sino-foreign equity joint venture registered under PRC Law

25 Interests in Associates and Joint Venture

The following list contains the particulars of material associates and joint ventures, all of which are unlisted corporate entities whose quoted market price is not available:

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Associates						
Octopus Holdings Limited	HK$42,000,000	57.4%	57.4%	–	Hong Kong	Holding company of a group of companies which engage in the operation of a contactless smartcard common payment system in Hong Kong and consultancy services
Beijing MTR Corporation Limited ~	RMB6,380,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Beijing MTR L16 Corporation Limited α	RMB5,000,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction and operations
Hangzhou MTR Corporation Limited *~	RMB4,540,000,000	49%	–	49%	The People's Republic of China	Railway operations and management
First MTR South Western Trains Limited *	GBP100	30%	–	30%	United Kingdom	Railway operations and management
Joint venture						
Hangzhou MTR Line 5 Corporation Limited ~	RMB4,360,000,000	60%	–	60%	The People's Republic of China	Railway electrical and mechanical construction, operations and management

* Companies not audited by KPMG

~ Sino-foreign co-operative joint venture registered under PRC Law

α Limited liability company (wholly owned by a legal person) under PRC Law

All the associates and joint venture are accounted for using the equity method in the consolidated accounts and considered to be not individually material.

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25 Interests in Associates and Joint Venture *(continued)*

The summary financial information of the Group's effective interests in associates and joint venture is as follows:

in HK$ million	2019	2018
Assets	**28,085**	26,061
Liabilities	**(17,765)**	(17,305)
Net assets	**10,320**	8,756
Income	**8,424**	9,340
Expenses and others	**(7,794)**	(8,412)
Profit before taxation	**630**	928
Income tax	**(342)**	(270)
Net profit	**288**	658
Other comprehensive income	**(185)**	(393)
Total comprehensive income	**103**	265
Group's share of net assets of the associates and JV	**10,320**	8,756
Goodwill	**39**	–
Carrying amount in the consolidated statement of financial position	**10,359**	8,756

In March 2017, the Department for Transport of the United Kingdom ("DfT") awarded the South Western Railway franchise ("Franchise") to First MTR South Western Trains Limited ("SWR"), an associate of the Company which the Company holds a 30% shareholding and FirstGroup plc in the United Kingdom holds a 70% shareholding. Pursuant to a franchise agreement ("Franchise Agreement") with DfT, the period of the Franchise runs from 20 August 2017 for seven years, with an option for an eleven-month extension at the discretion of the DfT. As noted in the Company's 2018 annual accounts, the financial performance of SWR has been impacted by a number of adverse factors (and this has continued since March 2019). SWR continues to be engaged in discussions with the DfT and relevant third parties to agree potential commercial and contractual remedies but, at the current time, there is a range of potential outcomes. Given the level of uncertainty in these outcomes and the potential financial impact of some of the possible scenarios, the Franchise Agreement is considered as an onerous contract. As such, a provision of GBP43 million (HK$436 million) has been made under "share of profit or loss of associates and joint venture" in the consolidated profit and loss account for the year ended 31 December 2019 which represents the Company's 30% share of the maximum potential loss under the Franchise Agreement.

26 Investments in Securities

Investments in securities represented debt securities held by the overseas insurance underwriting subsidiary measured at FVPL. As at 31 December 2019, all debt securities were expected to mature within one year except for HK$332 million (2018: HK$240 million) which were expected to mature after one year.

27 Properties Held for Sale

The Group

in HK$ million	2019	2018
Properties held for sale		
– at cost	**1,125**	1,179
– at net realisable value	**120**	190
	1,245	1,369
Representing:		
Hong Kong property development	**1,034**	1,156
Mainland of China property development	**211**	213
	1,245	1,369

Properties held for sale of the Group at 31 December 2019 comprise properties from property developments in Hong Kong and Mainland of China.

For Hong Kong property development, the net realisable values as at 31 December 2019 and 2018 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value of the Group are stated net of provision of HK$12 million (2018: HK$18 million) made in order to state these properties at the lower of their cost and estimated net realisable value. Leasehold land in Hong Kong included under properties held for sale are held under medium-term leases.

28 Derivative Financial Assets and Liabilities

A Fair Value

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of derivative financial instruments outstanding are as follows:

The Group

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2019							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	51	1					
– inflow			42	10	–	–	52
– outflow			(41)	(10)	–	–	(51)
– not qualified for hedge accounting:	721	19					
– inflow			640	84	–	–	724
– outflow			(622)	(82)	–	–	(704)
Cross currency swaps							
– fair value hedges:	698	9					
– inflow			1	1	5	700	707
– outflow			–	–	–	(698)	(698)
– cash flow hedges:	8,430	139					
– inflow			244	245	737	9,276	10,502
– outflow			(218)	(218)	(657)	(9,214)	(10,307)
– hedges of net investments:	64	1					
– inflow			67	–	–	–	67
– outflow			(66)	–	–	–	(66)
Net settled:							
Interest rate swaps							
– fair value hedges	8,841	12	14	2	2	–	18
– cash flow hedges	1,250	14	11	4	–	–	15
– not qualified for hedge accounting	1,913	3	2	2	2	–	6
	21,968	198	74	38	89	64	265
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	321	11					
– inflow			150	135	22	2	309
– outflow			(154)	(142)	(23)	(2)	(321)
– hedges of net investments:	1,984	16					
– inflow			1,984	–	–	–	1,984
– outflow			(2,000)	–	–	–	(2,000)
– not qualified for hedge accounting:	783	15					
– inflow			650	118	–	–	768
– outflow			(663)	(120)	–	–	(783)
Cross currency swaps							
– cash flow hedges:	5,446	350					
– inflow			78	79	504	8,136	8,797
– outflow			(101)	(100)	(633)	(8,343)	(9,177)
Net settled:							
Interest rate swaps							
– fair value hedges	3,785	11	(14)	(3)	(2)	–	(19)
– cash flow hedges	100	3	–	–	(1)	(1)	(2)
– not qualified for hedge accounting	783	2	–	–	–	–	–
	13,202	408	(70)	(33)	(133)	(208)	(444)
Total	35,170						

28 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2018							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	137	1					
– inflow			20	19	99	–	138
– outflow			(19)	(19)	(99)	–	(137)
– not qualified for hedge accounting:	73	–					
– inflow			37	36	–	–	73
– outflow			(37)	(36)	–	–	(73)
Cross currency swaps							
– cash flow hedges:	277	25					
– inflow			12	12	36	332	392
– outflow			(8)	(8)	(22)	(329)	(367)
Net settled:							
Interest rate swaps							
– fair value hedges	961	5	5	7	(1)	–	11
– cash flow hedges	1,350	30	11	12	7	2	32
	2,798	61	21	23	20	5	69
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	1,169	13					
– inflow			546	520	87	3	1,156
– outflow			(554)	(524)	(88)	(3)	(1,169)
– hedges of net investments:	2,039	14					
– inflow			2,022	–	–	–	2,022
– outflow			(2,036)	–	–	–	(2,036)
– not qualified for hedge accounting:	202	6					
– inflow			196	–	–	–	196
– outflow			(202)	–	–	–	(202)
Cross currency swaps							
– fair value hedges:	698	9					
– inflow			1	1	5	675	682
– outflow			–	–	–	(698)	(698)
– cash flow hedges:	10,935	469					
– inflow			311	310	1,203	11,534	13,358
– outflow			(312)	(312)	(1,278)	(11,948)	(13,850)
– hedges of net investments:	64	3					
– inflow			3	67	–	–	70
– outflow			(2)	(71)	–	–	(73)
Net settled:							
Interest rate swaps							
– fair value hedges	1,550	31	(6)	(8)	(16)	(2)	(32)
	16,657	545	(33)	(17)	(87)	(439)	(576)
Total	19,455						

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps entered into exclusively by the Company, and the relevant interest rate swap curves as of 31 December 2019 and 2018 were used to discount the cash flows of financial instruments. Interest rates used ranged from 1.760% to 2.666% (2018: 2.110% to 2.485%) for Hong Kong dollars, 1.630% to 2.010% (2018: 2.411% to 3.005%) for US dollars, 0.809% to 1.768% (2018: 1.868% to 2.735%) for Australian dollars and 0.012% to 0.124% (2018: 0.008% to 0.380%) for Japanese yen.

The table above details the remaining contractual maturities at the end of reporting period of the Group's derivative financial assets and liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group can be required to pay. The details of the fair value measurement are disclosed in note 41.

28 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") for the Company is an integral part of its risk management policies. The Model specifies, amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Company's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management policies and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Company are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient cash balance and/or undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 12 to 24 months of projected cash requirements at the parent company level as specified in the Model. The Company also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's loans and other obligations other than lease liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group can be required to pay:

The Group

	2019				2018			
in HK$ million	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	**25,138**	**887**	**–**	**26,025**	25,830	1,225	610	27,665
Amounts repayable within a period of between 2 and 5 years	**4,517**	**3,001**	**624**	**8,142**	4,470	6,583	–	11,053
Amounts repayable within a period of between 1 and 2 years	**1,029**	**254**	**–**	**1,283**	2,310	371	–	2,681
Amounts repayable within 1 year	**3,513**	**9,489**	**–**	**13,002**	1,199	8,345	–	9,544
	34,197	**13,631**	**624**	**48,452**	33,809	16,524	610	50,943

Others represent obligations under lease out/lease back transaction (note 19E).

28 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities at the parent company level (including its financing vehicles). Borrowings based on fixed and floating rates expose the Group to fair value and cash flow interest rate risk respectively due to fluctuations in market interest rates. The Group manages and controls its interest rate risk exposure at the parent company level by maintaining a level of fixed rate debt between 45% and 75% (2018: 45% and 75%) of total debt outstanding as specified by the Model. Should the actual fixed rate debt level deviate substantially from the Model, derivative financial instruments such as interest rate swaps would be procured to align the fixed and floating mix with the Model. As at 31 December 2019, 63% (2018: 61%) of the Company's (including financing vehicles) total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps. Interest rate risk at subsidiary, associate and joint venture companies are managed separately based on their own borrowing requirement, circumstances and market practice.

As at 31 December 2019, it is estimated that a 100 basis points increase/100 basis points decrease in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately HK$46 million/HK$51 million. Other components of consolidated equity would increase/decrease by approximately HK$30 million/HK$30 million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The interest rate assumptions represent management's assessment of a reasonable possible change in interest rates over the period until the next annual financial period.

In 2018, a similar analysis was performed based on the assumption of a 100 basis points increase/100 basis points decrease in interest rates, which would increase/decrease the Group's profit after tax and retained profits by approximately HK$117 million/HK$109 million. Other components of consolidated equity would increase/decrease by approximately HK$89 million/HK$97 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency other than the functional currency of the Group's companies to which they relate. For the Group, it arises principally from its borrowing as well as overseas investment and procurement activities.

The Group manages and controls its foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt at the parent company level as specified by the Model, and minimal foreign exchange open positions created by its investments and procurements overseas. Where the currency of a borrowing is not matched with that of the expected cash flows for servicing the debt, the Company would convert its foreign currency exposure resulting from the borrowing to Hong Kong dollar exposure through cross currency swaps. For investment and procurement in foreign currencies, the Group would purchase the foreign currencies in advance or enter into foreign exchange forward contracts to secure the necessary foreign currencies at pre-determined exchange rates for settlement.

The Company's exposure to US dollars due to its foreign currency borrowings is also offset by the amount of US dollar cash balances, bank deposits and investments that it maintains.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars, British Pound or Swedish Krona) or United States dollars (with which Hong Kong dollars are pegged) and most of its payment commitments denominated in foreign currencies are covered by foreign exchange forward contracts, management does not expect that there will be any significant currency risk associated with them.

(iv) Credit Risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from the deposits it maintains and the derivative financial instruments that it has entered into with various banks and counterparties as well as from the Defeasance Securities it procured under the lease out/lease back transaction (note 19E). The Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings or guarantee, and diversifying its exposure to various counterparties.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce counterparty risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits and investments are similarly subject to a separate maximum counterparty/issuer limit based on the respective counterparty/issuer's credit ratings and/or status as Hong Kong's note-issuing banks. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty or investment from an issuer based upon the counterparty/issuer's credit ratings. Deposit/investment outstanding and maturity profile are monitored regularly to ensure they are within the limits established for the counterparties/issuers. In addition, the Group actively monitors the credit default swap levels of counterparties/issuers and their daily changes, and may on the basis of the observed levels and other considerations adjust its exposure and/or maximum counterparty/issuer limit to the relevant counterparty.

As at the end of the reporting period, the maximum exposure to credit risk of the Group with respect to derivative financial assets and bank deposits is represented respectively by the carrying amount of the derivative financial assets and the aggregate amount of deposits on its statement of financial position. As at the end of the reporting period, there was no significant concentration risk to a single counterparty.

In addition, the Company also manages and controls its exposure to credit risks in respect of receivables as stated in note 30.

29 Stores and Spares

As at 31 December 2019, stores and spares net of provision for obsolete stock of HK$21 million (2018: HK$14 million) amounted to HK$1,844 million (2018: HK$1,673 million), of which HK$1,310 million (2018: HK$1,134 million) is expected to be consumed within 1 year and HK$534 million (2018: HK$539 million) is expected to be consumed after 1 year. Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

30 Debtors and Other Receivables

The Group's credit policies in respect of receivables arising from its principal activities are as follows:

(i) The majority of fare revenue from Hong Kong transport operation (except for that from the High Speed Rail as described in note 30(ii) below) is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.

(ii) In respect of the High Speed Rail, tickets are sold by the Company and other mainland train operators. The clearance centre of China Railway Corporation administers the revenue allocation and settlement system of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and allocates the revenue of the High Speed Rail to the Company under a "section-based" approach with settlement in the following month.

(iii) Fare revenue from Shenzhen Metro Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTR Express is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month.

(iv) Franchise revenue in Melbourne is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue from operations in Stockholm is collected in the transaction month with the remainder being collected in the following month. Concession revenue for MTR Crossrail is collected once every 4 weeks. Service fees from Macao Light Rapid Transit Taipa Line are billed monthly with due dates in accordance with the terms of the service agreement.

(v) Rentals, advertising and telecommunication service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

(vi) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.

(vii) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.

(viii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.

(ix) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing of debtors is analysed as follows:

in HK$ million	**2019**	2018
Amounts not yet due	**2,775**	2,807
Overdue by 30 days	**153**	275
Overdue by 60 days	**59**	34
Overdue by 90 days	**41**	10
Overdue by more than 90 days	**192**	91
Total debtors	**3,220**	3,217
Other receivables and contract assets	**7,949**	6,359
	11,169	9,576

Included in other receivables as at 31 December 2019 was HK$2,813 million (2018: HK$1,959 million) in respect of property development profit in Hong Kong distributable from stakeholding funds based on the terms of the development agreements and sales and purchase agreements.

During the years ended 31 December 2017 and 2018, the Inland Revenue Department of Hong Kong ("IRD") issued notices of assessment/additional assessment for the years of assessment 2010/2011 to 2017/2018 following queries in connection with the tax deductibility of certain payments relating to the Rail Merger.

30 Debtors and Other Receivables *(continued)*

Based on the strength of advice from external senior counsels and tax advisor, the directors of the Company have determined to strongly contest the assessments raised by the IRD. The Company has lodged objections against these tax assessments and has applied to hold over the additional tax demanded. The IRD has agreed to the holdover of the additional tax demanded subject to the purchases of tax reserve certificates ("TRCs") amounting to HK$1,816 million and HK$462 million in 2017 and 2018 respectively. The purchases of TRCs do not prejudice the Company's tax position and the purchased TRCs were included in debtors and other receivables in the Group's consolidated statement of financial position. No additional tax provision has been made during the years ended 31 December 2018 and 2019 in respect of the above notices of assessment/ additional assessment.

On 23 March 2017, MTR Property (Tianjin) No.1 Company Limited ("MTR TJ No.1") entered into a Framework Agreement comprising, inter alia, a Share Transfer Agreement, with Tianjin Xingtai Jihong Real Estate Co., Ltd. ("TJXJRE"), a wholly-owned subsidiary of Beijing Capital Land Ltd., for the disposal of MTR TJ No.1's 49% equity interest in Tianjin TJ – Metro MTR Construction Company Limited ("Tianjin TJ – Metro MTR") at a consideration of RMB1.3 billion; and MTR TJ No.1's conditional future acquisition of a shopping centre to be developed on the same site at a consideration of RMB1.3 billion subject to the agreement of Tianjin TJ – Metro MTR. The disposal was completed on 10 July 2017 and consequently a prepayment is recognised on the consolidated statement of financial position. A performance bond in the amount of RMB1.6 billion issued by a Hong Kong licensed bank has been provided by TJXJRE to MTR TJ No.1 to guarantee its obligations under the Framework Agreement.

The Group's exposure to credit risk on debtors and other receivables mainly relates to debtors relating to rental receivables in Hong Kong and franchise fee/project fee receivables outside of Hong Kong. Given the Group's policy is to receive rental deposits from tenants in Hong Kong and the debtors in relation to the franchise fee/project fee receivables outside of Hong Kong are government related entities, the Group considers the credit risk is low and the expected credit loss is immaterial.

As at 31 December 2019, all debtors and other receivables were expected to be recovered within one year except for amounts relating to deposits and other receivables of HK$2,548 million (2018: HK$2,429 million) in the Group which were expected to be recovered after more than one year. The nominal values less credit losses are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	**2019**	2018
Australian dollars	**8**	8
Renminbi	**66**	–
Macau pataca	**–**	63
United States dollars	**8**	8

31 Amounts Due from Related Parties

in HK$ million	**2019**	2018
Amounts due from:		
– HKSAR Government	**1,783**	1,713
– KCRC	**1,159**	215
– associates	**99**	160
	3,041	2,088

As at 31 December 2019, the amount due from the HKSAR Government mainly related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the South Island Line and Kwun Tong Line Extension projects, reimbursement of the fare revenue difference in relation to the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, agency fee receivables and reimbursable costs in respect of West Rail property development (note 22C), as well as receivables and retention for other entrustment and maintenance works.

The amount due from KCRC mainly related to the recoverable cost for certain capital works in accordance with the agreements in relation to the Rail Merger, as well as amounts in relation to the High Speed Rail.

The amounts due from associates as at 31 December 2019 included a loan to First MTR South Western Trains Limited of amount GBP nil (HK$nil) (2018: GBP9 million (HK$90 million)) net of impairment loss, with repayment due by 31 March 2023.

Given the amounts due from related parties mainly related to HKSAR Government and government related entity, the Group considers the credit risk is low and the expected credit loss is immaterial.

As at 31 December 2019, all amounts due from related parties were expected to be recovered within one year except for HK$1,156 million (2018: HK$333 million) which were expected to be recovered after more than one year. The carrying amounts of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

32 Cash, Bank Balances and Deposits

in HK$ million	2019	2018
Deposits with banks and other financial institutions	**13,892**	11,229
Cash at banks and on hand	**7,294**	6,793
Cash, bank balances and deposits	**21,186**	18,022
Less: Bank deposits with more than three months to maturity when placed or pledged deposits (note 33E)	**(12,840)**	(9,157)
Cash and cash equivalents in the cash flow statement	**8,346**	8,865

Included in cash, bank balance and deposits in the consolidated statement of financial position are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	2019	2018
Australian dollars	**16**	49
Euros	**8**	11
Japanese yen	**893**	109
Pound sterling	**8**	6
Renminbi	**1**	160

33 Loans and Other Obligations

A By Type

The Group

	2019			2018		
in HK$ million	Carrying amount	Fair value	Repayable amount	Carrying amount	Fair value	Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2026 to 2047 (2018: due during 2026 to 2047)	**8,712**	**10,110**	**8,852**	8,738	9,367	8,853
Unlisted:						
Debt issuance programme notes due during 2020 to 2055 (2018: due during 2019 to 2055)	**15,492**	**17,418**	**15,973**	14,803	16,269	15,293
Total capital market instruments	**24,204**	**27,528**	**24,825**	23,541	25,636	24,146
Bank loans	**10,141**	**10,142**	**10,147**	11,312	11,312	11,331
Lease liabilities	**1,241**	**1,311**	**1,241**	450	553	450
Others	**499**	**573**	**499**	478	540	478
Loans and other obligations	**36,085**	**39,554**	**36,712**	35,781	38,041	36,405
Short-term loans	**3,371**	**3,371**	**3,371**	4,424	4,424	4,424
Total	**39,456**	**42,925**	**40,083**	40,205	42,465	40,829

Others include non-defeased obligations under lease out/lease back transaction (note 19E).

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that is available to the Group for similar financial instruments. The carrying amounts of short-term loans and bank overdrafts approximated their fair values. Details of the fair value measurement are disclosed in note 41.

33 Loans and Other Obligations *(continued)*

A By Type *(continued)*

The amounts of borrowings, denominated in a currency other than the functional currency of the entity to which they relate, before and after currency hedging activities are as follows:

The Group

	Before hedging activities		After hedging activities	
in million	**2019**	2018	**2019**	2018
Australian dollars	**431**	431	**–**	–
Japanese yen	**15,000**	15,000	**–**	–
United States dollars	**1,130**	1,030	**–**	–

B By Repayment Terms

The Group

	2019					2018				
in HK$ million	Capital market instruments	Bank loans and overdrafts	Lease liabilities	Others	Total	Capital market instruments	Bank loans and overdrafts	Lease liabilities	Others	Total
Loans and other obligations										
Amounts repayable beyond 5 years	**18,738**	**978**	**27**	**–**	**19,743**	19,238	1,218	–	478	20,934
Amounts repayable within a period of between 2 and 5 years	**2,847**	**2,952**	**788**	**499**	**7,086**	2,760	6,164	404	–	9,328
Amounts repayable within a period of between 1 and 2 years	**413**	**217**	**194**	**–**	**824**	1,648	221	46	–	1,915
Amounts repayable within 1 year	**2,827**	**6,000**	**232**	**–**	**9,059**	500	3,728	–	–	4,228
	24,825	**10,147**	**1,241**	**499**	**36,712**	24,146	11,331	450	478	36,405
Short-term loans	**–**	**3,371**	**–**	**–**	**3,371**	–	4,424	–	–	4,424
	24,825	**13,518**	**1,241**	**499**	**40,083**	24,146	15,755	450	478	40,829
Less: Unamortised discount/ premium/finance charges outstanding	**(148)**	**(6)**	**–**	**–**	**(154)**	(155)	(19)	–	–	(174)
Adjustment due to fair value change of financial instruments	**(473)**	**–**	**–**	**–**	**(473)**	(450)	–	–	–	(450)
Total carrying amount of debt	**24,204**	**13,512**	**1,241**	**499**	**39,456**	23,541	15,736	450	478	40,205

The amounts repayable within 1 year in respect of capital market instruments and bank loans are included in long-term loans as these amounts are intended to be refinanced on a long-term basis.

C Bonds and Notes Issued and Redeemed

Notes issued during the years ended 31 December 2019 and 2018 comprise:

The Group

	2019		2018	
in HK$ million	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	**1,183**	**1,183**	1,491	1,488

During the year ended 31 December 2019, MTR Corporation (C.I.) Limited did not issue any of its notes (2018: HK$1,491 million), while the Company issued HK$400 million and USD100 million (or HK$783 million) of its unlisted debt securities (2018: nil). The obligations of the notes issued by the subsidiary are direct, unsecured and unsubordinated to the other unsecured obligations of the subsidiary which are unconditionally and irrevocably guaranteed by the Company. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the year ended 31 December 2019, the Group redeemed HK$500 million of its unlisted debt securities (2018: HK$750 million and USD60 million (or HK$465 million)) and did not redeem any of its listed debt securities (2018: HK$ nil).

33 Loans and Other Obligations *(continued)*

D Lease Liabilities

At 31 December 2019 and 2018, the Group had lease liabilities as follows:

in HK$ million	2019 Present value of the minimum lease payments	2019 Total minimum lease payments	2018 Present value of the minimum lease payments	2018 Total minimum lease payments
Within 1 year	**232**	**276**	–	22
After 1 year but within 2 years	**194**	**235**	46	89
After 2 years but within 5 years	**788**	**876**	404	451
After 5 years	**27**	**28**	–	–
	1,009	**1,139**	450	540
	1,241	**1,415**	450	562
Less: Total future interest expenses		**(174)**		(112)
Present value of lease obligations		**1,241**		450

E Guarantees and Pledges

(i) There were no guarantees given by the HKSAR Government in respect of the loan facilities of the Group as at 31 December 2019 and 2018.

(ii) As at 31 December 2019, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non–fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB1,847 million (2018: RMB2,041 million) bank loan facility granted to it.

Save as disclosed above and those disclosed elsewhere in the accounts, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2019.

34 Creditors, Other Payables and Provisions

in HK$ million	2019	2018
Creditors and accrued charges	**19,315**	18,525
Other payables and provisions (note 21B(c)(ii))	**11,787**	5,306
Contract liabilities	**2,213**	2,116
	33,315	25,947

A Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

in HK$ million	2019	2018
Due within 30 days or on demand	**7,157**	6,152
Due after 30 days but within 60 days	**1,559**	1,142
Due after 60 days but within 90 days	**774**	911
Due after 90 days	**4,978**	4,398
	14,468	12,603
Rental and other refundable deposits	**2,857**	3,209
Accrued employee benefits	**1,990**	2,713
	19,315	18,525

The Group's general payment terms are one to two months from the invoice date.

34 Creditors, Other Payables and Provisions *(continued)*

A Creditors and Accrued Charges *(continued)*

Movements in contract liabilities of the Group during the year ended 31 December 2019 are as follows:

in HK$ million	**2019**	2018
Balance as at 1 January	**2,116**	2,525
Increase in contract liabilities as a result of billing in advance	**1,520**	1,582
Decrease in contract liabilities as a result of revenue recognised during the year that was included in the contract liabilities at the beginning of the period	**(1,410)**	(1,943)
Exchange differences	**(13)**	(48)
Balance as at 31 December	**2,213**	2,116

Contract liabilities mainly arise from construction contracts and other project arrangements, when the Group receives a deposit before the activity commences and until the revenue recognised on the project exceeds the amount of the deposit received. The payment terms are negotiated on a case by case basis with customers.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

Included in creditors and accrued charges are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	**2019**	2018
Australian dollars	**9**	11
Euros	**9**	14
Pound sterling	**3**	3
Renminbi	**8**	140
United States dollars	**12**	17

B Other Payables

Other payables comprised contract retentions and deferred income. Deferred income related to the surplus amounts of payments received from property developers in excess of the balance in property development in progress, the residual balance of deferred income on transfer of assets from customers, as well as the unutilised government subsidy for Shenzhen Metro Longhua Line operation.

As at 31 December 2019, all of the creditors and other payables were expected to be settled or recognised as income within one year except for HK$16,204 million (2018: HK$11,381 million), including contract liabilities of HK$801 million (2018: HK$502 million), of the Group which were expected to be settled or recognised as income after one year. The amounts due after one year for the Group as at 31 December 2019 mainly relate to rental deposits received from investment property and station kiosk tenants and advance income received, majority of which are due to be repaid within three years. The Group considers the effect of discounting would be immaterial.

35 Amounts Due to Related Parties

in HK$ million	2019	2018
Amounts due to:		
– HKSAR Government	**117**	70
– KCRC	**2,873**	2,475
– associates	**–**	131
	2,990	2,676

The amount due to the HKSAR Government as at 31 December 2019 relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2019 mainly relates to the accrued portion of the fixed annual payment and variable annual payment that is expected to be settled within 12 months.

The amount due to associates as at 31 December 2018 mainly related to the amount payable for the equity contribution to NRT Holdings 2 Pty Ltd which had been settled during the year ended 31 December 2019.

36 Obligations under Service Concession

Movements of the Group's obligations under service concessions are as follows:

in HK$ million	2019	2018
Balance as at 1 January	**10,409**	10,470
Add: Net increase in interest payable	**3**	3
Less: Amount repaid during the year	**(59)**	(56)
Exchange differences	**(3)**	(8)
Balance as at 31 December	**10,350**	10,409

The outstanding balances as at 31 December 2019 and 2018 are repayable as follows:

The Group

	2019			2018		
in HK$ million	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	**9,978**	**15,013**	**24,991**	10,064	15,637	25,701
Amounts repayable within a period of between 2 and 5 years	**238**	**1,990**	**2,228**	223	2,061	2,284
Amounts repayable within a period of between 1 and 2 years	**69**	**692**	**761**	63	698	761
Amounts repayable within 1 year	**65**	**696**	**761**	59	697	756
	10,350	**18,391**	**28,741**	10,409	19,093	29,502

37 Loans from Holders of Non-controlling Interests

Loans from holders of non–controlling interests as at 31 December 2019 mainly represents the portion of total shareholder loan of AUD60 million (HK$328 million) granted to Metro Trains Australia Pty. Ltd. ("MTA") by the holders of its non–controlling interests. The loan carries an interest rate of 6.2% per annum and is repayable at the discretion of MTA or on 1 December 2024, whichever is earlier.

38 Income Tax in the Statement of Financial Position

A Current taxation in the consolidated statement of financial position comprises provision for Hong Kong Profits Tax for the Company and certain subsidiaries, chargeable at Hong Kong Profits Tax Rate at 16.5% (2018: 16.5%) and after netting off provisional tax paid, as well as tax outside Hong Kong chargeable at the appropriate current rates of taxation ruling in the relevant countries.

in HK$ million	2019	2018
Balance relating to Hong Kong Profits Tax	**1,904**	1,021
Balance relating to tax outside Hong Kong	**120**	140
	2,024	1,161
Representing:		
Current Taxation	**2,024**	1,161

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

The Group

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2019						
Balance as at 1 January 2019, as previously reported	**12,385**	**751**	**(170)**	**(5)**	**(103)**	**12,858**
Effect of adoption of HKFRS 16	**–**	**8**	**(13)**	**–**	**–**	**(5)**
Balance as at 1 January 2019, as restated	**12,385**	**759**	**(183)**	**(5)**	**(103)**	**12,853**
Charged/(credited) to consolidated profit and loss account	**620**	**(5)**	**(76)**	**–**	**(1)**	**538**
Charged to reserves	**–**	**24**	**139**	**48**	**–**	**211**
Acquisition of subsidiary	**–**	**–**	**–**	**–**	**(12)**	**(12)**
Exchange differences	**2**	**–**	**(3)**	**–**	**6**	**5**
Balance as at 31 December 2019	**13,007**	**778**	**(123)**	**43**	**(110)**	**13,595**
2018						
Balance as at 1 January 2018	12,158	648	(107)	–	(8)	12,691
Charged/(credited) to consolidated profit and loss account	228	–	10	–	(102)	136
Charged/(credited) to reserves	–	103	(74)	(5)	–	24
Exchange differences	(1)	–	1	–	7	7
Balance as at 31 December 2018	12,385	751	(170)	(5)	(103)	12,858

in HK$ million	2019	2018
Net deferred tax assets	**(134)**	(121)
Net deferred tax liabilities	**13,729**	12,979
	13,595	12,858

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$326 million (2018: HK$158 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities.

39 Share Capital, Shares Held for Executive Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management

A Share Capital

	2019		2018	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**6,139,485,589**	**57,970**	6,007,777,302	52,307
Shares issued in respect of scrip dividend of 2018/2017 final ordinary dividend	**13,707,539**	**654**	93,790,912	4,175
Shares issued in respect of scrip dividend of 2019/2018 interim ordinary dividend	**1,494,283**	**71**	32,348,875	1,298
Vesting of shares of Executive Share Incentive Scheme	**–**	**5**	–	15
Shares issued under the share option scheme	**3,261,500**	**104**	5,568,500	175
At 31 December	**6,157,948,911**	**58,804**	6,139,485,589	57,970

In accordance with section 135 of the Companies Ordinance, the ordinary shares of the Company do not have a par value.

B Shares Held for Executive Share Incentive Scheme

During the year ended 31 December 2019, the Company awarded Performance Shares and Restricted Shares under the Company's Executive Share Incentive Scheme to certain eligible employees of the Company (note 42(ii)). In this regard, a total of 244,650 Performance Shares (2018: 1,772,900) and 2,062,150 Restricted Shares (2018: 2,288,950) were awarded and accepted by the grantees on 1 April 2019 and 8 April 2019 (2018: 16 March 2018, 10 April 2018). The fair values of these Award Shares were HK$48.90 per share on 1 April 2019 and HK$48.40 per share on 8 April 2019 (2018: HK$43.70 per share on 16 March 2018, HK$42.80 per share on 10 April 2018).

During the year ended 31 December 2019, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 1,870,000 Ordinary Shares (2018: 5,351,600 Ordinary Shares) of the Company for a total consideration of approximately HK$88 million (2018: HK$239 million). During the year ended 31 December 2019, 64,088 Ordinary Shares of the Company (2018: 102,904 Ordinary Shares) were issued to the Executive Share Incentive Scheme in relation to scrip dividend issued amounting to HK$3 million (2018: HK$5 million).

During the year ended 31 December 2019, 2,230,420 shares (2018: 3,866,255 shares) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$93 million (2018: HK$152 million). During the year ended 31 December 2019, HK$5 million (2018: HK$15 million) was credited to share capital in respect of vesting of shares whose fair values at the grant date were higher than the costs of the vested shares. During the year ended 31 December 2019, 174,697 award shares (2018: 579,488 award shares) were lapsed/forfeited.

As at 31 December 2019, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 5,853,726 shares held in trust under the Executive Share Incentive Scheme (excluding shares vested but not yet transferred to awardees).

C New Shares Issued and Fully Paid Up During the Year

	Number of shares	Weighted average exercise price HK$
Employee share options exercised:		
– 2007 Share Option Scheme	3,261,500	29.465

An analysis of the Company's outstanding share options as at 31 December 2019 is disclosed in note 42.

39 Share Capital, Shares Held for Executive Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management *(continued)*

D The fixed assets revaluation reserve is used to deal with the surpluses or deficits arising from the revaluation of self-occupied buildings (note 2E(ii)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as explained in note 2V(ii).

The employee share-based capital reserve comprises the share-based payment expenses recognised in respect of share options under the share option scheme which are yet to be exercised, and in respect of award shares under the Executive Share Incentive Scheme granted which are yet to be vested, as explained in the accounting policy under note 2W(iii). The amount will either be transferred to the share capital account when the option is exercised, or be released directly to retained profits if the option is lapsed.

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign enterprises. The reserve is dealt with in accordance with the accounting policy set out in note 2AC.

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties of HK$60,964 million (2018: HK$59,551 million) included in retained profits are non–distributable as they do not constitute realised profits. As at 31 December 2019, the Company considers that the total amount of reserves available for distribution to shareholders amounted to HK$56,546 million (2018: HK$53,726 million).

Included in the Group's retained profits as at 31 December 2019 is an amount of HK$2,431 million (2018: HK$2,029 million), being the retained profits attributable to the associates and joint venture.

E Capital Management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide an adequate return to its shareholders.

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of the HKSAR Government is the majority shareholder of the Company holding 4,634,173,932 shares as at 31 December 2019, representing 75.26% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt–to–equity ratio, which is calculated on net borrowings as a percentage of the total equity, where net borrowings are represented by the aggregate of loans and other obligations, bank overdrafts, obligations under service concession and loans from holders of non–controlling interests net of cash and cash equivalents and bank medium term notes. The Group's net debt-to-equity ratios over the past years had been trending downward since the Rail Merger from 46.5% at 31 December 2007 to 18.1% at 31 December 2018 and 15.4% at 31 December 2019.

Fasttrack Insurance Ltd. is required to maintain a minimum level of shareholders' fund based on the Bermuda Insurance Act. MTR Corporation (Shenzhen) Limited is required to maintain a registered capital at or above 40% of the total investment for the Shenzhen Metro Longhua Line project in accordance with the concession agreement. MTR Property Development (Shenzhen) Company Limited is required to maintain a registered capital at or above 33% of the total investment based on Jianfang [2015] No. 122. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. All the Group's subsidiaries in Sweden are required to maintain total shareholders' fund at or above 50% of their respective registered share capital based on the Swedish Companies Act. MTR Travel Limited is required to maintain a certain level of paid-up capital in order to maintain membership of the Travel Industry Council of Hong Kong. As at 31 December 2019, all these capital requirements were met. Apart from these, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

39 Share Capital, Shares Held for Executive Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management *(continued)*

F Company-level Movements in Components of Equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

				Other reserves				
in HK$ million	Note	Share capital	Shares held for Executive Share Incentive Scheme	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	Total equity
2019								
Balance as at 1 January 2019	48	**57,970**	**(265)**	**3,815**	**(99)**	**142**	**113,376**	**174,939**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**10,805**	**10,805**
Other comprehensive income for the year		**–**	**–**	**121**	**271**	**–**	**702**	**1,094**
Total comprehensive income for the year		**–**	**–**	**121**	**271**	**–**	**11,507**	**11,899**
Amounts transferred from hedging reserve to initial carrying amount of hedged items		**–**	**–**	**–**	**3**	**–**	**–**	**3**
2018 final ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(5,835)**	**(5,835)**
Shares issued in respect of scrip dividend of 2018 final ordinary dividend		**654**	**(2)**	**–**	**–**	**–**	**2**	**654**
2019 interim ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(1,539)**	**(1,539)**
Shares issued in respect of scrip dividend of 2019 interim ordinary dividend		**71**	**(1)**	**–**	**–**	**–**	**1**	**71**
Shares purchased for Executive Share Incentive Scheme		**–**	**(88)**	**–**	**–**	**–**	**–**	**(88)**
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		**5**	**93**	**–**	**–**	**(96)**	**(2)**	**–**
Employee share-based payments		**–**	**–**	**–**	**–**	**122**	**–**	**122**
Employee share options exercised		**104**	**–**	**–**	**–**	**(8)**	**–**	**96**
Balance as at 31 December 2019	48	**58,804**	**(263)**	**3,936**	**175**	**160**	**117,510**	**180,322**
2018								
Balance as at 1 January 2018		52,307	(173)	3,296	(143)	203	105,458	160,948
Profit for the year		–	–	–	–	–	15,052	15,052
Other comprehensive income for the year		–	–	519	44	–	(376)	187
Total comprehensive income for the year		–	–	519	44	–	14,676	15,239
2017 final ordinary dividend		–	–	–	–	–	(5,224)	(5,224)
Shares issued in respect of scrip dividend of 2017 final ordinary dividend		4,175	(4)	–	–	–	–	4,171
2018 interim ordinary dividend		–	–	–	–	–	(1,525)	(1,525)
Shares issued in respect of scrip dividend of 2018 interim ordinary dividend		1,298	(1)	–	–	–	–	1,297
Shares purchased for Executive Share Incentive Scheme		–	(239)	–	–	–	–	(239)
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		15	152	–	–	(158)	(9)	–
Employee share-based payments		–	–	–	–	110	–	110
Employee share options exercised		175	–	–	–	(13)	–	162
Balance as at 31 December 2018	48	57,970	(265)	3,815	(99)	142	113,376	174,939

40 Other Cash Flow Information

A Reconciliation of the Group's operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses to cash generated from operations is as follows:

in HK$ million	2019	2018
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses	15,351	18,843
Adjustments for non-cash items	1,836	102
Operating profit before working capital changes	17,187	18,945
Increase in debtors and other receivables	(1,372)	(1,183)
Increase in stores and spares	(188)	(169)
Increase/(decrease) in creditors and other payables	1,493	(4,664)
Cash generated from operations	17,120	12,929

B Reconciliation of the Group's liabilities arising from financing activities is as follows:

	Loans and other obligations						
in HK$ million	Capital market instruments	Bank loans	Lease liabilities	Others	Short-term loans	Interest and finance charges payables	Total
2019							
At 1 January 2019, as previously reported	23,541	11,312	450	478	4,424	113	40,318
Effect of adoption of HKFRS 16	–	–	865	–	–	–	865
At 1 January 2019, as restated	23,541	11,312	1,315	478	4,424	113	41,183
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	1,182	10,477	–	–	–	–	11,659
– Repayment of loans and capital market instruments	(500)	(11,619)	–	–	(1,053)	–	(13,172)
– Capital element of lease rentals paid	–	–	(165)	–	–	–	(165)
– Interest and finance charges	–	–	–	–	–	(1,054)	(1,054)
	682	(1,142)	(165)	–	(1,053)	(1,054)	(2,732)
Exchange differences	(3)	(42)	(54)	(2)	–	(8)	(109)
Other changes:							
– Adjustment due to fair value change of financial instruments	(16)	13	–	–	–	–	(3)
– Recognition of lease liabilities	–	–	145	–	–	–	145
– Interest and finance charges	–	–	–	23	–	1,094	1,117
	(16)	13	145	23	–	1,094	1,259
At 31 December 2019	24,204	10,141	1,241	499	3,371	145	39,601

40 Other Cash Flow Information *(continued)*

in HK$ million	Loans and other obligations				Short-term loans	Interest and finance charges payables	Total
	Capital market instruments	Bank loans	Lease liabilities	Others			
2018							
At 1 January 2018	23,451	17,313	492	458	325	123	42,162
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	1,488	31,377	–	–	4,099	–	36,964
– Repayment of loans and capital market instruments	(1,215)	(37,292)	(5)	–	–	–	(38,512)
– Interest and finance charges	–	–	–	–	–	(1,147)	(1,147)
	273	(5,915)	(5)	–	4,099	(1,147)	(2,695)
Exchange differences	–	(128)	(37)	2	–	2	(161)
Other changes:							
– Unamortised discount/premium/ finance charges outstanding	4	42	–	–	–	–	46
– Adjustment due to fair value change of financial instruments	(190)	–	–	–	–	–	(190)
– Interest and finance charges	–	–	–	18	–	1,138	1,156
– Discount on issurance of capital market instruments	3	–	–	–	–	(3)	–
	(183)	42	–	18	–	1,135	1,012
At 31 December 2018	23,541	11,312	450	478	4,424	113	40,318

C Total Cash Outflow for Leases

Amounts included in the cash flow statement for leases comprise the following:

in HK$ million	**2019**	2018
Within operating cash flows	**50**	1,760
Within financing cash flows	**213**	30
	263	1,790

These amounts relate to the leases of the following:

in HK$ million	**2019**	2018
Buildings	**189**	424
Plant and equipment	**74**	1,366
	263	1,790

41 Fair Value Measurement

In accordance with HKFRS 13, *Fair Value Measurement*, the level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3: Fair value measured using significant unobservable inputs

A Fair Value Measurements of Fixed Assets

All of the Group's investment properties and self-occupied buildings measured at fair value on a recurring basis are categorised as Level 3 of the fair value hierarchy.

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 in respect of the Group's investment properties and self-occupied buildings. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All the Group's investment properties and self-occupied buildings were revalued as at 31 December 2019 and 2018 by independent qualified surveyors. The Group's senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The fair value of all the Group's self-occupied buildings is determined on a recurring basis using primarily the direct comparison approach assuming sale of properties in their existing state with vacant possession.

The property interests of all the shopping malls and office accommodation held by the Group as investment properties have been valued using the income capitalisation approach. Under this approach, the market value is derived from the capitalisation of the rental revenue to be received under existing tenancies and the estimated full market rental value to be received upon expiry of the existing tenancies with reference to the market rental levels prevailing as at the date of valuation by an appropriate single market yield rate. The range of market yield rate adopted for the valuation of major investment properties as at 31 December 2019 was 3.5% – 5.75% (2018: 3.5% – 5.75%) with a weighted average of 4.8% (2018: 4.8%). The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2019 are shown in note 19A. All the fair value adjustment related to investment properties held as at 31 December 2019 was recognised under investment property revaluation in the consolidated profit and loss account.

B Fair Value Measurements of Financial Instruments

(i) Financial Assets and Liabilities Carried at Fair Value

All of the Group's investments in securities were carried at fair value using Level 1 measurements, the fair value of financial assets as at 31 December 2019 was HK$386 million (2018: HK$294 million). The Group's derivative financial instruments were carried at fair value using Level 2 measurements, as at 31 December 2019, the fair values of derivative financial assets and financial liabilities were HK$198 million (2018: HK$61 million) and HK$408 million (2018: HK$545 million) respectively.

There are no Level 3 measurements of financial instruments. During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments. For interest rate swaps, cross currency swaps and foreign exchange forward contracts, the discount rates used were derived from the swap curves of the respective currencies and the cross currency basis curves of the respective currency pairs at the end of reporting period. Closing exchange rates at the end of reporting period were used to convert value in foreign currency to local currency.

41 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

(ii) Financial Assets and Liabilities Not Carried at Fair Value

The carrying amounts of the Group's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 31 December 2019 and 2018 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

The Group

	At 31 December 2019		At 31 December 2018	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**24,204**	**27,528**	23,541	25,636
Other obligations	**1,740**	**1,884**	928	1,093

The above fair value measurement is categorised as Level 2. The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's capital market instruments and other obligations. The discount rates used were derived from the swap curves of the respective currencies at the end of reporting period. Closing exchange rates at the end of the reporting period were used to convert value in foreign currency to local currency.

42 Share-based Payments

Equity-settled Share-based Payments

The Group granted share options under share option scheme and share awards under Executive Share Incentive Scheme to its Members of the Executive Directorate and certain employees. As at 31 December 2019, the Company maintained the 2007 Share Option Scheme and the Executive Share Incentive Scheme. Details of the schemes are as follows:

(i) 2007 Share Option Scheme

Following the expiry of the New Joiners Share Option Scheme (the "New Option Scheme") in May 2007, the 2007 Share Option Scheme (the "2007 Option Scheme") was submitted and approved at the 2007 Annual General Meeting to enhance the Company's ability to attract the best available personnel, to retain and motivate critical and key employees, to align their interest to the long-term success of the Company and to provide them with fair and market competitive remuneration. Under the Rules of the 2007 Option Scheme, a maximum of 277,461,072 shares, may be issued pursuant to the exercise of options granted after 7 June 2007 under all share option schemes of the Company including the 2007 Option Scheme. Options granted will be vested in respect of their underlying shares not less than 1 year from the date on which the relevant option is offered. The exercise price of any option granted under the 2007 Option Scheme is to be determined by the Company upon the offer of grant of the option and the exercise price should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option; (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day; and (iii) the nominal value of an MTR share.

Subject to the rules of the 2007 Option Scheme, the Company may, from time to time during the scheme period, offer to grant share options to any eligible employees at its absolute discretion. Under the 2007 Option Scheme, the date of grant is defined as the date of acceptance of the offer to grant the option. The 2007 Option Scheme expired in June 2014. All the share options granted were vested prior to 2018.

The following table summarises the outstanding share options as at 31 December 2019 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2013 Award			
6 May 2013	1,385,500	31.40	on or prior to 26 April 2020
2014 Award			
30 May 2014	3,523,500	28.65	on or prior to 23 May 2021

42 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2019		2018	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding as at 1 January	**8,170,500**	**29.441**	13,794,000	29.298
Exercised during the year	**(3,261,500)**	**29.465**	(5,568,500)	29.094
Forfeited during the year	–	–	(55,000)	28.650
Outstanding as at 31 December	**4,909,000**	**29.426**	8,170,500	29.441
Exercisable as at 31 December	**4,909,000**	**29.426**	8,170,500	29.441

The weighted average closing price in respect of the share options exercised during the year was HK$47.750 (2018: HK$41.700).

Share options outstanding at 31 December 2019 had the following exercise prices and remaining contractual lives:

	2019		2018	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$27.48	–	–	840,000	–
HK$31.40	**1,385,500**	–	2,709,000	1
HK$28.65	**3,523,500**	**1**	4,621,500	2
	4,909,000		8,170,500	

During the year ended 31 December 2019, no expense was recognised for the equity-settled share-based payments relating to the 2007 Share Option Scheme (2018: HK$nil).

(ii) Executive Share Incentive Scheme

On 15 August 2014, the Board of the Company approved the adoption of the Executive Share Incentive Scheme, following the expiry of the 2007 Option Scheme on 6 June 2014. The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company. The Executive Share Incentive Scheme took effect on 1 January 2015 for a term of 10 years, under which an award holder may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded to selective eligible employees. Performance Shares are awarded to eligible employees which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions as determined by the Remuneration Committee from time to time.

Subject to the Scheme Rules, the Remuneration Committee shall determine the vesting criteria and conditions or periods for the Award Shares to be vested, subject to review from time to time. An award of Restricted Shares will vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved. The Executive Share Incentive Scheme will be administered by the Company in accordance with the Scheme Rules and the Company has entered into a Trust Deed with the Trustee for the purpose of implementing the Scheme. The number of Award Shares will be acquired in the market at the cost of the Company by the Trustee. Award Shares will be held on trust by the Trustee until the end of each vesting period.

42 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

As at 31 December 2019, the following awards of shares were offered to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme:

	Number of Award Shares granted		Average fair value per share	Vesting period	
Date of award	Restricted Shares	Performance Shares	HK$	From	To
27 April 2015	2,348,150	1,681,050	38.60	20 April 2015	20 April 2018 (Restricted Shares) 20 April 2018 (Performance Shares)
8 April 2016	2,401,150	187,200	38.65	1 April 2016	1 April 2019 (Restricted Shares) 20 April 2018 (Performance Shares)
19 August 2016	71,428	–	42.50	15 August 2016	15 August 2019
10 April 2017	2,245,200	112,200	44.45	3 April 2017	3 April 2020 (Restricted Shares) 20 April 2018 (Performance Shares)
16 March 2018	80,000	–	43.70	16 March 2018	31 March 2019
10 April 2018	2,208,950	1,772,900	42.80	3 April 2018	3 April 2021 (Restricted Shares) 3 April 2021 (Performance Shares)
1 April 2019	120,000	–	48.90	1 April 2019	31 March 2022
8 April 2019	1,942,150	244,650	48.40	1 April 2019	1 April 2022 (Restricted Shares) 3 April 2021 (Performance Shares)

Movement in the number of Award Shares outstanding was as follows:

	2019	2018
	Number of Award Shares	Number of Award Shares
Outstanding as at 1 January	**5,758,295**	6,142,188
Awarded during the year	**2,306,800**	4,061,850
Vested during the year	**(2,230,420)**	(3,866,255)
Forfeited during the year	**(174,697)**	(579,488)
Outstanding as at 31 December	**5,659,978**	5,758,295

Award Shares outstanding at 31 December 2019 had the following remaining vesting periods:

Award Shares	Remaining vesting period years	Number of Award Shares
Restricted Shares		
10 April 2017	0.26	595,986
10 April 2018	1.26	1,239,092
1 April 2019	2.25	120,000
8 April 2019	2.25	1,884,800
Performance Shares		
10 April 2018	1.26	1,585,950
8 April 2019	1.26	234,150

The details of the Executive Share Incentive Scheme are also disclosed in the Remuneration Report.

During the year ended 31 December 2019, the equity-settled share-based payments relating to the Executive Share Incentive Scheme recognised as an expense amounted to HK$122 million (2018: HK$110 million).

43 Retirement Schemes

The Group operates a number of retirement schemes in Hong Kong, the Mainland of China, United Kingdom, Sweden and Australia. The assets of these schemes are held under the terms of separate trust arrangements so that the assets are kept separate from those of the Group. The majority of the Group's employees are covered by the retirement schemes operated by the Company.

A Retirement Schemes Operated by the Company in Hong Kong

The Company operated four retirement schemes under trust in Hong Kong during the year ended 31 December 2019, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme".

Currently, new eligible employees can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme while the MTR MPF Scheme covers employees who did not opt for or who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted with an MPF Exemption Certificate by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and employee representatives, and independent non–employer trustees. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2019, the total number of member was 3,356 (2018: 3,600). In 2019, members contributed HK$69 million (2018: HK$72 million) and the Company contributed HK$351 million (2018: HK$183 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contributions as at 31 December 2019 was HK$9,417 million (2018: HK$8,662 million).

The actuarial valuations as at 31 December 2018 and 2019 to determine the accounting obligations in accordance with HKAS 19, *Employee benefits*, were carried out by an independent actuarial consulting firm, Willis Towers Watson, using the Projected Unit Credit Method. The results of the valuation are shown in note 44.

The actuarial valuations as at 31 December 2018 and 2019 to determine the cash funding requirements were also carried out by Willis Towers Watson using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2019 included a long–term rate of investment return net of salary increases of –0.25% (2018: 1.17%) per annum, together with appropriate allowances for expected rates of mortality, turnover and retirement. Willis Towers Watson confirmed that, as at the valuation date of 31 December 2019:

(a) the MTR Retirement Scheme was solvent, covering 105.8% (2018: 98.6%) of the aggregate vested liability had all members left service with their leaving service benefits secured, resulting in a solvency surplus of HK$529 million; and

(b) on the assumption that the MTR Retirement Scheme would continue in force, its value of assets was more than sufficient to cover the aggregate past service liability, with a funding level of 101.3% (2018: 98.0%), representing a past service surplus of HK$127 million.

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted an MPF Exemption Certificate by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

As at 31 December 2019, the total number of employees participating in the MTR Provident Fund Scheme was 10,571 (2018: 10,177). In 2019, total members' contributions were HK$153 million (2018: HK$138 million) and total contributions from the Company were HK$362 million (2018: HK$335 million). The net asset value as at 31 December 2019 was HK$6,843 million (2018: HK$5,992 million).

(iii) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

As at 31 December 2019, the total number of employees participating in the MTR MPF Scheme was 5,747 (2018: 5,809). In 2019, total members' contributions were HK$50 million (2018: HK$50 million) and total contribution from the Company were HK$56 million (2018: HK$55 million).

(iv) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF Scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPFSO.

As at 31 December 2019, the total number of employees participating in the KCRC MPF Scheme was 372 (2018: 429). In 2019, total members' contributions were HK$5 million (2018: HK$5 million) and total contribution from the Company were HK$5 million (2018: HK$5 million).

43 Retirement Schemes *(continued)*

B Retirement Schemes for Employees of Mainland of China and Overseas Offices and Subsidiaries

Employees not eligible for joining the retirement schemes operated by the Company in Hong Kong are covered by the retirement schemes established by their respective subsidiary companies or in accordance with respective applicable labour regulations.

Certain employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2019, total number of the Group's employees participating in this scheme was 546 (2018: 575). In 2019, total members' contributions were HK$23 million (2018: HK$26 million) and total contribution from the Group was HK$59 million (2018: HK$54 million).

Certain employees of the Group's Swedish subsidiaries are entitled to receive retirement benefits from the ITP 2 Retirement Scheme operated in Sweden. The benefit amounts are calculated based on the member's years of service and annual salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2019, total number of the Group's employees participating in this scheme was 741 (2018: 607). In 2019, total contribution from the Group was HK$23 million (2018: HK$23 million).

Certain employees of the Group's MTR Crossrail subsidiary are entitled to join the MTR Corporation (Crossrail) section of the Railway Pension Scheme in the United Kingdom. The scheme is a shared cost arrangement whereby the Group is only responsible for a share of the cost. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any net defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation for any deficit in the value of the scheme. Its only obligation is to pay contributions as they fall due. As at 31 December 2019, total number of the Group's employees participating in this scheme was 621 (2018: 535). In 2019, total members' contributions were HK$22 million (2018: HK$17 million) and total contribution from the Group was HK$32 million (2018: HK$26 million). Pension expense of HK$67 million (2018: HK$53 million) was recognised in profit and loss and actuarial gain of HK$28 million (2018: HK$28 million) was recognised in the statement of other comprehensive income.

Except for the retirement schemes described above, all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland of China, Macao or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPFSO in Hong Kong. For the Mainland of China, Macao or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2019, the total number of employees of the Group participating in these schemes was 14,015 (2018: 12,875). In 2019, total members' contributions were HK$95 million (2018: HK$95 million) and total contribution from the Group was HK$484 million (2018: HK$454 million).

44 Defined Benefit Retirement Scheme

During the year ended 31 December 2019, the Company makes contributions to and recognises defined benefit liabilities in respect of MTR Retirement Scheme which provides employees with benefits upon retirement or termination of services for other reasons (note 43). This defined benefit scheme exposes the Group to actuarial risks, such as interest rate, salary increase and investment risks. The information about the MTR Retirement Scheme is summarised as below:

A Amounts Recognised in the Consolidated Statement of Financial Position

The Group

in HK$ million	**2019**	2018
Present value of defined benefit obligations	**(9,905)**	(10,022)
Fair value of scheme assets	**9,417**	8,662
Net liabilities	**(488)**	(1,360)

The net liabilities are recognised under "Creditors, other payables and provisions" in the consolidated statement of financial position. A portion of the above liabilities is expected to be paid after more than one year. However, it is not practicable to segregate this amount from the amounts to be paid in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK$263 million in contribution to the MTR Retirement Scheme in 2020.

44 Defined Benefit Retirement Scheme *(continued)*

B Scheme Assets

The Group

in HK$ million	2019	2018
Equity securities		
– Financial institutions	**482**	638
– Non-financial institutions	**4,046**	3,697
	4,528	4,335
Bonds		
– Government	**2,173**	2,229
– Non-government	**2,614**	1,851
	4,787	4,080
Cash	**297**	415
	9,612	8,830
Voluntary units	**(195)**	(168)
	9,417	8,662

The scheme assets include no amount invested in the ordinary shares of the Company as at 31 December 2019 (2018: HK$nil). Also, there were no investment in other shares and debt securities of the Company as at 31 December 2019 and 2018. All of the equity securities and bonds have quoted prices in active markets.

An asset–liability modelling review is performed periodically to analyse the strategic investment policies of the MTR Retirement Scheme. Based on the latest study, the long–term strategic asset allocation of the MTR Retirement Scheme is set at 42.5% in equities and 57.5% in bonds and cash as at 31 December 2019 (2018: 52.5% in equities and 47.5% in bonds and cash).

C Movements in the Present Value of the Defined Benefit Obligations

The Group

in HK$ million	2019	2018
At 1 January	**10,022**	10,672
Remeasurements:		
– Actuarial losses/(gains) arising from changes in liability experience	**252**	(97)
– Actuarial losses arising from changes in demographic assumptions	**–**	13
– Actuarial gains arising from changes in financial assumptions	**(96)**	(172)
	156	(256)
Members' contributions paid to the scheme	**69**	72
Benefits paid by the scheme	**(876)**	(1,002)
Current service cost	**285**	303
Interest cost	**249**	233
At 31 December	**9,905**	10,022

The weighted average duration of the present value of the defined benefit obligations was 6.0 years as at 31 December 2019 (2018: 6.3 years).

44 Defined Benefit Retirement Scheme *(continued)*

D Movements in Scheme Assets

The Group

in HK$ million	2019	2018
At 1 January	**8,662**	9,903
Company's contributions paid to the scheme	**351**	183
Members' contributions paid to the scheme	**69**	72
Benefits paid by the scheme	**(876)**	(1,002)
Administrative expenses paid from scheme assets	**(5)**	(6)
Interest income	**219**	218
Return on scheme assets, excluding interest income	**997**	(706)
At 31 December	**9,417**	8,662

E Expenses Recognised in the Profit and Loss and Other Comprehensive Income

in HK$ million	2019	2018
Current service cost	**285**	303
Net interest on net defined benefit liability	**30**	15
Administrative expenses paid from scheme assets	**5**	6
	320	324
Less: Amount capitalised	**(41)**	(40)
Net amount recognised in profit or loss	**279**	284
Actuarial losses/(gains)	**156**	(256)
Return on scheme assets, excluding interest income	**(997)**	706
Amount recognised in other comprehensive income	**(841)**	450

The retirement scheme expense is recognised under staff costs and related expenses in the consolidated profit and loss account.

F Significant Actuarial Assumptions (Expressed as Weighted Average) and Sensitivity Analysis

	2019	2018
Discount rate	**2.61%**	2.65%
Future salary increase	**4.00%**	4.08%
Unit value increase	**3.75%**	5.25%

The below analysis shows how the present value of the defined benefit obligations as at 31 December 2019 would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2019		2018	
	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million
Discount rate	**(142)**	**146**	(153)	157
Future salary increases	**127**	**(122)**	131	(124)
Unit value increase	**13**	**(11)**	22	(18)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

45 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 75.26% of the Company's issued share capital on trust for the HKSAR Government, is the majority shareholder of the Company. Transactions between the Group and the HKSAR Government departments or agencies, or entities controlled by the HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised), *Related party disclosures*, and are identified separately in these accounts.

Major related party transactions entered into by the Group which are relevant for the current year include:

A On 30 June 2000, the Company was granted by the HKSAR Government a franchise, for an initial period of 50 years, to operate the then existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company and the HKSAR Government entered into an operating agreement which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. With the Rail Merger, the operating agreement was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 45C below.

B On 14 July 2000, the Company received a comfort letter from the HKSAR Government pursuant to which the HKSAR Government agreed to extend the period of certain of the Company's land interests so that they are coterminous with the Company's franchise period. To prepare for the Rail Merger, on 3 August 2007, the HKSAR Government wrote to KCRC confirming that, subject to all necessary approvals being obtained, the period of certain of KCRC's land interests (which are the subject of the service concession under the Rail Merger) will be extended so that they are coterminous with the concession period of the Rail Merger.

C In connection with the Rail Merger (note 3), on 9 August 2007, the Company and the HKSAR Government entered into a new operating agreement ("OA"), which is based on the then existing operating agreement referred to in note 45A above. On the Appointed Day, the Company's then existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the then existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). A detailed description of the OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger. Such transaction is considered to be a related party transaction and also constitute continuing connected transaction as defined under the Listing Rules.

D Other than the OA described in note 45C above, the Company also entered into principal agreements with KCRC and the HKSAR Government in connection with the Rail Merger. These principal agreements are: (i) Merger Framework Agreement, (ii) Service Concession Agreement, (iii) Sale and Purchase Agreement, (iv) West Rail Agency Agreement, and (v) Property Package Agreements. For the year ended 31 December 2019, amounts recoverable or invoiced by the Company under West Rail Agency Agreement and Property Package Agreement are HK$84 million (2018: HK$105 million) and HK$3 million (2018: HK$5 million) respectively and amount payable or paid by the Company under Service Concession Agreement is HK$3,333 million (2018: HK$3,055 million).

The above transactions under the West Rail Agency Agreement and Property Package Agreement are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

E The Company entered into the following principal agreements with KCRC and the HKSAR Government in connection with the operation of the High Speed Rail:

(i) An amendment operating agreement, which was entered into with the HKSAR Government on 23 August 2018, to amend and supplement the OA, in order to prescribe the operational requirements that will apply to the High Speed Rail.

(ii) A supplemental service concession agreement, which was entered into with KCRC on 23 August 2018, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. During the year ended 31 December 2019, net revenue received or receivable from KCRC in respect of High Speed Rail amounted to HK$717 million (2018: HK$104 million).

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

45 Material Related Party Transactions *(continued)*

F The Company entered into the following principal agreements with KCRC and the HKSAR Government in connection with the operation of the Tuen Ma Line Phase 1:

(i) An amendment operating agreement and a supplemental operating agreement, which were entered into with the HKSAR Government on 11 February 2020, to amend and supplement, respectively, the OA, in order to prescribe the operational requirements that will apply to the Tuen Ma Line Phase 1.

(ii) A supplemental service concession agreement, which was entered into with KCRC on 11 February 2020, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the Tuen Ma Line Phase 1 and to prescribe the operational and financial requirements that will apply to the Tuen Ma Line Phase 1.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

G The Company and the HKSAR Government entered into Preliminary Project Agreement, which was signed on 6 February 2008, and Project Agreement, which was signed on 13 July 2009 in respect of the Island Line Extension to the Western District. Pursuant to the agreements, the Company has received from the HKSAR Government a total of HK$12,652 million of government grant as funding support subject to a repayment mechanism. The timeframe for the repayment mechanism was extended for a period ended on or before 30 June 2019 pursuant to various supplementary agreements between the Company and the HKSAR Government. During the year ended 31 December 2019, the Company has made a final repayment to the HKSAR Government with a principal of HK$114 million and interest of HK$59 million under the repayment mechanism (2018: HK$nil). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of the Project Agreement is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

H The Company entered into entrustment agreements with the HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of HSR and SCL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2019 are provided in notes 21A and 21B. In addition, an amount of HK$891 million was paid/payable to the HKSAR Government in 2019 (2018: HK$1,221 million) under SCL EA3's payment arrangement with the HKSAR Government and relevant contractors.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

I In connection with certain property developments along the railway system, the Company has been granted land lots by the HKSAR Government or allowed to proceed with the development at the following sites during the year:

Property development site	Land grant/land premium offer acceptance date	Total land premium in HK$ million	Land premium settlement date
Site C2 of the Remaining Portion of Tseung Kwan O Town Lot No. 70	7 May 2019	3,055	21 June 2019
Site D of Aberdeen Inland Lot No. 467	5 November 2019	6,758	11 December 2019

J On 14 February 2020, the Company accepted an offer from the HKSAR Government to proceed with the proposed LOHAS Park Package Twelve Property Development at Site D of the Remaining Portion of Tseung Kwan O Town Lot No.70 at a land premium of HK$2,725 million and on the terms and conditions of the relevant New Grant No.9689. The land premium and the modification are expected to be paid and executed on or before 31 March 2020.

45 Material Related Party Transactions *(continued)*

K On 5 July 2013, the Company renewed the maintenance contract with the Hong Kong Airport Authority ("HKAA") in respect of the automated people mover system ("System") serving the Hong Kong International Airport upon the expiry of the previous five–year contract. The renewed contract covers a period of seven years effective from 6 July 2013. In respect of the services provided, HK$82 million was recognised as consultancy income during the year ended 31 December 2019 (2018: HK$97 million).

On 18 May 2018, the Company provided a sub-contractor warranty to the HKAA as a result of obtaining a subcontract from a third party for the modification works of the existing System for a seven year period, effective from 25 September 2017 (the "Subcontract"). The Subcontract contains provisions covering the provision and modification of the power distribution, communication and control subsystems in respect of the System.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

L During the year ended 31 December 2019, the Group incurred HK$148 million (2018: HK$156 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly owned subsidiary of Octopus Holdings Limited ("OHL"). OCL incurred HK$42 million (2018: HK$56 million) of expenses for the load agent and Octopus card issuance and refund services, computer equipment and relating services as well as warehouse storage space provided by the Group. During the year, OHL distributed HK$187 million (2018: HK$155 million) of dividends to the Group.

During the year ended 31 December 2019, MTR Corporation (Sydney) NRT Pty. Limited, through its joint operation, provided services in respect of the design and delivery of electrical and mechanical systems and rolling stock to NRT Pty. Limited at a total amount of AUD106 million (HK$587 million) (2018: AUD275 million or HK$1,608 million). Metro Trains Sydney Pty. Limited also provided mobilisation and operations and maintenance services in respect of Sydney Metro Northwest to NRT Pty. Limited at a total amount of AUD96 million (HK$523 million) (2018: AUD25 million or HK$144 million).

M Other than those stated in notes 45A to 45L, the Company has business transactions with the HKSAR Government, entities related to the HKSAR Government and the Company's associates in the normal course of business operations. Details of the transactions and the amounts involved for the reporting period are disclosed in notes 31 and 35.

N The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 11A. In addition, Members of the Executive Directorate were granted share options under the Company's 2007 Share Option Scheme and award shares under the Executive Share Incentive Scheme. Details of the terms of these options and award shares are disclosed in note 11B, note 11C and the Report of the Members of the Board. Their gross remuneration charged to the profit and loss account is summarised as follows:

in HK$ million	2019	2018
Short-term employee benefits	**73.2**	94.5
Post-employment benefits	**6.2**	7.7
Equity compensation benefits	**24.1**	22.0
	103.5	124.2

The above remuneration is included in staff costs and related expenses disclosed in note 10A.

O During the year, the following dividends were paid to the Financial Secretary Incorporated of the HKSAR Government:

in HK$ million	2019	2018
Ordinary dividends		
– Cash dividends paid	**5,561**	–
– Shares allotted in respect of scrip dividends	**–**	5,081
	5,561	5,081

46 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2019 not provided for in the accounts were as follows:

The Group

in HK$ million	Hong Kong transport operations, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas operations	Total
At 31 December 2019					
Authorised but not yet contracted for	**8,476**	**–**	**2,442**	**9**	**10,927**
Authorised and contracted for	**13,558**	**170**	**1,183**	**20**	**14,931**
	22,034	**170**	**3,625**	**29**	**25,858**
At 31 December 2018					
Authorised but not yet contracted for	8,444	–	2,560	19	11,023
Authorised and contracted for	14,109	194	4,756	16	19,075
	22,553	194	7,316	35	30,098

In addition to the above, the Group has the following capital commitments in respect of its investments in associates and joint venture:

In respect of Beijing Metro Line 14, the Group's equity contribution is RMB2.45 billion. Up to the end of December 2019, the Group has contributed equity of RMB2,332 million to Beijing MTR in respect of Beijing Metro Line 14.

In respect of Sydney Metro City & Southwest, the Group's share of investment is expected to represent equity contribution of approximately AUD12.7 million and loans of approximately AUD47.5 million. Up to 31 December 2019, the Group has not contributed equity or loan to the project.

(ii) The commitments under Hong Kong transport operations, station commercial and other businesses comprise the following:

The Group

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 31 December 2019				
Authorised but not yet contracted for	**4,090**	**746**	**3,640**	**8,476**
Authorised and contracted for	**10,267**	**246**	**3,045**	**13,558**
	14,357	**992**	**6,685**	**22,034**
At 31 December 2018				
Authorised but not yet contracted for	4,577	573	3,294	8,444
Authorised and contracted for	10,113	250	3,746	14,109
	14,690	823	7,040	22,553

B Operating Lease Commitments

The Group had operating leases on office buildings, staff quarters, bus depot as well as a shopping centre in Beijing as at 31 December 2018. The Group's total future minimum lease payments under non-cancellable operating leases amounted to HK$137 million, of which HK$132 million was payable within one year and HK$5 million was payable after one but within five years.

As at 31 December 2018, the Group also had future operating lease commitments of HK$8,698 million in respect of railway-related subsidiaries outside of Hong Kong over the respective franchise periods, of which HK$1,534 million is payable within one year, HK$5,518 million is payable after one but within five years and HK$1,646 million is payable over five years. These railway-related subsidiaries generate franchise revenue to the Group.

46 Commitments *(continued)*

C Liabilities and Commitments in respect of Property Management Contracts

The Group has, over the years, jointly developed with outside property developers certain properties above or adjacent to railway depots and stations. Under most of the development agreements, the Group retained the right to manage these properties after their completion. The Group, as manager of these properties, enters into service contracts with outside contractors for the provision of security, cleaning, maintenance and other services on behalf of the managed properties. The Group is primarily responsible for these contracts, but any contract costs incurred will be reimbursed by the owners and tenants of the managed properties from the management funds as soon as they are paid.

As at 31 December 2019, the Group had total outstanding liabilities and contractual commitments of HK$3,101 million (2018: HK$2,767 million) in respect of these works and services. Cash funds totalling HK$2,820 million (2018: HK$2,496 million) obtained through monthly payments of management service charges from the managed properties are held by the Group on behalf of those properties for settlement of works and services provided.

D Material Financial and Performance Guarantees

In respect of the debt securities issued by MTR Corporation (C.I.) Limited (note 33C), the Company has provided guarantees to the investors of approximately HK$19,763 million (in notional amount) as at 31 December 2019. The proceeds from the debts issued are on lent to the Company. As such, the primary liabilities have been recorded in the Company's statement of financial position.

In respect of the lease out/lease back transaction ("Lease Transaction") (note 19E), the Group has provided standby letters of credit ("standby LC's") to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms, and such standby LC's amounted to US$89.2 million (HK$694 million) as at 31 December 2019. The Group has also provided standby LC's to certain of the Investors under the Lease Transaction to replace some of the Defeasance Securities previously used to support the corresponding long-term lease payments as a result of credit rating downgrades of these securities, and such standby LC's amounted to US$59.2 million (HK$461 million) as at 31 December 2019.

In respect of the lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB12.5 million (HK$14 million) and a parent company guarantee of RMB52.5 million (HK$59 million) in respect of the quarterly rental payments to the landlord.

In respect of the Shenzhen Metro Longhua Line concession, the Group has provided to the Shenzhen Municipal Government a parent company guarantee in respect of MTR Corporation (Shenzhen) Limited's performance and other obligations under the concession agreement, which can be called if the performance and other obligations are not met. The Group also issued a performance guarantee of RMB15.3 million (HK$17 million) to the Shenzhen Municipal Government in respect of a consultancy agreement.

In respect of the lease for premises in Sydney, the Group provided a rental guarantee of AUD0.1 million (HK$0.5 million) to the landlord.

In respect of the Melbourne train system franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), have provided to the Public Transport Victoria a joint and several parent company guarantee of AUD147.3 million (HK$804 million) and a performance bond of AUD57.0 million (HK$311 million) for MTM's performance and other obligations under the franchise agreement, with each shareholder bearing its share of liability based on its shareholdings in MTM. In respect of the lease of the office premises, MTM has provided bank guarantees of AUD2.4 million (HK$13 million) for the monthly rental payments to the landlords.

In respect of the Stockholm metro franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$833 million), which can be called if the franchise is terminated early as a result of default by MTR Tunnelbanan AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the Stockholms pendeltåg franchise, the Group has provided to the Stockholm transport authorities a guarantee of SEK1,000 million (HK$833 million), which can be called if the franchise is terminated early as a result of default by MTR Pendeltågen AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the London Crossrail Franchise, the Group has provided to the Rail for London Limited a parent company guarantee of GBP80 million (HK$819 million) and a performance bond of GBP25 million (HK$256 million) for MTR Corporation (Crossrail) Limited's performance and other obligations under the franchise agreement.

In respect of the Sydney Metro Northwest Franchise, the Group has provided to NRT Pty. Limited, an associate of the Group, a parent company guarantee with a liability cap of AUD1,526 million (HK$8,330 million) for the design and construction contract as well as the mobilisation phase of the operations and maintenance contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts). The Group has also provided a performance bond of AUD17.8 million (HK$97 million) for the performance and other obligations under the design and construction sub–contract. The Group has also provided a parent company guarantee with a liability cap of AUD147.6 million (HK$806 million) for the operation and maintenance of Sydney Metro North West, which can be called if the franchise is terminated early as a result of default by Metro Trains Sydney Pty Limited. The Group has also provided bank guarantee amounting to AUD25.3 million (HK$138 million) as at 31 December 2019 for the operation and maintenance of Sydney Metro North West.

46 Commitments *(continued)*

D Material Financial and Performance Guarantees *(continued)*

In respect of the Sydney Metro City & Southwest Franchise, the Group has provided to NRT CSW Pty. Limited, an associate of the Group, a parent company guarantee with a liability cap of approximately AUD602 million (HK$3,286 million) for the integrator works under the integrator contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts). The Group has also provided a parent company guarantee with a liability cap of approximately AUD27.5 million (HK$150 million) for the mobilisation phase of the operation and maintenance of Sydney Metro City & Southwest. The Group has also provided a parent company guarantee to Metro Trains Sydney Pty Ltd with a liability cap of approximately AUD221 million (HK$1,206 million) and a parent company guarantee to MTR Corporation (Sydney) SMCSW Pty Limited with a liability cap of approximately AUD221 million (HK$1,206 million) for the interface works under Sydney Metro Northwest and Sydney Metro City & Southwest.

In respect of the South Western Trains Franchise, the Group has provided to the Secretary of State for Transport a parent company guarantee of GBP13.1 million (HK$134 million), a parent company support facility of GBP1.1 million (HK$11 million), a performance bond of GBP4.8 million (HK$49 million) and a season ticket bond amounting to GBP22.5 million (HK$230 million) as at 31 December 2019 for the performance and other obligations under the franchise agreement.

In respect of the Macao Light Rapid Transit Taipa Line, the Group has provided to Macao Light Rapid Transit Corporation, Limited a number of bank guarantees amounting to MOP247.4 million (HK$241 million) as at 31 December 2019 for the performance and other obligations under the project.

In respect of the Hangzhou Metro Line 1 and Line 5 concessions, the Group is required to provide handover bank bonds to the Hangzhou Municipal Government before the end of the concessions for a period of three years to cover any non–compliance of handover requirements under the concession agreements.

Except for the provision of SWR as discussed in note 25, no other provision was recognised in respect of the above financial and performance guarantees as at 31 December 2019.

E Service Concession in respect of the Rail Merger

Pursuant to the Rail Merger, the Company is obliged under the SCA to pay an annual fixed payment of HK$750 million to KCRC over the period of the service concession. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds. Furthermore, under the SCA, the Company is obliged to maintain, repair, replace and/or upgrade the KCRC system over the period of the service concession which is to be returned at the expiry of the service concession.

47 Non-adjusting Events after the Reporting Period

A Effect on the Group of Novel Coronavirus ("COVID-19")

With the outbreak of the COVID-19 in 2020, the Group's Hong Kong transport operations, Hong Kong station commercial and property rental businesses, and its Mainland China businesses, are being significantly affected as a result of the COVID-19.

(i) Cross Boundary Services and Related Business

As a result of the HKSAR Government's announcement of the closure of the boundary between Hong Kong and Mainland China in phases, the Company has had to close: (a) Lo Wu and Lok Ma Chau stations of the East Rail Line; (b) the High Speed Rail service; (c) the intercity rail service from Hong Kong to Guangdong, Shanghai and Beijing; and (d) station shops at Lo Wu, Lok Ma Chau and West Kowloon stations. These closures have, in turn, resulted in there being no cross boundary patronage and loss of rental income from shops in these stations during the period of such closures.

(ii) Domestic Services

As a result of: (a) the implementation by the HKSAR Government and certain commercial organisations of measures to permit their employees to work from home; (b) the delayed resumption of school classes, following the Chinese New Year holiday, until 20 April 2020 the earliest (pending further assessment); and (c) a significant reduction in tourism to Hong Kong and local leisure travel within Hong Kong, there has been a significant negative impact on the patronage of the Group's domestic services.

When taking into account the rail and property businesses as a whole, the directors of the Company is of the view that the overall financial position of the Group remains sound. The Company will continue to monitor the effect of COVID-19 on the financial position and business prospects of the Group.

B The Company's Purchase of the Remaining Economic Interests in Two Commercial Accommodations (Now Known as "Telford Plaza II" and "PopCorn 2") in Hong Kong

On 26 February 2020, the Company entered into a supplemental deed with Joint Profit Limited and New World Development Company Limited ("NWDCL") and purchased their economic interests in the commercial accommodation (now known as Telford Plaza II) in New Kowloon Inland Lot No.6201 and a further supplemental deed with Jade Gain Enterprises Limited, Chow Tai Fook Enterprises Limited and NWDCL and purchased their economic interests in the commercial accommodation (now known as PopCorn 2) in Tseung Kwan O Town Lot No.75 for a total consideration of HK$3 billion. After completion of the said purchases which is to take place on or before 31 March 2020, 100% of the economic interests of the said Telford Plaza II and PopCorn 2 shall belong to the Company absolutely.

48 Company-level Statement of Financial Position

in HK$ million	At 31 December 2019	At 31 December 2018
Assets		
Fixed assets		
– Investment properties	**89,105**	80,396
– Other property, plant and equipment	**100,681**	101,319
– Service concession assets	**25,638**	24,392
	215,424	206,107
Property management rights	**21**	26
Property development in progress	**12,022**	14,840
Deferred expenditure	**1,948**	1,878
Investments in subsidiaries	**1,955**	1,784
Interests in associates	**24**	24
Properties held for sale	**1,034**	1,156
Derivative financial assets	**198**	61
Stores and spares	**1,200**	1,166
Debtors and other receivables	**6,727**	5,743
Amounts due from related parties	**18,413**	16,236
Cash, bank balances and deposits	**12,934**	10,757
	271,900	259,778
Liabilities		
Short-term loans	**3,342**	4,395
Creditors, other payables and provisions	**25,829**	19,776
Current taxation	**1,842**	1,006
Amounts due to related parties	**23,322**	23,268
Loans and other obligations	**13,117**	12,810
Obligations under service concession	**10,177**	10,236
Derivative financial liabilities	**408**	545
Deferred tax liabilities	**13,541**	12,803
	91,578	84,839
Net assets	**180,322**	174,939
Capital and reserves		
Share capital	**58,804**	57,970
Shares held for Executive Share Incentive Scheme	**(263)**	(265)
Other reserves	**121,781**	117,234
Total equity	**180,322**	174,939

Approved and authorised for issue by the Members of the Board on 5 March 2020

Rex P K Auyeung
Chairman

Jacob C P Kam
Chief Executive Officer

Herbert L W Hui
Finance Director

49 Accounting Estimates and Judgements

A Key sources of accounting estimates and estimation uncertainty include the following:

(i) Estimated Useful Life and Depreciation and Amortisation of Property, Plant and Equipment and Service Concession Assets

The Group estimates the useful lives of the various categories of property, plant and equipment and service concession assets on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives (note 2J).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at the end of each reporting period according to accounting policies set out in note 2I(ii). Long-lived assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount of an asset is the greater of the fair value less costs of disposal and value in use. In estimating the value in use, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the MTR Retirement Scheme. The determination of the Group's obligation and expense for the defined benefit element of the scheme is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 43A(i) and 44E.

(iv) Profit Recognition on Hong Kong Property Development

Recognition of Hong Kong property development profits requires management's estimation of the final project costs upon completion, assessment of outstanding transactions and market values of unsold units and, in the case of sharing-in-kind properties, the properties' fair value upon recognition. The Group takes into account independent qualified surveyors' reports, past experience on sales and marketing costs when estimating final project costs on completion and makes reference to professionally qualified valuers' reports in determining the estimated fair value of sharing-in-kind properties.

(v) Properties Held for Sale

The Group values unsold properties at the lower of their costs and net realisable values (note 27) at the end of each reporting period. In ascertaining the properties' net realisable values, which are represented by the estimated selling prices less costs to be incurred in relation to the sales, the Group employs independent valuation professionals to assess the properties' estimated selling prices and makes estimations on further selling and property holding costs to be incurred based on past experience and with reference to general market practice.

(vi) Valuation of Investment Properties

The valuation of investment properties requires management's input of various assumptions and factors relevant to the valuation. The Group conducts semi-annual revaluation of its investment properties by independent professionally qualified valuers based on these assumptions agreed with the valuers prior to adoption.

(vii) Franchise in Hong Kong

The current franchise under which the Group is operating in Hong Kong allows the Group to run the mass transit railway system in Hong Kong until 1 December 2057. Pursuant to the terms of the OA and the MTR Ordinance, the Company may apply for extensions of the franchise and the Secretary for Transport and Housing shall, subject to certain provisions, recommend to the Chief Executive in Council that the franchise should be extended for a further period of 50 years (from a date relating to certain capital expenditure requirements) if the Company has satisfied such capital expenditure requirements, at no additional payment for any such extension. If the franchise is not extended, it will expire on 1 December 2057. Following such expiry, the HKSAR Government has the right to take possession of railway property (and, where the HKSAR Government has taken possession of any such property which is not concession property, the Company may require the HKSAR Government to take possession of any other property which the HKSAR Government was entitled to take possession of, but did not take possession of), but must compensate the Company: (i) in the case of such property which is not concession property, at the higher of fair value and depreciated book value, and (ii) in the case of such property which is concession property and to the extent that the capital expenditure exceeds an agreed threshold ("Capex Threshold"), in an amount equal to any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value. The Group's depreciation policies (note 2J) for such property which is not concession property with assets' lives which extend beyond 2057 reflect the above.

(viii) Income Tax

Certain treatments adopted by the Group in its Hong Kong Profits Tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the 2019 accounts, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

As detailed in note 30, there are tax queries from the IRD with the Company on tax deductibility of certain expenses and payments for which the ultimate tax determination is uncertain up to the date of this annual report. The Group recognises tax provision for these tax matters based on estimates of whether additional taxes will eventually be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax expenses in the period when such determination is made.

49 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following: *(continued)*

(ix) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(x) Deferred Expenditure

As disclosed in note 2K(i), the Group capitalises proposed railway and property development project costs in deferred expenditure when the projects are at a detailed study stage and having been agreed based on a feasible financial plan. Such decision involves the Board's judgement on the outcome of the proposed project.

(xi) Fair Value of Derivatives and Other Financial Instruments

In determining the fair value of financial instruments, the Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For financial instruments that are not traded in active markets, the fair values were derived using the discounted cash flows method which discounts the future contractual cash flows at the current market interest or foreign exchange rates, as applicable, for similar financial instruments that were available to the Group at the time.

(xii) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

(xiii) Determining the Lease Term

In determining the lease term at the commencement date for leases that include renewal or termination options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal or termination options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

B Critical accounting judgements in applying the Group's accounting policies include the following:

Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event (including in relation to those under entrustment arrangements), and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. Other than set out in note 21, as at 31 December 2019, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits from the Group.

50 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2019

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these accounts. These developments include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
HKFRS 17, *Insurance contracts*	1 January 2020
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these new issues or amendments is expected to be in the period of initial application. So far, the Group considers that the adoption of them is unlikely to have a significant impact on the Group's accounts.

51 Approval of the Consolidated Accounts

The consolidated accounts were approved by the Board on 5 March 2020.

GLOSSARY

Airport Express	Train service provided between AsiaWorld-Expo Station and Hong Kong Station
Appointed Day or Merger Date	2 December 2007 when the Rail Merger was completed
Articles of Association	The articles of association of the Company
Board	The board of directors of the Company
Bus	Feeder bus services operated in support of West Rail Line, East Rail Line and Light Rail
Company or MTR Corporation	MTR Corporation Limited, a company which was incorporated in Hong Kong under the Companies Ordinance on 26 April 2000
Companies Ordinance	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong or the predecessor Companies Ordinance Chapter 32 of the Laws of Hong Kong (as the case may be))
Computershare	Computershare Hong Kong Investor Services Limited, the share registrar of the Company
Cross-boundary Service or Cross-boundary	Journeys with the destination to/commencing from Lo Wu and Lok Ma Chau stations
Customer Service Pledge	Annually published performance targets in accordance with the Operating Agreement
Director or Member of the Board	A member of the Board
Domestic Service	Collective name for Kwun Tong, Tsuen Wan, Island, South Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines
EBITDA	Operating profit before depreciation, amortisation, variable annual payment and share of profit or loss of associates and joint venture
EBITDA Margin	EBITDA as a percentage of revenue
EBIT	Profit before interest, finance charges and taxation and after variable annual payment
EBIT Margin	EBIT as a percentage of revenue
Express Rail Link or High Speed Rail or HSR	Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, also known as Guangzhou-Shenzhen-Hong Kong High Speed Rail (Hong Kong Section) after the commencement of passenger service on 23 September 2018
Fare Index	A measure of customer satisfaction for the fares charged for Domestic and Cross-boundary services, HSR, Airport Express, Light Rail and Bus based on satisfaction scores for different fare attributes weighted by the corresponding importance rating from the customer research
FSI	The Financial Secretary Incorporated, a corporation solely established under the Financial Secretary Incorporation Ordinance (Chapter 1015 of the Laws of Hong Kong)
Government	The Government of the Hong Kong SAR
Group	The Company and its subsidiaries
HKSE or Stock Exchange	The Stock Exchange of Hong Kong Limited
Heavy Rail	Collective name for Domestic Service, Cross-boundary Service and Airport Express

GLOSSARY

Hong Kong or Hong Kong SAR or HKSAR	The Hong Kong Special Administrative Region of the People's Republic of China
Intercity Service or Intercity	Intercity through train services operated between Hong Kong and major cities in the Mainland of China such as Beijing, Shanghai and Guangzhou
Interest Cover	Operating profit before depreciation, amortisation, variable annual payment and share of profit or loss of associates and joint venture divided by gross interest and finance charges before capitalisation, utilisation of government subsidy for Shenzhen Metro Longhua Line operation and accreted interest on loan to a property developer
KCRC	Kowloon-Canton Railway Corporation
KPMG	KPMG, Certified Public Accountants, the independent auditor of the Company. KPMG is a Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
Light Rail	Light rail system serving North West New Territories
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MTR Ordinance	The Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)
Net Debt-to-equity Ratio	Loans and other obligations, bank overdrafts, short-term loans, obligations under service concession and loan from holders of non-controlling interests net of cash, bank balances and deposits, and investment in bank medium term notes in the consolidated statement of financial position as a percentage of the total equity
Operating Agreement	The agreement entered into by the Company and the Government on 30 June 2000 for the operation of our rail services before the Rail Merger and a new agreement entered on 9 August 2007 for the operation of all of our rail and bus passenger services after the Rail Merger
Ordinary Shares	Ordinary shares in the capital of the Company
Rail Merger or Merger	The merger of the rail operations of MTR Corporation and KCRC and the acquisition of certain property interests by MTR Corporation from KCRC, full details of which are set out in the Rail Merger Circular. The Rail Merger was completed on 2 December 2007
Rail Merger Ordinance	The Rail Merger Ordinance (Ordinance No.11 of 2007)
Return on Average Equity Attributable to Shareholders of the Company	Profit attributable to shareholders of the Company as a percentage of the average of the beginning and closing total equity attributable to shareholders of the Company of the period
Service Concession	A contract to provide services for a particular period which is awarded by a public sector entity to an operator; in the context of concession projects in Hong Kong, service concession refers to the concession granted or to be granted by KCRC and/or Government to the Company to operate, maintain and renew certain railway lines under the Service Concession Agreement or a Supplemental Service Concession Agreement, as more particularly described in the Rail Merger Circular; in the context of concession projects in the Mainland of China and Overseas, service concession refers to the concession granted by the government or relevant public sector entity to a subsidiary or associate of the Company to provide certain specified services for a specified period under a negotiated concession agreement
Service Quality Index	A measure of customer satisfaction for the services provided by Domestic and Cross-boundary services, HSR, Airport Express, Light Rail and Bus based on satisfaction scores for different service attributes (excluding fares) weighted by the corresponding importance rating from the customer research

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SHAREHOLDER SERVICES

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

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